KULCZYK
OIL VENTURES

ANNUAL INFORMATION FORM
FOR THE YEAR ENDED DECEMBER 31, 2011

MARCH 29, 2012

GLOSSARY OF TERMS

All capitalized terms used in this Annual Information Form ("**AIF**") but not otherwise defined herein shall have the meanings set forth below. The information set out in the AIF is stated as at December 31, 2011 unless otherwise specifically stated.

"**ABCA**" means the *Business Corporations Act* (Alberta), as amended;

"**AED SEA**" means AED Southeast Asia Limited, a wholly-owned subsidiary of KOV Cyprus;

"**Arrangement**" means the court-approved plan of arrangement involving Loon, the securityholders of Loon and Loon Corp effected pursuant to Section 193 of the ABCA, which was completed on December 10, 2008;

"**Block 9**" means Syria Block 9;

"**Block L**" means Brunei Block L;

"**Block M**" means Brunei Block M;

"**Board of Directors**" means the board of directors of the Company;

"**Brunei Assets**" means the right to explore for and produce oil and gas from Block L and Block M in Brunei as set forth in the Brunei Block L PSA and the Brunei Block M PSA;

"**Brunei Block L**" means the lands subject to the Brunei Block L PSA;

"**Brunei Block L PSA**" means the production sharing agreement for Brunei Block L, which is described in "*Principal Oil and Gas Assets - Brunei*";

"**Brunei Block M**" means the lands subject to the Brunei Block M PSA;

"**Brunei Block M PSA**" means the production sharing agreement for Brunei Block M, which is described in "*Principal Oil and Gas Assets - Brunei*";

"**Common Shares**" means the common shares in the capital of the Company;

"**Company**" **or** "**KOV**" means Kulczyk Oil Ventures Inc.;

"**Gastek**" means Gastek LLC, a private California company, which is the 30% shareholder in KUBGAS Holdings;

"**GPC**" means General Petroleum Corporation, successor to SPC;

"**Jura**" means Jura Energy Corporation, a public company listed on the Toronto Stock Exchange, in which KOV owns a non-controlling interest;

"**KI**" means Kulczyk Investments S.A., a company existing under the laws of Luxembourg, which is the largest shareholder of the Company;

"**KI Debenture**" means the unsecured convertible debenture for a principal amount of up to $20.0 million issued by the Company to KI;

"**KI/Radwan Debentures**" means the unsecured convertible debentures for a principal amount of up to $23.5 million issued by the Company to KI and Radwan;

"**KOV Africa**" means KOV Africa Limited, a company existing under the laws of Cyprus, which is a wholly-owned subsidiary of the Company;

"**KOV Borneo**" means KOV Borneo Limited, a company existing under the laws of England, which is a wholly-owned subsidiary of KOV Cyprus;

"**KOV Cyprus**" means Kulczyk Oil Ventures Limited, a company existing under the laws of Cyprus, which is a wholly-owned subsidiary of the Company;

"**KUB-Gas**" means KUB Gas LLC, a company existing under the laws of Ukraine, which is a wholly-owned subsidiary of KUBGAS Holdings, an indirect 70% owned subsidiary of the Company;

"**KUBGAS Holdings**" means KUBGAS Holdings Limited (formerly Loon Ukraine Holding Limited), a company existing under the laws of Cyprus, which is a 70% owned subsidiary of KOV Cyprus;

"**Kulczyk Oil Brunei**" means Kulczyk Oil Brunei Limited (formerly Loon Brunei Limited), a company existing under the laws of Cyprus, which is a wholly-owned subsidiary of KOV Cyprus;

"**Loon**" means Loon Energy Inc., the Company's name prior to the completion of the Arrangement;

"**Loon Corp**" means Loon Energy Corporation. Loon Corp, which is listed on the TSX-V, was formed as a part of the Arrangement;

"**Loon Latakia**" means Loon Latakia Limited, a company existing under the laws of Cyprus, which is a wholly-owned subsidiary of KOV Cyprus;

"**Mauritania International Petroleum**" means Mauritania International Petroleum Inc., a company existing under the laws of the British Virgin Islands, in which KOV Cyprus owns a non-controlling interest;

"**NI 51-101**" means National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*;

"**Ninox**" means Ninox Energy Pte Ltd. (formerly Triton Petroleum Pte Ltd.), a privately held Australian company, in which KOV Cyprus owns a non-controlling interest;

"**PetroleumBRUNEI**" means Brunei National Petroleum Company Sendirian Berhad, a private limited company wholly-owned by the Government of Brunei;

"**Radwan**" means Radwan Investments GmBH;

"**RPS**" means RPS Energy, an engineering consulting company;

"**RPS Brunei Block L Report**" means the report of RPS effective December 31, 2011 and dated March 29, 2012 on their evaluation of the resource potential of Brunei Block L;

"**RPS Brunei Block M Report**" means the report of RPS effective December 31, 2011 and dated March 29, 2012 on their evaluation of the resource potential of Brunei Block M;

"**RPS Syria Block 9 Report**" means the report of RPS effective December 31, 2011 and dated March 29, 2012 on their evaluation of the resource potential of Syria Block 9;

"**RPS Ukraine Report**" means the report of RPS effective December 31, 2011 and dated March 20, 2012 on their evaluation of the reserves and the resource potential of KUB-Gas;

"**SHA**" means the shareholder's agreement dated November 10, 2009 between KOV Cyprus, Gastek and KUBGAS Holdings governing their relationship as shareholders of KUBGAS Holdings;

"**SPC**" means Syrian Petroleum Company, a legal entity created by Legislative Decree Number 9 of 1974 by the Government of the Syrian Arab Republic and registered in Damascus, Syria;

"**Syria Assets**" means the right to explore for and produce oil and gas from Block 9 in Syria as set forth in the Syria Block 9 PSC;

"**Syria Block 9**" means the lands subject to the Syria Block 9 PSC;

"**Syria Block 9 PSC**" means the contract for the exploration, development and production of petroleum under which the Company has the right to explore for and produce oil or gas from Syria Block 9, which is described in "*Principal Oil and Gas Assets - Syria*";

"**TIG**" means, collectively, TGEM Asia LP, Tiedemann Global Emerging Markets LP and Tiedemann Global Emerging Markets QP LP, each a limited partnership registered in the Cayman Islands;

"**TIG Convertible Debenture**" has the meaning ascribed thereto in "*Interest of Management and Others in Material Transactions – TIG Notes and TIG Convertible Debenture*";

"**TIG Notes**" means convertible unsecured loan notes formerly issued by Triton and held by TIG;

"**Triton**" means Triton Hydrocarbons Pty Ltd., a private Australian company, whose entire share capital KOV Cyprus acquired in the Triton Acquisition, as described in the section "*General Development of the Business*";

"**TSX-V**" means the TSX Venture Exchange;

"**Ukraine Assets**" or "**KUB-Gas Assets**" means the assets owned by KUB-Gas, including the Ukraine Licenses, and certain other property, plant and equipment described in the section "Principal Oil and Gas Assets", "Ukraine", *"Property, Plant and Equipment"*.

"**Ukraine Licenses**" or "**KUB-Gas Licenses**" means the five licenses owned by KUB-Gas in Ukraine (Makeevskoye, Olgovskoye, Krutogorovskoye, Vergunskoye and North Makeevskoye); and

"**WSE**" means Warsaw Stock Exchange.

ABBREVIATIONS

Crude Oil and Natural Gas Liquids		Natural Gas	
Bbl	barrel	Mcf	thousand cubic feet
bbl/d	barrels per day	MMcf	million cubic feet
Mbbl	thousands of barrels	Bcf	billion cubic feet
boe/d	barrels of oil per day	Mcf/d	thousand cubic feet per day
Boe	barrels of oil equivalent of natural gas and crude oil, unless otherwise indicated	MMcfd	million cubic feet per day
		GJ	gigajoule
Mboe	thousand boe	Tcf	trillion cubic feet
NGL	natural gas liquids	McfGE	thousand cubic feet equivalent
MMBtu	million British thermal units		
Stb	standard stock tank barrel		
Mstb	thousand standard stock tank barrels		

Production information is commonly reported in units of barrel of oil equivalent ("**boe**" or "**BOE**") or in units of natural gas equivalent ("**McfGE**"). **However, BOEs or McfGEs may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf:1 bbl, or an McfGE 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.**

CONVERSIONS

To Convert From	To	Multiply By
Feet	Metres	0.305
Metres	Feet	3.281
Miles	Kilometres	1.609
Kilometres	Miles	0.621
Acres	Hectares	0.405
Hectares	Acres	2.471
Kilograms	Pounds	2.205
Pounds	Kilograms	0.454
Mcf	Thousand cubic metres	0.028
Thousand cubic metres	Mcf	35.494
bbl	Cubic metres	0.159
Cubic metres	Bbl	6.29

CURRENCY PRESENTATION AND EXCHANGE RATE DATA

Unless otherwise indicated, references herein to "$", "US$" or "dollars" are to United States dollars. References to "PLN" are to Polish Zlotys and "UAH" are to Ukraine Hryvnias.

	Canadian dollar (CDN$) to US$1.00 [Source: Bank of Canada (http:bank-banque-canada/en/rates)]	**Polish Zloty** (PLN) to US$1.00 [Source: National Bank of Poland (http:www.nbp.pl)]	**Ukraine Hryvnia** (UAH) to US$1.00 [Source: National Bank of Ukraine (http:bank.gov.ua)]
2009:			
Year-end	0.9955	2.8503	7.9850
Average	1.1420	3.1181	7.9534
Annual high	1.3066	3.8978	8.0148
Annual low	1.0251	2.7093	7.6100
2010:			
Year-end	1.0544	2.9641	7.9617
Average	1.0299	3.0179	7.9433
Annual high	1.0544	3.4916	8.0100
Annual low	1.0077	2.7449	7.8861
2011:			
Year-end	1.0054	2.9641	7.9617
Average	1.0054	3.0157	7.9356
Annual high	0.9390	3.3571	8.0003
Annual low	1.0301	2.8518	7.8903
2012:			
January 31	0.9800	2.9148	7.9497
February 29	1.0268	2.8766	7.9408
March 28	1.0033	3.1100	7.9857

FORWARD-LOOKING INFORMATION

Certain statements contained in this AIF constitute forward-looking statements under applicable securities laws. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "believe", "could", "estimate", "expect", "forecast", "guidance", "intend", "may", "plan", "predict", "project", "should", "target", "will", or similar words suggesting future outcomes or language suggesting an outlook. 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. Management believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this AIF should not be unduly relied upon.

Forward-looking statements and information in this AIF include, but are not limited to, statements with respect to:

- drilling plans and timing of drilling;
- productive capacity of wells, anticipated or expected production rates and anticipated dates of commencement of production;
- drilling, completion and facilities costs;
- results of various projects of the Company;
- growth expectations within the Company;
- access to attractive investment opportunities and success in bidding for and winning new assets;
- timing of development of undeveloped reserves;
- the performance and characteristics of the Company's oil and natural gas properties;
- the quantity of oil and natural gas reserves and resources;
- capital expenditure programs;
- supply and demand for oil and natural gas and commodity prices;
- the impact of governmental regulation on the Company relative to other oil and gas companies of similar size;
- expected levels of royalty rates, operating costs, general administrative costs, costs of services and other costs and expenses;
- expectations regarding the Company's ability to raise capital and to continually add to reserves and resources through acquisitions, development and exploration;
- treatment under governmental regulatory regimes and tax laws; and
- realization of the anticipated benefits of acquisitions and dispositions.

Statements relating to "reserves" or "resources" are also deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, including that the reserves and resources described can be profitably produced in the future. See "*Statement of Reserves Data and Other Oil and Gas Information"*.

Developing forward-looking information involves reliance on a number of assumptions and consideration of certain risks and uncertainties, some of which are specific to the Company and others that apply to the oil and gas industry generally.

Although the Company believes that the assumptions and expectations reflected in the forward-looking statements and information are reasonable, there can be no assurance that such assumptions and expectations will prove to be correct. The Company cannot guarantee future results, levels of activity, performance or achievements. Consequently, there is no representation by the Company that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements and information. The factors or assumptions on which the forward-looking information is based include:

- the Company's projected capital investment levels;
- the flexibility of capital spending plans and the associated source(s) of funding;
- the expertise of management of the Company in contributing to increased production volumes and the success and revenues of the Company; and
- estimates of quantities of oil and natural gas from properties and other sources not currently classified as proved reserves.

Some of the risks and other factors, some of which are beyond the Company's control, which could cause results to differ materially from those expressed in the forward-looking statements and information contained in this AIF include, but are not limited to:

- competition within the oil and natural gas industry for, among other things, capital, acquisitions of reserves, undeveloped land and skilled personnel;
- environmental risks and hazards associated with the oil and gas industry;
- adverse weather conditions in areas where the Company conducts operations;
- variations in foreign exchange rates and interest rates;
- the available of certain equipment and services and the Company's access to such equipment and services;
- risks associated with economies in the countries in which the Company operates;
- the early stage of the Company's operations;
- risks associated with the exploration, development and production of the Company's interests, including geological, technical, drilling and processing problems and other difficulties in producing reserves and failure to realize anticipated benefits of exploration activities;
- the effects of regulation (including environmental regulation) in the countries in which the Company operates;
- the effect of sanctions, including those of the European Union, the Canadian government and the U.S. government on the Company's interests in Syria;
- risk of the effect of relinquishment obligations under the term of the Company's production sharing arrangements and governmental regulatory regime;
- risks associated with the Company's reliance on its third party operators;

- uncertainties regarding the interpretation and application of foreign laws and regulations; and

- other factors described further in "*Risk Factors*".

Readers are cautioned that the foregoing lists are not exhaustive. The factors and risks set out in these lists are difficult to predict and the assumptions used in the development of the forward-looking information contained herein, although considered reasonably accurate at the time of development, may prove to be incorrect or incomplete. Furthermore, the forward–looking statements contained in this AIF are made as of the date hereof, and the Company undertakes no obligation, except as required by applicable securities laws, to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

CORPORATE STRUCTURE

Name, Address and Incorporation

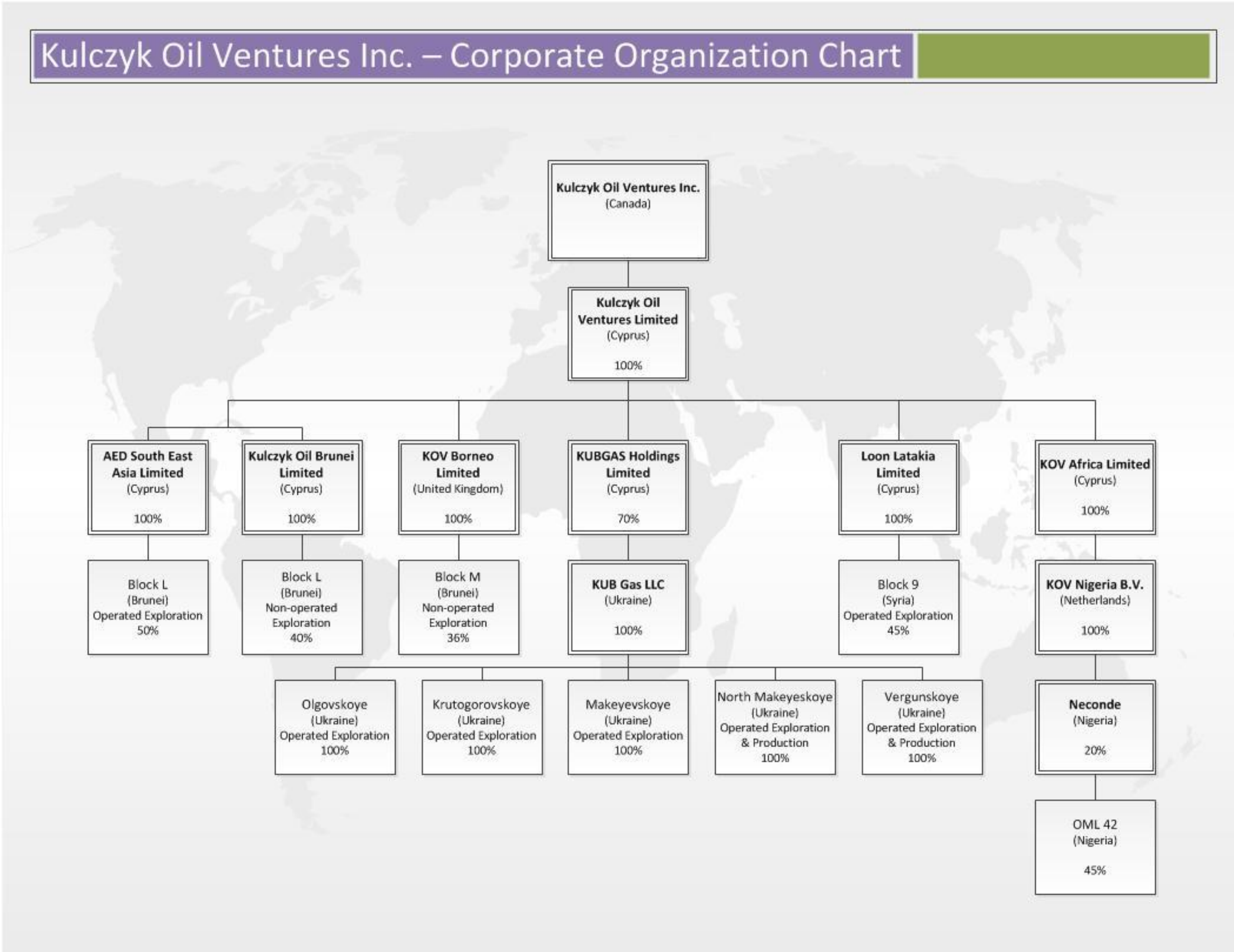
The Company was incorporated pursuant to the provisions of the ABCA on March 16, 1987 as Titan Diversified Holdings Ltd., a public investment company listed on the Alberta Stock Exchange, a predecessor to the TSX-V. On August 18, 1997, the name of the Company was changed to Loon Energy Inc. In December 2008, Loon was reorganized pursuant to the Arrangement involving Loon, the securityholders of Loon and Loon Corp, and the name of the Company was changed to Kulczyk Oil Ventures Inc. On September 7, 2010, the Articles of the Company were amended to permit shareholder meetings of the Company to be held outside of the province of Alberta, and the By-laws of the Company were amended to, among other things, provide shareholders of the Company with protection against dilution by requiring majority shareholder approval for certain types of private placements by the Company and effect updates to reflect the introduction of the position of Vice Chairman of the Board of Directors following the investment by KI in the Company.

The Company's head office and registered office are located at Suite 1170, 700-4th Avenue S.W. Calgary, Alberta T2P 3J4.

Intercorporate Relationships

KOV has one direct wholly-owned subsidiary, KOV Cyprus, five material indirect wholly-owned subsidiaries, Kulczyk Oil Brunei, Loon Latakia, KOV Borneo, AED SEA and KOV Africa, and one indirect 70% owned subsidiary, KUBGAS Holdings, which owns 100% of the shares of KUB-Gas. KOV Cyprus also holds a 35% non-controlling interest in Mauritania International Petroleum and a 1.63% non-controlling interest in Ninox. KOV holds a 5.7% non-controlling interest in Jura.

The corporate ownership structure and the inter-corporate relationships of the Company and its principal operating subsidiaries, including the percentage of votes attaching to voting securities owned, or controlled or directed, directly or indirectly, by KOV, are shown below. The jurisdictions of incorporation, formation or organization are shown in brackets under the company name.



The above diagram includes the Company's subsidiaries which have total assets that exceed 10% of the Company's total consolidated assets, or which have sales and revenues which exceed 10% of the Company's total consolidated sales and revenues or which are, in the opinion of the Company, pertinent to an understanding of the business of the Company. The assets and revenues of the Company's unnamed subsidiaries did not exceed 20% of the Company's total consolidated assets or total consolidated sales and revenues at and for the year ended December 31, 2011.

GENERAL DEVELOPMENT OF THE BUSINESS

Three-Year History of the Company

The Company was incorporated pursuant to the provisions of the ABCA on March 16, 1987 as Titan Diversified Holdings Ltd., a public investment company listed on the Alberta Stock Exchange, a predecessor to the TSX-V. On August 18, 1997, the name of the Company was changed to Loon Energy Inc. and the Company invested in Canadian oil and gas assets. In 2001, the Company changed its focus to international oil and gas assets. In 2006, it entered into the Brunei Block L PSA and the Syria Block 9 PSC. In May 2007, KI became the largest shareholder of the Company when it purchased an approximate 17% shareholding in the Company from a third party. In December 2008, following the completion of the Arrangement, the Common Shares of the Company were de-listed from trading on the TSX-V at the request of the Company, the name of the Company was changed to Kulczyk Oil Ventures Inc. and the Company proceeded to implement its strategic plan to enhance overall value through a series of corporate transactions. Pursuant to the Arrangement, described below, KI increased its shareholding from approximately 17% to approximately 68%. On October 23, 2009, the Company acquired all of the shares of Triton, which expanded the interests of the Company in Brunei to include a 36% interest in the Brunei Block M PSA. In early November 2009, the Company entered into a series of agreements under which it ultimately acquired the majority of the Ukraine Assets in June 2010. On May 25, 2010, the Company closed a financing, raising gross proceeds of $93.0 million, and concurrently listed the Common Shares for trading on the WSE under the symbol “KOV”. KI’s shareholding, at the date of this AIF, is approximately 44.3%.

Plan of Arrangement

Early in the fourth quarter of 2008, as the global economic crisis was unfolding, the Board of Directors of the Company, then known as Loon, adopted a strategic plan to enhance overall shareholder value through a series of corporate transactions with the ultimate goal of listing the Common Shares on the WSE. On December 10, 2008, in order to give effect to that strategy, the Company completed a significant reorganization of its business pursuant to the Arrangement. The Arrangement resulted in all of Loon’s assets and liabilities being divided between the Company, as the legal entity continuing out of the Arrangement, and Loon Corp, a new ABCA corporation incorporated for that purpose. The existing shareholders of Loon retained their respective proportionate ownership interests in the common shares of each of the Company and Loon Corp, with each Loon shareholder receiving a number of Loon Corp common shares equivalent to the number of Loon common shares they owned immediately prior to the implementation of the Arrangement.

Pursuant to the Arrangement, Loon transferred to Loon Corp all of its oil and gas assets in Colombia and Peru, which consisted of a minor gas-producing asset in Colombia and its interest in an exploration license in Peru and made a payment to Loon Corp of $3.0 million in cash. The Company retained the Brunei Assets and the Syria Assets, a minor interest in Slovenia and a minority equity investment in Jura. As part of the implementation of the Arrangement, Loon changed its name to Kulczyk Oil Ventures Inc. and Dr. Jan Kulczyk and Mr. Dariusz Mioduski of KI joined the Board of Directors, with Dr. Kulczyk being appointed Chairman of the Board of Directors. Mr. Manoj Madnani of KI continued as a director of the Company and Mr. Stefan Krieglstein of KI retired from the Board of Directors as of the closing of the Arrangement. Following the closing of the Arrangement, the Common Shares were de-listed from trading on the TSX-V at the request of the Company.

Additional Funding from KI

On September 9, 2009, KOV finalized arrangements with KI, the majority shareholder of the Company, for KI to provide KOV with up to $8.0 million in funding enabling the Company to meet its financial commitments prior to the closing of an initial public offering and concurrent equity raise in Poland and the listing of the Common Shares on the WSE. In connection with such arrangements, KOV issued the KI Debenture, an unsecured convertible debenture, to KI. Interest was payable under the KI Debenture at a rate of 7.16% per annum, compounded semi-annually. Effective November 9, 2009, the KI Debenture was amended to increase the amount of the funding available to $11.0 million from $8.0 million with all other terms and conditions remaining unchanged. Effective January 21, 2010, the KI Debenture was amended again to increase the amount of the funding available to $20.0 million from $11.0 million with all other terms and conditions remaining unchanged.

On March 25, 2010, the Company had drawn $20.0 million under the terms of the KI Debenture. On May 25, 2010, the first day the Company’s shares traded on the WSE, the parties to the KI Debenture agreed to the conversion of approximately $14.4 million of principal outstanding under the KI Debenture to 25,000,000 Common Shares. On July 8, 2010, the remaining principal outstanding under the KI Debenture, being approximately $4.6 million, was converted to 10,086,842 Common Shares and the interest accrued to the conversion date was paid in cash. After completion of all of these steps, KI held 200,358,212 Common Shares representing 49.8% of the total number of Common Shares outstanding.

As of the date of this AIF, KI holds 186,242,872 Commons Shares representing approximately 44.3% of the total number of Commons Shares outstanding.

Triton Hydrocarbons Pty Ltd.

On October 23, 2009, the Company, through its subsidiary KOV Cyprus, completed the acquisition of all of the issued and outstanding shares of Triton (the "**Triton Acquisition**") in exchange for an aggregate of 75,065,944 newly issued Common Shares which, at the time of closing, represented 37.44% of the total issued and outstanding Common Shares on a fully-diluted basis, pursuant to a pre-acquisition agreement dated August 11, 2009 between the Company and Triton (the "**Triton Pre-Acquisition Agreement**"). As part of the completion of the Triton Acquisition, the Company issued a secured subordinated convertible debenture in the amount of $10,010,000 to TIG, to replace a convertible note that they had held as a creditor of Triton. For further information, please see "*Material Contracts – TIG Agreement and TIG Debenture"*.

The principal asset of Triton was a 36% working interest in the Brunei Block M PSA. For further information, please see "*Principal Oil and Gas Assets – Brunei*". Triton also owned a 35% interest in Mauritania International Petroleum, which owns exploration assets in Mauritania.

On closing, the Triton shareholders also received an aggregate of 13,670,723 Series A Preferred Shares of the Company, which upon their redemption and cancellation by the Company were exchanged for 50% of the shares of Triton Petroleum Pte Ltd. ("**Triton Singapore**"), with the Company retaining the other 50% of the shares of Triton Singapore, and the Company agreed to transfer to Triton Singapore a 20% interest in Syria Block 9. For further information, please see "*Principal Oil and Gas Assets – Syria – Material Agreements – Triton Block 9 Agreement*". Triton Singapore is a private company registered in Singapore and managed by the former executive officers of Triton.

In 2011, Ninox Energy Pte Ltd ("**Ninox**"), a privately held Australian company, acquired 100% of the share capital of Triton Singapore in a share exchange transaction and the Company therefore now owns an approximate 1.63% interest in Ninox. A Business Acquisition Report relating to the Company's acquisition of Triton was filed shortly after the time of closing and is available under the Company's profile on SEDAR at www.sedar.com.

On August 1, 2011, TIG sold its convertible debentures to a subsidiary of Milet Wirschaftsdeaten GesmbH ("**MWG**"), an unrelated third party, for the face value of $10.0 million plus accrued interest. On August 12, 2011, MWG converted the debentures into 18,501,037 Common Shares at $0.5767 per share.

KUB-Gas

On November 10, 2009, the Company, through its subsidiaries KOV Cyprus and KUBGAS Holdings, entered into two sale and purchase agreements (the "**Sale and Purchase Agreements**") with Gastek under which KOV indirectly acquired 70% of the share capital of KUB-Gas (the "**KUB-Gas Acquisition**") for a total cost of $45.0 million. KUB-Gas, at the time of acquisition, owned 100% interests in four gas-producing licenses near the City of Lugansk in the northeast part of Ukraine plus certain well servicing assets. A deposit of $1.35 million, representing 3% of the total purchase price, was paid to Gastek on November 18, 2009 upon the signing of the Sale and Purchase Agreements and a further deposit of $1.4 million was paid on April 28, 2010. The balance of the purchase price, less certain adjustments, was paid by the Company to Gastek in June 2010 shortly after the completion of its initial public offering in Poland.

Through a series of steps, KOV Cyprus now holds 70% of the ordinary issued equity of KUBGAS Holdings, with Gastek owning the remaining 30% of KUBGAS Holdings' shares. KUBGAS Holdings owns 100% of the charter capital of KUB-Gas. In January 2011, KUB-Gas acquired a 100% interest in an additional license in the same area which, as of the date of this AIF had not been drilled. KUB-Gas is one of the largest private gas producers in Ukraine and it sells gas domestically to both gas traders and industrial consumers.

For further information on KUB-Gas and the Ukraine Assets, please see "*Principal Oil and Gas Assets – Ukraine".*

The affairs of KUBGAS Holdings are governed by the SHA. For further information, please see *"Principal Oil and Gas Assets – Ukraine – Material Contracts"*.

The reserves and certain resources of KUB-Gas have been evaluated in the RPS Ukraine Report. For further information please see *"Principal Oil and Gas Assets – Ukraine – Reserves and Resources".*

A Business Acquisition Report relating to the KUB-Gas Acquisition is available under the Company's profile on SEDAR at www.sedar.com.

Initial Public Offering in Poland

In May 2010, the Company completed an initial public offering of 166,394,000 Common Shares in Poland and listed all of its Common Shares for trading on the WSE. The Common Shares were issued at a price of PLN 1.89 per Common Share ($0.56 per Common Share) resulting in gross proceeds of PLN 314,484,660 (approximately $93.0 million). The Common Shares began trading on the WSE on May 25, 2010.

Nigeria Option

On May 6, 2011, the Company announced that it joined the Neconde Energy Limited ("**Neconde**") consortium (the "**Neconde Consortium**"). On April 29, 2011, Neconde entered into an Agreement for Assignment ("**AFA**") with the Shell Petroleum Development Company of Nigeria Ltd., Total E&P (Nigeria) Ltd., and Nigerian Agip Oil Company Ltd. pursuant to which Neconde would acquire a 45% participating interest in Oil Mining Licence 42 ("**OML 42**"), a large block containing previously-discovered hydrocarbon fields in the Niger Delta area of Nigeria. The remaining 55% participating interest in OML 42 is held by the Nigerian National Petroleum Company. Neconde completed the acquisition of OML 42 on November 30, 2011 for a purchase price of $585.0 million, excluding closing costs. KI, the major shareholder of the Company, has provided the Company with bridge financing in respect of the Company's share of Neconde's acquisition costs of OML 42. The Company will take ownership of its 20% interest in Neconde if, and to the extent that, the Company exercises an option granted to it by KI, and repays the financing provided by KI. The bridge financing arrangement has been extended to March 31, 2012, which is also the present deadline date by which the Company must exercise its option to acquire its ownership interest in Neconde.

On March 28, 2012 the Company announced that it had mutually agreed with KI that it was not in the best interest of either company to continue the option beyond its March 31, 2012 expiry date.

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

In May 2011, KUB-Gas finalized an agreement for a loan facility of up to $40.0 million from the European Bank for Reconstruction and Development (the "**EBRD Loan Facility**"). The proceeds of the EBRD Loan Facility are to be used to fund development of the Ukraine Licenses. The financing bears interest at variable rates, currently estimated by management to be approximately 6.4% per annum and increasing as revenues increase up to 13.7% per annum. The loan proceeds are expected to be advanced in two tranches, with $23.0 million being advanced in 2011 and the remaining $17.0 million to be advanced in 2012 once the Olgovskoye and Makeevskoye licenses have been converted to production licenses. The loan balance outstanding is to be repaid in thirteen equal semi-annual payments commencing in July 2012. KOV, as the indirect majority owner of KUB-Gas, has provided a guarantee for the entire amount of the loan facility outstanding from time to time. At December 31, 2011, $23.0 million of loan proceeds had been drawn.

KI/Radwan Convertible Debentures

On August 11, 2011, the Company signed the KI/Radwan Debentures, new unsecured convertible debenture agreements with KI and Radwan. The total amount available under the KI/Radwan Debentures is $23.5 million, bearing interest at a rate of 7.16% per annum, payable annually and is expected to be converted to Common Shares at a future date, either upon listing on the London

Alternative Investment Market of the London Stock Exchange ("**AIM**") or on August 11, 2012, whichever date is earlier. The KI/Radwan Debentures also include a provision for an implied additional 12.84% in interest to be paid in KOV shares upon conversion. At December 31, 2011, $10.5 million of the KI/Radwan Debentures, $9.9 million from KI and $0.6 million from Radwan, had been drawn.

AED SEA

Pursuant to a sales and purchase agreement dated December 5, 2011, KOV Cyprus acquired 100% of the share capital of AED SEA (the "**AED SEA Acquisition**") from its former parent company AED Oil Investments Pty Ltd., itself a wholly-owned subsidiary of AED Oil Limited (Administrators Appointed) (Receivers and Administrators appointed), an Australian public company, for $200,000 plus assumption of AED's unpaid obligations to the joint venture. AED SEA owned a 50% working interest in the Brunei Block L PSA, which gives it the right to explore for and, if the parties to the agreement establish that the discovery is capable of commercial exploitation and PetroleumBRUNEI approves the development plan, produce oil and gas from Block L, an exploration and development block covering certain onshore and offshore areas of Brunei. AED SEA was the operator of Block L. The Company now holds an aggregate 90% interest in the Block, and is, through its indirectly wholly-owned subsidiary AED SEA, the operator. The Company, through the joint venture, was successful in obtaining an extension of the license term to August 27, 2013 as well as revising the work commitments to correspond with the current work plan.

SIGNIFICANT ACQUISITIONS

The Company did not complete a significant acquisition during fiscal year 2011 for which disclosure is required in this section. For information on acquisitions completed in fiscal year 2011, please see section *"General Development of the Business"*.

2012 Activity

For 2012, the Company will continue to focus on enhancing production and revenues from its existing properties in Ukraine, and expanding its portfolio through the evaluation of new opportunities for investment, none of which have been specifically identified as of the date of this AIF.

DESCRIPTION OF THE BUSINESS

Overview

The Company is an international oil and gas exploration company led by a management team with a strong international and operational background and with extensive global contacts in the oil and gas business. The Company has a diversified asset base with exposure to development and appraisal prospects and significant exploration upside. Its principal assets include its interests in the Ukraine Assets, the Syria Assets and the Brunei Assets.

Oil and Natural Gas Exploration and Production

The Company is focused on enhancing gas production and production revenues in Ukraine, exploring for oil and natural gas in Syria and Brunei, and expanding its portfolio through the evaluation of new opportunities for investment.

The Ukraine Assets are providing ongoing revenues from gas production and the Company's expertise has contributed to a steady increase in production volumes during 2011 as a result of both surface and sub-surface optimisation and discovery of new resources.

Exploration work in Syria is conducted by the Company's subsidiary, Loon Latakia. The first exploration well was spud on Block 9 in July 2011 and suspended without reaching total depth in October 2011.

In Brunei, exploration work on Block L and Block M is conducted by the Company's subsidiaries, AED SEA, KOV Borneo and Kulczyk Oil Brunei, through joint ventures with other companies active in the same business as the Company.

In the event that oil or natural gas is discovered by one or more of the wells drilled by the Company and its joint venture partners and they determine that the discovered resources are capable of commercial exploitation, they will submit a development plan as required under the terms of the Syria Block 9 PSC, the Brunei Block L PSA, or the Brunei Block M PSA. After agreement with the SPC, in the case of Syria, and PetroleumBRUNEI, in the case of Brunei, a program to develop and produce the discovered commodity (oil or natural gas) will be undertaken. The Company has not made any forecast of future production volumes or revenues that might accrue to the Company from such development.

	2011		2010	
	Total for Company	Total: Ukraine – to Customers outside of the Company's consolidated group	Total for Company	Total: Ukraine – to Customers outside of the Company's consolidated group
Natural Gas Sales	$32,084	100%	$ 8,448	100%
Natural Gas Liquid Sales	$3,143	100%	$ 497	100%
Total Consolidated Revenue	$35,227	100%	$ 8,945	100%

Key Personnel

The management of the Company is led by its President and Chief Executive Officer, Timothy Elliott and its Executive Vice President, Jock Graham, both of whom are based in Dubai, United Arab Emirates, and the Vice Chairman of the Board of Directors, Norman Holton, who is based in Calgary, Alberta, Canada. The team has extensive experience in managing and growing publicly listed oil and gas companies, has demonstrated transaction-structuring capability that enhances shareholder value and has extensive technical and international oil and gas experience. The senior management and key technical personnel have in-depth expertise on the mechanics of evaluation of potential opportunities with respect to both commercial and technical risks and have a record of success in the international oil and gas business in the Middle East, Asia, Europe and Americas. The team has overall expertise in all professional disciplines impacting international oil and gas projects.

Specialized Skill and Knowledge

- The Company's management team, collectively, has over 100 years of oil and gas experience with the extensive international expertise needed to successfully develop and manage its diversified international portfolio of oil and gas assets.

- KOV management has a proven track record of delivering value in the upstream oil and gas business, including sourcing and executing discovery and development of oil and gas production and arranging appropriate financing to fund the necessary capital commitments.

- KOV management's strong deal-making capability leads to seamless transaction execution from initial scoping of deal through to due diligence and finalization of contracts.

- The Company has an international technical team with extensive knowledge of most hydrocarbon basins worldwide.

- The high-grading of opportunities by KOV management ensures efficient use of personnel and financial and technical resources.

The management of KOV believes that its international and management experience, its deal-making capability and the quality of its technical team will continue to be key factors in achieving its strategic objectives.

Competitive Conditions

Companies operating in the petroleum industry must manage risks which are beyond the direct control of company personnel. Among these risks are those associated with exploration, transportation infrastructure (including access), environmental damage, fluctuating commodity prices, foreign exchange rates and interest rates, changes in law and its application and adjudication, and changes in political regimes.

The Company will, from time to time, compete for reserve acquisitions, exploration leases, licences and concessions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have significantly greater financial resources than the Company. The Company's competitors include major integrated oil and natural gas companies, numerous independent oil and natural gas companies and trusts, and individual producers and operators.

The Company believes that the following factors maximize the success and revenues of the Company in the future:

Diversified Asset Base

The management of KOV believes that its diversified asset base, balanced between high-risk exploration and lower risk appraisal opportunities, will minimize the risks of oil and gas drilling and maximize the Company's revenues.

- KOV has a diversified portfolio of exploration and development assets.

- The Company's long-term success is not dependent on any particular country, development concept or prospect type.

- KOV's in-house expertise can be utilised to optimise and accelerate production and development plans.

- The Company's experience in the Americas, Europe, the Middle East and Southeast Asia can be utilised to effectively exploit existing assets and develop new opportunities for growth.

High Quality Deal Flow

- KOV management based in Dubai, Calgary and Warsaw are able to access new exploration and production opportunities from these key energy hubs by utilising their extensive personal contacts in the industry.

- The extensive business networks of KI in emerging markets and in Central and Eastern Europe are another likely source of new investment opportunities for the Company.

The management of KOV believes that the deal flow available to its management and its directors through Canada, Dubai and in Europe will lead to continued access to attractive investment opportunities.

Partnering with Local Companies

- KOV has a history of aligning its interests with local companies.

- Local market knowledge increases the potential for successful deal making and the local companies benefit from the technical expertise and business experience of the KOV team.

The management of KOV believes that partnering with local companies, as it has done in Ukraine, Syria and Brunei, will ensure continued success in bidding for and winning new assets.

Flexible Financing

- In financing, KOV will analyse the complete spectrum from farmouts to debt and capital markets in order to fund its capital commitment obligations in an optimal way considering the risks of the business and the value to its shareholders.

Effective Partner Relationships

- KOV believes that both local and industry partners are often an essential part of the sourcing and securing of deals and that retaining equity in the assets for local partners adds further comfort and mutual alignment in business development.

Leverage Expertise

- KOV will continue to utilise the technical expertise of its experienced team in implementing production optimisation and acceleration based on the best available and cost-effective technology.

Portfolio Diversification

- KOV will continue to evaluate both onshore and offshore oil and gas opportunities and focus on maintaining a well-balanced portfolio of exploration and development projects.

The management of KOV believes that the foregoing competitive strengths will enable the Company to take advantage of future opportunities and achieve its strategic objectives. The information presented above with respect to the competitive strengths of KOV is presented by the management of KOV and there are no third-party reports or other sources that constitute the basis for statements made by the Company regarding its competitive position.

Cycles

Prices for crude oil and natural gas are subject to periods of volatility. Prolonged increases or decreases in the price of oil and gas could significantly impact the Company. There is a strong relationship between energy commodity prices and access to both equipment and personnel. High commodity prices also affect the cost structure of services which may impact the Company's ability to accomplish drilling, completion and equipping goals. In addition, weather patterns are unpredictable and can cause delays in implementing and completing field projects.

The oil and gas business is cyclical by nature, due to the volatility of oil and gas commodity pricing as described above. Additionally, seasonal interruptions in drilling and construction operations can occur but are expected and accounted for in the budgeting and forecasting process. In Ukraine, access to drill sites and the ability to conduct seismic operations can be negatively impacted by cold weather and snow during the winter months and by heavy rains and muddy conditions in March and April. In Syria, sandstorms can cause disruption in field operations as can cold weather in the winter months. In Brunei, wet weather makes certain parts of the Company's lands inaccessible for drilling or seismic operations during certain parts of the year.

Employees

As at December 31, 2011, the Company had 25 direct employees, with an additional 350 staff employed directly by KUB-Gas in Ukraine. KOV operates indirectly in Ukraine through its 70% indirect ownership of KUB-Gas. In Syria, it (through its indirectly wholly-owned subsidiary Loon Latakia) operates directly as operator of its assets. In Brunei, KOV is the operator for Block L (through its indirectly wholly-owned subsidiary AED SEA) but is not the operator for Block M.

PRINCIPAL OIL AND GAS ASSETS

This section provides more detailed information with respect to the material oil and gas properties of the Company and the countries in which the properties are located.

In this section of the AIF, the Company also provides certain historical information concerning resources, estimates of the volume of resources, production estimates, historical production amounts and other information in respect of the areas surrounding the areas covered by the Ukraine Licences, Syria Block 9 and Brunei Block L and Brunei Block M which is "analogous information" as defined by applicable securities laws. This analogous information is derived from publicly available information sources which the Company believes are predominantly independent in nature. Some of this data may not have been prepared by qualified reserves evaluators or auditors and the preparation of any estimates may not be in strict accordance with the Canadian Oil & Gas Evaluation Handbook. Regardless, estimates by engineering and geo-technical practitioners may vary and the differences may be significant. The Company believes that the provision of this analogous information is relevant to the Company's activities, given its ownership interests and operations (either ongoing or planned) in the areas in question, however, readers are cautioned that there is no certainty that any of the Company's activities on the areas covered by the Ukraine Licences, Syria Block 9 and Brunei Block L and Brunei Block M will be successful to the extent in which operations on the areas in which the analogous information is derived from were successful, or at all.

Ukraine

The Company, by way of its indirect 70% ownership of KUBGAS Holdings, which owns 100% of the share capital of KUB-Gas, owns an effective 70% ownership interest in KUB-Gas. KUB-Gas owns the Ukraine Assets and is one of the largest private gas producers in Ukraine, selling gas domestically to both gas traders and industrial consumers. Natural gas is currently produced from four of the Ukraine Licenses. Since the closing of the KUB-Gas Acquisition by the Company in June 2010, KUB-Gas has drilled 7 wells, all of which were cased as potential gas wells. KUB-Gas' average production increased from an average of 4.8 MMcf/d (3.4 MMcf/d net to KOV) during the month of July 2010 to an average of 18.6 MMcf/d (13.0 MMcf/d net to KOV) during the month of February 2012.

Overview

Ukraine is situated in eastern Europe, north of the Black Sea and the Sea of Azov and bordered by Poland, Slovakia and Hungary to the west, Romania and Moldova to the south and southwest, Belarus and Russia to the north and Russia to the east. Principal natural resources are iron ore, coal, manganese, natural gas, oil, salt, sulphur, graphite, titanium, magnesium, kaolin, mercury and timber. With 54% of its area being arable land, an important component of the economy of Ukraine is agriculture. Ukraine achieved independence from Soviet rule in 1991 with the dissolution of the USSR.

Oil production began in Ukraine in the 1880's but the hydrocarbon basins of Ukraine remain only partially explored due to Ukraine's historical reliance on imports and the high costs associated with drilling due to the depth at which most reserves have been found. Investment into geological exploration and prospecting since independence has been limited, largely due to political instability and an evolving legal system. The Ukrainian government has established a policy of encouraging domestic production to satisfy the country's internal demand and improve the country's security of supply and consequently reduce reliance on foreign imports, particularly from Russia.

The Ukrainian oil and gas industry is dominated by state-owned companies. Private and foreign investors are increasingly seeking opportunities in the country and are being actively encouraged to do so by the Ukrainian government as a result of its energy strategy aimed at substantially increasing domestic production.

Naftogas is the largest of the Ukrainian state-owned companies and it dominates exploration and production, as well as main oil and gas pipelines, gas processing, the import and transit of gas, and gas distribution in Ukraine. Naftogas has entered into agreements with many foreign companies to enable an acceleration of hydrocarbon development in Ukraine. Among the foreign companies active in Ukraine are JKX Oil & Gas plc, Regal Petroleum plc and Cadogan Petroleum plc. A number of private Ukrainian oil and gas companies, including KUB-Gas, are active in the country.

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 significantly in 2011 compared to 2010 as a result of changes in prices charged by Russia at the border. As Ukraine relies to a significant extent on supplies of energy resources from Russia, the domestic industrial gas price in Ukraine exhibits a strong correlation with the Russian gas import price. This import price, and consequently the prices which may be charged by producers in Ukraine to their industrial customers, is determined based on annual negotiations between the governments of Ukraine and Russia. Royalty rates are set each month by the government of Ukraine based primarily on prevailing market prices.

Ukrainian gas pricing regulation differentiates between gas prices which may be charged to residential customers and prices which may be charged to industrial customers. Industrial customer gas prices in Ukraine are based on the price set by the Ukrainian government for its gas sales to industrial users. All of the natural gas production of KUB-Gas is sold to industrial users. The average realized price from production revenues from the KUB-Gas Assets during the 2011 fiscal year was $10.25 per Mcf for natural gas and $95.88 per barrel for condensate. The average realized price during the month of February 2012 was $11.79 per Mcf for natural gas and $95.21 per barrel for condensate. Natural gas sales for a particular month are prepaid on the 10th day of that month, which is also the date that any adjustments to actual for the previous month are settled.

The long-term success of the Company in Ukraine will be dependent on its ability to deal effectively with the legal and regulatory issues which affect the oil and gas business in Ukraine and to maximize production capability of its assets.

Special Permitting and Regulatory Regime in Ukraine

The discussion in this section is intended to provide a broad overview of the regulatory regime for all oil and gas exploration and production activities conducted within Ukraine. The specific gas producing assets owned by the Company through KUB-Gas are described in "*KUB-Gas Assets*", and in "*Licenses*".

The regulation of hydrocarbons in Ukraine is administered by a number of governmental bodies including the Ministry of Fuel and Energy of Ukraine, which is responsible for matters including energy strategy and regulation, and the Ministry of Environmental Protection and the State Geology Service, which are responsible for the award of exploration and development special permits and production special permits.

As a general rule, special permits for subsoil use are granted to eligible applicants on an auction basis. Special permits for exploration (including pilot production) of on-shore deposits are generally granted for a period of five years. A subsoil user is also provided with a one-time pre-emptive right to extend the term of an existing special permit on a non-auction basis, provided that the subsoil user adhered to its obligations with respect to that special permit. The term may be extended for no more than five years.

The issuance of a special permit for exploration (including pilot production) or commercial production of oil and gas is also conditional on: (i) the local authorities consenting to allocate the land plot(s) necessary for the subsoil activities, and (ii) the approval of the regional departments of the Ministry of Environmental Protection of Ukraine. The commencement of oil and gas commercial production is also subject to: (i) the State Committee of Ukraine on Industrial Safety, Labour Safety and Mining Control granting a mining allotment to the subsoil user; (ii) approval of the respective subsoil plot for commercial production by the Ministry of Fuel and Energy; and (iii) putting the subsoil plot into production.

Exploration and development special permits and the associated agreements contain minimum work obligations in respect of matters such as:

- undertaking seismic surveys;

- exploration drilling;
- well workovers;
- reserves estimation and other studies; and
- environmental impact assessments.

The Ministry of Environmental Protection of Ukraine can prescribe the special conditions for natural resources utilisation which are usually provided in the respective special permit and special permitting agreement.

If a special permit holder fails to meet its obligations under the special permit, special permitting agreement or the respective work programme, then it is considered to be in default and must either cure the default or risk losing the special permit. There is no set cure period, although the special permit holder has the option of appealing in court. Ukrainian legislation further provides for the suspension, annulment or re-registration of a special permit.

A subsoil user that wishes to commence commercial production at the subsoil plot must proceed as follows in order to transfer the subsoil plot from the exploration and pilot production stage to the commercial production stage and to become eligible for a production special permit. The subsoil user must: (i) complete the geological survey and the pilot production of the subsoil plot in compliance with the work programmes and the agreements on subsoil use (e.g., to prepare a draft estimation of the reserves based on the exploration results, to receive approval of the State Commission on Reserves of Mineral Resources, and to register the deposit's reserves); (ii) receive approval of the Ministry of Fuel and Energy for further commercial production of the deposit; and (iii) commence commercial production at the deposit.

A subsoil user may obtain a special permit for commercial production by participating in an auction procedure. It takes the Ministry of the Environment of Ukraine at least 3 months to hold an auction and grant a special permit to the winner. Such special permits for commercial production are usually issued for 20 year term.

Licenses

According to Ukrainian license law, a company must obtain a separate licence for each of the following types of the business activity: (a) geological exploration of mineral resources; and (b) production of mineral resources from the deposits of state priority that are included into the State Fund of Mineral Deposits.

Further, under applicable Ukrainian legislation, a special permit must be obtained for each particular type of subsoil use. In most cases special permits for subsoil use are granted to eligible legal entities and individuals that are compliant with the requirements of Ukrainian law on an auction basis. Each special permit will have an agreement on the terms and conditions of subsoil use annexed to it. This agreement is an integral part of the special permit. It is usually signed between the successful bidder of the auction and the Ukraine Ministry of Environmental Protection once the special permit has been issued. It contains the main terms and conditions pertaining to surveying, exploiting, drilling and producing mineral resources at a particular area of subsoil and may contain additional provisions regarding the social and environmental obligations of the subsoil user.

KUB-Gas holds permits for production of natural gas, condensate and oil at Makeevskoye, Olgovskoye and Krutogorovskoye and a permit for production of natural gas and helium (depths above 1,000 metres) at Vergunskoye. In December 2010, KUB-Gas acquired an exploration licence in the North Makeevskoye area. For further information, please see "*KUB-Gas Assets*".

KUB-Gas Assets

The KUB-Gas Assets consist of 100% working interests in the Ukraine Licenses, being five license areas, Vergunskoye, Olgovskoye, Makeevskoye, North Makeevskoye and Krutogorovskoye, all of which are located in the Lugansk region of eastern Ukraine. The Ukraine Licenses are situated in the north-eastern part of Ukraine in the Dnieper-Donets Basin, an area that accounts for 90% of the natural gas production of Ukraine and is well served by transport infrastructure.

Four of the five license areas (Makeevskoye, Olgovskoye, Krutogorovskoye and Vergunskoye) are producing natural gas as of the date of this AIF and were productive for natural gas during the 2011 fiscal year. The Makeevskoye and Krutogorovskoye special permits are technically classed as exploration special permits under which production of up to 10% of the in-place volume is allowed for 'testing' purposes. These exploration special permits were re-issued incorporating new license areas on August 11, 2009 and have five-year terms, after which they can be extended for a further five years. KUB-Gas has priority options to convert the 'exploration' special permits to full 20-year production special permits at expiry. The Vergunskoye special permit, which has been on production since the 1970's, was converted to a 20-year production special permit in 2009 and the Olgovskoye special permit was converted to a 20-year production special permit in February 2012.

The total area included in the five KUB-Gas Licenses is 36,315 hectares (89,736 acres).

General Geology of KUB-Gas Assets

The majority of Ukrainian hydrocarbon reserves occur in the Dneiper-Donets Basin, an elongated basin of northwest to southeast orientation that is comparable in size and geology to the North Sea central rift. The KUB-Gas fields are located in the northern flank of the southeast sector of the Dnieper-Donets Basin, where source rocks are more deeply buried and have generated gas and condensate. The reservoirs are mainly in Lower to Middle Carboniferous sandstones, but there are also pools in subordinate limestones.

The Dneiper-Donets Basin covers an area of approximately 31,000 km^2 and the more than 110 natural gas pools within it account for 90% of Ukrainian natural gas production. The basin is oil-productive in the northwestern part and the southeast part, where the KUB-Gas Assets are located, is dominated by natural gas production.

The overall depositional setting of these reservoirs is typical of the flank terraces of the Dnieper-Donets Basin, where sands were deposited in onshore fluvial to nearshore marine conditions. The Carboniferous section comprises a sequence of alternating sandstones, siltstones and shales, with occasional limestone members that may represent 'hard-grounds' or calcretes formed during periods of emergence. Log analysis indicates that the sand reservoirs are likely shallow marine offshore sand bars, fluvial channels and fluvial point-bars.

Natural Gas and Condensate Potential

The Carboniferous-aged reservoirs in the area of the Ukraine Assets are both clastic sandstones and carbonate limestones deposited in a marine to non-marine environment. The entire reservoir section is approximately 1,000 metres thick and is comprised of stacked reservoirs with individual thicknesses of between one and 18 metres which are subsequently encased in sealing shales. The resulting arrangement of multi-stacked reservoir and seals pairs results in natural gas and condensate being accumulated in numerous zones. The traps in the Vergunskoye, Olgovskoye, Makeevskoye and Krutogorovskoye fields are well defined and up to 35 zones (individual reservoir units) have been identified within the field areas. Each of these zones represents a potential gas pool, stacked one on top of another, for exploitation by KUB-Gas. Modern processes such as dual completions, co-mingling and hydraulic fracturing have been and will be employed by KUB-Gas, with the technical input of the Company, to expedite and increase natural gas and condensate production. Two wells were successfully fracture stimulated by KUB-Gas in the fourth quarter of 2011 and in January 2012 a snubbing unit, manufactured in Canada for KUB-Gas, was delivered in Ukraine. The snubbing unit, once fully operational, will enable KUB-Gas to perform dual completions on some of its wells.

Modern seismic technology and interpretation is another method being used by the Company to better define, explore and develop the Ukraine Assets. A 120 km^2 3D seismic survey was shot by KUB-Gas during the first half of 2011 over the Olgovskoye and Makeevskoye licenses to better identify the Carboniferous reservoirs and structure and to define additional drilling locations. Seismic processing and interpretation undertaken by the Company in 2010 led to the identification of a classic "bright spot" in potential channel sands and the drilling of a gas discovery well at Makeevskoye 19 ("**M-19**") in late 2010. The M-19 subsequently was put on production in July 2011 at a rate of more than 5 MMcf/d (3.5 MMcf/d net to KOV). The interpretation of the 3D survey helped define the anomaly penetrated by the M-19 well and led to the drilling of a successful gas well at Makeevskoye 21 ("**M-21**") in the first quarter of 2012.

Reserves and Resources

RPS has prepared the RPS Ukraine Report which evaluated the natural gas and NGL reserves and contingent natural gas resources associated with the 70% effective interest of KOV in the Ukraine Licenses effective as at December 31, 2011. Information with respect to the reserves evaluated by the RPS Ukraine Report are summarized under "*Statement of Reserves Data and Other Oil and Gas Information*".

Reserves

Information with respect to the reserves identified in the RPS Ukraine Report is summarized in the table below.

RESERVES[(1)]

	% Change[(2)]	Natural Gas (MMcf)	NGL (Mbbl)	MMboe	Bcfe
Total Proved (1P)	9.2	21,700.4	83.6	3.70	22.02
Total Proved Plus Probable (2P)	(1.7)	30,772.2	142.6	5.27	31.63
Total Proved Plus Probable Plus Possible (3P)	(6.0)	40,418.8	213.0	6.95	41.70

(1) Reserves are net to the 70% KOV interest after deduction for royalty

(2) % change since 31 December 2010 after adjustment for 2.313 MMcfe of net production during 2011

Notes:

"Reserves" are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status.

"Proved Reserves" are those quantities of petroleum, which by analysis of geosciences and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods and government regulations.

"Probable Reserves" are those additional Reserves which analysis of geosciences and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves.

"Possible Reserves" are those additional Reserves which analysis of geosciences and engineering data indicate are less likely to be recoverable than Probable Reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible Reserves.

Future growth in reserves will come from development of the contingent and prospective resources defined in the RPS Ukraine Report and by further development of all of the fields.

Resources

Information with respect to the contingent natural gas resources and prospective gas resources identified in the RPS Ukraine Report is summarized in the table below. There is no certainty that it will be commercially viable to produce any portion of the resources.

	CONTINGENT RESOURCES(1)			**PROSPECTIVE RESOURCES(1)**		
License Area	**Billion Cubic Feet (BCF)**					
	1C	2C	3C	1C	2C	3C
Olgovskoye	3.92	15.32	38.61	0.09	0.39	1.02
Makeevskoye	11.27	45.44	109.58	10.67	40.71	93.83
North Makeevskoye	-	-	-	7.78	30.23	75.04
Krutogorovskoye	-	-	-	1.71	6.31	13.58
(1) Resources are gross to the 70% KOV interest						

Notes:

(1) *"Contingent resources" are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not yet considered mature enough for commercial development because of one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters, or a lack of markets. Contingent resources are further categorized into "Low estimate", "Best estimate" and "High estimate" according to the level of certainty associated with the estimates and may be sub-classified based on economic viability.*

(2) *"Prospective Resources" are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be sub-classified based on project maturity.*

(3) *"Low estimate" is considered to be a conservative estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. If probabilistic methods are used, there should be at least a 90% probability (P90) that the quantities recovered will equal or exceed the low estimate.*

(4) *"Best estimate" is considered to be the best estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will be greater or less than*

the best estimate. If probabilistic methods are used, there should be at least a 50% probability (P50) that the quantities recovered will equal or exceed the best estimate.

(5) "High estimate" is considered to be an optimistic estimate of the quantity that will actually be recovered. It is unlikely that the actual remaining quantities recovered will exceed the high estimate. If probabilistic methods are used, there should be at least a 10% probability (P10) that the quantities recovered will equal or exceed the high estimate.

To convert the foregoing contingent or prospective resources to reserves in the future, a firm development plan will be required and the nature of the plan will determine the expected gas recovery.

The RPS Ukraine Report does not take into account the application of new field operating practices commonly used elsewhere in the world to improve overall well productivity, such as dual completions and compression of gas and fracture stimulation. The Company successfully fracture stimulated two wells in the Olgovskoye field area in the fourth quarter of 2011 both of which are producing as of the date of this AIF. A snubbing unit, which will enable dual completions, has been purchased by KUB-Gas and arrived in the Ukraine a short time ago.

The work program for 2012 will principally target a continuation of the exploitation of the Olgovskoye and Makeevskoye fields. This will involve the drilling of new wells, the completion of new zones in existing wells, dual completions, stimulation treatments using modern and technically advanced methods commonly used elsewhere in the world and the implementation of a compression strategy. The Company plans to drill five or six new wells on the Ukraine Licenses in 2012.

Exploration / Development Activity and Future Plans

During 2011, five wells were successfully drilled and cased in the Olgovskoye field area. In addition, two wells were fracture stimulated during the fourth quarter of 2011. The wells are summarized in the table below:

Drilled Wells	**Total Depth**	**Yearend Status**	**Status as of date of AIF**
Olgovskoye-8	2,780 m	waiting on tie-in after frac'ing	producing gas
Olgovskoye-9	2,638 m	producing gas	producing gas
Olgovskoye-14	2,800 m	cased to TD and waiting on completion	waiting on completion
Olgovskoye-12	2,700 m	producing gas	producing gas
Olgovskoye-18	2,300 m	tested and waiting on tie-in	producing gas
Frac'd Wells			
Olgovskoye-6		waiting on tie-in after frac'ing	producing gas
Olgovskoye-8		waiting on tie-in after frac'ing	producing gas

The most significant tie-in during 2011 was the tie-in of the M-19 well which commenced production in July 2011 at an initial rate of 5.5 MMcf/d (3.85 MMcf/d net to the Company) and averaged 5.3 MMcf.d (3.71 MMcf/d net to the Company) in February 2012. The drilling program for 2012 includes up to six wells with two on the Makeevskoye license, one on the North Makeevskoye license, one on the Vergunskoye license and two on the Olgovskoye license. Also planned as a part of the work program for 2012 will be additional fracture stimulations, the locations of which have not yet been selected and some dual completions using the new snubbing unit built in Canada and recently imported into Ukraine for KUB-Gas. To aid in the exploitation of the Olgovskoye and Makeevskoye field areas a 120 km² 3D seismic survey was completed in the second quarter of 2011. The technical teams of the Company and KUB-Gas will continue to drill new wells, complete new zones in existing wells and plan dual completions, stimulation treatments using modern and technically advanced methods commonly used elsewhere in the world and the effective implementation of a compression strategy.

A 2D seismic program on the North Makeevskoye exploration license was completed during 2011 and the first well on the North Makeevskoye license is planned to commence drilling in April 2012.

Plant, Property and Equipment

KUB-Gas owns 100% of four gas processing facilities, each of which is located on the Ukraine Licenses areas, with a total capacity of 98.1 MMcf/d of natural gas throughput per day and a network of flow lines totalling more than 40 kilometres, to enable the production and sale of natural gas. Additionally, KUB-Gas owns 100% of a Canadian-built drilling rig, a new snubbing unit, plus two service rigs, an inventory of spare parts, support vehicles, land and buildings (all of the assets described in this paragraph constituting the "Ukraine Assets").

The Company indirectly owns 70% of KUBGAS Holdings (which owns 100% of KUB-Gas) and therefore a net 70% indirect interest in the Ukraine Assets.

Material Agreements

(a) Shareholders' Agreement

On November 10, 2009, KOV Cyprus, Gastek and KUBGAS Holdings entered into the SHA governing KOV Cyprus' and Gastek's relationship as shareholders in KUBGAS Holdings (formerly Loon Ukraine). The SHA came into effect upon completion of the KUB-Gas Acquisition.

Under the SHA, KOV Cyprus and Gastek agree that KUBGAS Holdings' business will be to conduct petroleum operations in Ukraine through its wholly-owned subsidiary KUB-Gas under the existing Ukraine Licenses as well as applying for and exploring new petroleum opportunities in Ukraine. If either KOV Cyprus or Gastek would prefer not to undertake a particular new petroleum opportunity in Ukraine through KUBGAS Holdings, the other party may proceed independently. The SHA was provisionally amended by letter agreement dated November 11, 2011 (the "**Letter Agreement**") to exclude certain areas from the application of this requirement. The Letter Agreement is subject to conditions that as of the date of this AIF have not yet been fulfilled.

The SHA contains the customary non-compete restrictions on the parties to the agreement. Under the Letter Agreement certain business activities are excluded from the application of this requirement.

KUBGAS Holdings' activities have been funded through a combination of cash flow generated through KUB-Gas' ongoing petroleum operations and from additional funds contributed by KOV Cyprus and Gastek pro-rata to their shareholdings in KUBGAS Holdings with such shareholder loans bearing interest (at LIBOR plus 2%) in accordance with the SHA.

The board of directors of KUBGAS Holdings consists of five members. So long as KOV Cyprus holds 51% or more of the issued equity in KUBGAS Holdings, it is entitled to appoint three of its nominees to the KUBGAS Holdings board (with one of KOV Cyprus' nominees being the Chairman). Otherwise, KOV Cyprus is entitled to appoint two directors and Gastek is entitled to appoint three directors to the KUBGAS Holdings board (with one of Gastek's nominees being the Chairman).

The SHA also establishes a Management Committee. Its function is to provide day-to-day operational recommendations to KUBGAS Holdings and the General Director and Technical Director of KUB-Gas in respect of petroleum operations conducted by KUB-Gas (including decisions relating to field abandonment). It is also responsible for developing and recommending annual work programs and budgets to the KUBGAS Holdings board.

Resolution of any deadlock occurring at either the board or Management Committee level is in the first instance by way of consultation and agreement between the chief executives of Gastek and KOV Cyprus for resolution by them.

Each shareholder holds a first right of refusal over the transfer of shares by the other to a third party providing that the remaining shareholder matches the price offered by the third party. If a shareholder becomes insolvent, is subject to a change in control or fails to make a subscription or loan payment to KUBGAS Holdings in the manner required by the SHA, then the other shareholder has the right to buy the shares of the affected shareholder at either a predetermined price or a price determined by an expert.

The SHA also allows for a single KUBGAS Holdings' shareholder to require KUBGAS Holdings to direct KUB-Gas to conduct particular petroleum operations on an exclusive basis (for example, if the other shareholder did not wish for KUBGAS Holdings to direct KUB-Gas to do so) ("**Exclusive Operations**"). In such circumstances the party proposing the Exclusive Operations:

(i) must fund, and indemnify KUBGAS Holdings against, all costs and liabilities associated with conducting the Exclusive Operations; and

(ii) receives a beneficial interest in 90% of all net proceeds derived from the Exclusive Operations until it has received an amount of proceeds from such Exclusive Operation which is equal to 200% of the amount spent by it under (i).

The SHA is governed by English law. Any disputes arising out of, or in connection with, the SHA are to be referred to the London Court of International Arbitration ("**LCIA**").

(b) Guarantee

On November 11, 2009, each of the three individual shareholders of Gastek (the "**Guarantors**") and KOV Cyprus and KUBGAS Holdings entered into a guarantee agreement (the "**Guarantee Agreement**") whereby the Guarantors personally unconditionally and irrevocably jointly and severally guarantee the obligations of Gastek under the Sales and Purchase Agreements, the SHA, the Put Option Agreement (defined below) and a side letter dated February 25, 2010 (the "**Side Letter**"). The effect of the Guarantee Agreement is that all obligations of Gastek pursuant to the Sales and Purchase Agreements and in respect of Gastek's ongoing obligation to fund its 30% share of ongoing exploration, development and operational activities are personally guaranteed by the Guarantors for a period of two years from November 11, 2009, the date the Guarantee Agreement was entered into. The Guarantee Agreement expired in November 2011.

(c) Put Option Agreement

Under Ukrainian law, there are a number of technical requirements involved in securing the legal right to explore for or produce oil or natural gas, the absence of any one of which may constitute grounds for challenging the validity of such legal rights in court. The agreements to which KUB-Gas is a party may be subject to termination in the event that their validity, pursuant to one of these technical requirements, is challenged. To mitigate this risk, KOV Cyprus entered into a put option agreement with Gastek (the "**Put Option Agreement**").

Under the Put Option Agreement, Gastek grants KOV Cyprus a put option whereby KOV Cyprus may require Gastek to purchase any or all of its shares in KUBGAS Holdings at a specified price. KOV Cyprus may exercise this right (once or more than one occasion) if any regulatory, administrative, litigious, arbitral or court proceeding, action, claim, order or measure is initiated or made by any party or person to expropriate or take measures tantamount to expropriation of KUB-Gas or key assets of KUB-Gas.

The put option under the Put Option Agreement expired on November 9, 2011.

(d) Technical Services Agreements

KUB-Gas benefits from two back-to-back Technical Services Agreements (the "**TSAs**"). The purpose of the TSAs is to allow KUB-Gas to benefit from the Company's skill and expertise in further developing and operating the KUB-Gas Assets (the "**Technical Services**"). The Technical Services may either be provided directly to the relevant counterparty by the service provider, by way of secondment or by way of sub-contracting of third party goods and/or service providers.

The first TSA operates as between the Company and KUBGAS Holdings (the "**Head TSA**"). It is dated January 13, 2011, but is effective from January 1, 2010. It provides for the Technical Services to be provided to KUBGAS Holdings for the benefit of KUB-Gas. KUBGAS Holdings pays for the Technical Services on a time and costs basis.

The second TSA operates as between KUBGAS Holdings and KUB-Gas (the "**sub TSA**"). It is also dated January 13, 2011 and stated to be effective from January 1, 2010. Except as provided below, the sub TSA is drafted on substantially the same terms as the Head TSA. Under the sub TSA, Technical Services provided by the Company to KUBGAS Holdings pursuant to the Head TSA are passed through to KUB-Gas. However, KUBGAS Holdings may also provide Technical Services to KUB-Gas under the sub TSA independently of those provided to KUBGAS Holdings under the Head TSA. KUB-Gas pays for the Technical Services provided under the sub TSA by way of a fixed monthly fee plus costs.

The TSAs are governed by English law.

(e) KUB-Gas Gas Supply Agreements

The following is a summary of gas supply agreements executed by and between KUB-Gas and consumers:

Gas supply contracts at 20 March 2012:					
Contract Number	**Date of Execution**	**Name of the consumer (counterparty)**	**Expiry Date**	**Total Volume, m^3**	**Price[(1)], UAH/1000 m^3**
1КГ12	22.11.2011	LLC "INTRUST COMPANY"	31.12.2012	20 000 000,00	4000,08
2КГ12	22.11.2011	LLC "KOMPANIYA "YUKOS	31.12.2012	20 000 000,00	4060,80(февраль)
3КГ12	22.11.2011	LLC "GROUP OF COMPANIES "SODRUZHESTVO"	31.12.2012	10 000 000,00	4066,80
4КГ12	22.11.2011	LLC "GAS COMPANY "ENERGORESURS"	31.12.2012	20 000 000,00	4060,80(февраль)
5КГ12	23.11.2011	PJSC "SHAKHTA IMENI O.F. ZASYADKA"	31.12.2012	480 000,00	3418,35
6КГ12	23.11.2011	LLC "LUGANSK ADMINISTRATION OF ROAD BUILDING NO. 3"	31.12.2012	225 000,00	4294,92
7КГ12	25.11.2011	Private individual – Entrepreneur Golenko Galyna Mykolayivna	31.12.2012	10 000,00	4294,92
8КГ12	25.11.2011	LLC "LUGANSKY KARTON"	31.12.2012	20 000,00	4294,92
9КГ12	28.11.2011	LLC "YUG-GAS"	31.12.2012	40 000 000,00	4000,80
10КГ12	25.01.2012	LLC Naftogas-Alliance	31.12.2012	120 000 000,00	4000,08
11КГ12	30.01.2012	LLC Company Metida	31.12.2012	100 000 000,00	4000,08

Condensate sale agreements for 2012			
Name of the company	**Date and number of agreem**	**Valid to**	**Note: the price is in UAH per ton net**
Ukrainian Technologies for Cogeneration Systems	№03/01-3 от 3.01.12г	до 31.12.2012	6833.35
LLC Ukrainian Oil Trading Company	№04/10-1 ОТ 04.10.11Г	до 31.12.2012	6833.35
LLC Agro-Nafta	№07/10 от 7.10.11г	до 31.12.2012	6666.67
PE Fedotenko	№11/10 от 11.10.11г.	до 31.12.2012	6666.67
LLC Lerpol	№23/11 от 23.11.2011г.	до 31.12.2012	no sales in 2012 yet
LLC Trade house Zernoproduct	№23/01 от 23.01.2012г.	до 31.12.2012	6833.35

Note:

(1) Including VAT and other applicable duties.

According to these supply agreements, consumers pay for gas supplies in advance (not later than the 10th day of the month in which gas is supplied) with a final settlement made after the transfer-acceptance act for the gas supplied is signed (in any event not later than the 10th day of month following the month in which the gas is supplied).

Syria

Loon Latakia, an indirect wholly-owned subsidiary of KOV, holds a 100% participating interest in the Syria Block 9 PSC, which gives it the right to explore for and, if the parties to the agreement establish that the discovery is sufficient for commercial exploitation and SPC approves the development plan, produce oil and gas from Block 9, a 10,032 km^2 block in northwest Syria. At the date the Block 9 PSC became effective, the Company held a 100% participating interest. By a farm-out agreement dated to be effective 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 Syria**") effective June 17, 2010. As consideration, MENA Syria agreed to pay: (i) 30% of historical costs incurred by the Company to the date of the agreement with MENA Syria, 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 Singapore, now Ninox, an Australian company. An unrelated company also holds the right to be assigned a 5% interest in Block 9 and as a result, the Company has an economic interest in Block 9 of 45%. The transactions and agreements relating to both assignments are described in greater detail below.

There are a number of key sources of information that were used for the Company's geological and geophysical interpretations in Syria. A collection of unpublished, proprietary well reports, corporate presentations, geochemical studies and graphic well logs for approximately 35 wells drilled in and around Block 9 in Syria have been combined with proprietary 3D seismic data recently acquired by the Company, 2D seismic data and gravity data to construct the exploration model being used by the Company's technical team at the present time. A regional perspective on Syrian geology and geophysics has been provided by two key PhD dissertations, the first by Graham Brew (Cornell University Syria Project) and the second by Mathew Hardenberg (The University of Edinburgh). The information in these comprehensive studies has been augmented with numerous published articles from the "Leading Edge", a publication of the SEG (Society of Exploration Geophysicists) and the AAPG (American Association of Petroleum Geologists) Bulletin. All such sources of information used are independent of the Company.

Block 9

Block 9 is located in northwest Syria south of the City of Aleppo and immediately to the east of the City of Latakia. The block is located on the north western flank of the hydrocarbon producing Palmyrides Basin and the block, which comprises 10,032 km^2 , is prospective for crude oil, natural gas and condensate.

Prior to the drilling of the Itheria-1 well by Loon Latakia in 2011, Block 9 had minimal exploration with only four wells drilled. Two of these are located on the western edge of the block near the City of Latakia. The other two, Al Ghab-1, drilled in 1995 in the centre of the block, and Khanasser-1, drilled in 1975 to the north of the Itheria-1 location, are the only other early wells. Major gas and oil pipelines lie in close proximity to the initial exploration focus area in the southeast part of Block 9.

Oil and Gas Potential

The Palmyride Basin has 65 fields which have an estimated cumulative total recoverable proved and probable resource of 1.4 billion boe. The U.S. Geological Survey ("**USGS**") estimates that the remaining potential of onshore Syria is in excess of 1.2 billion barrels of oil, 4.8 Tcf of gas and 313 million barrels of NGL. Block 9 is located approximately 20 kilometres north of a recent light oil and gas discovery at Mudawara. The Mudawara field is reported to contain over 5 MMboe in the Triassic Kurrachine dolomite.

To the southeast, east and northeast of Block 9, hydrocarbons have been discovered in the Harbaja, Habari, Tel Alied and Safayeh-Wahab complexes respectively.

Oil from seeps along the Mediterranean coast are believed to have been collected and used in historic times but the first modern oil well drilled in Syria was in 1956 and the first significant natural gas well was drilled in 1982. Two years ago, a few kilometres to the west of Block 9, a Syrian construction project in the coastal city of Latakia, which lies on the flank of the El-Kabir Graben, discovered oil at a depth of 16 metres while excavating for a new building. Daily volumes of up to 140 bopd of 26^o to 30^o API oil were produced for several months from this building excavation site. The produced oil was fresh and not biodegraded and initial geochemical work on the oil matches it to a Silurian source virtually identical to oil produced in southern Turkey. This may indicate potential for an extensive new Palaeozoic play in the western area of the block. Within the area of Block 9, in the El-Kabir Graben, the Fido-1 and Latakia-1 wells which were drilled in the early 1980's on older vintage 2D seismic had numerous hydrocarbon shows even though they were not drilled on any obvious seismically defined structure. In 2010, a study was undertaken by KOV to collect seep material, conduct geochemical analysis of the material and geologically correlate the material to hydrocarbon source rocks in the basin.

The Palmyride sedimentary basin, with an estimated sediment thickness of up to 9,000 metres, is one of the primary source areas for the hydrocarbons resources of Syria. Significant discoveries such as the Cherrife, Ash Shaer, and Abu Rabah fields have been made in the central portion of the Palmyrides Basin in the Triassic dolomite fold and thrust play. Along the south eastern flank of the basin, major discoveries were made at Arak, Al Heil, Doubayat and Soukhneh in Permo-Carboniferous sandstones. To the northeast of Block 9 heavy oil (15° to 16° API) is predominant and production over the last decade has increased substantially as secondary and tertiary oil recovery techniques have been effectively used to increase productivity.

The initial exploration efforts of the Company have focused on the south-eastern corner of Block 9 where a large gravity feature, which coincides with a large structural feature defined by 2D seismic, was identified on the north-western flank of the Palmyrides Basin. Khanasser-1, the only well drilled on the block in this eastern region, is located approximately 15 kilometres north of the main gravity feature. The Khanasser well had hydrocarbon shows in several reservoir sections and was drilled completely off-structure according to a 1976 third party engineering evaluation. The relationship of this well to the subsurface geology was confirmed by results of the recent reprocessing of 2D data and subsequent mapping of the area undertaken by KOV in the last half of 2008.

Surrounding and downdip from the apex of the gravity anomaly are numerous oil discoveries including the Mudwara oil and gas field approximately 20 kilometres to the south of the Block 9 focus area. The discovery well at Mudawara tested 136 bopd of 28° to 31° API oil from Triassic/Jurassic carbonates and 8 MMcf/d of natural gas. The operator of the Mudawara area has subsequently acquired a 3D seismic survey over the field to aid in development. Approximately 20 kilometres to the southeast of Block 9 and approximately 20 kilometres to the east of Mudawara is the 2004 Harbaja discovery. The discovery well and the appraisal well at Harbaja tested 44 bopd from the Permo-Carboniferous Amanous Sandstones and 113 bopd of 31.5° API medium oil from the Triassic Kurrachine dolomites respectively. To the east, downstructure at the Harbari structural complex, approximately 20 kilometres to the east of the southeast corner of Block 9, Habari-2 tested 25 bopd of 20° API oil from sandstone reservoirs of Cretaceous age.

The primary targets for the first drilling campaign were potential hydrocarbon accumulations in the Ordivician and Permo-Carboniferous sandstones and in the deeper Cambrian carbonates. The sandstones are found throughout the Palmyride Basin and have generally good quality reservoir properties. The Cambrian Burj carbonates have not been penetrated in this part of Syria. The Homs Depression lies just southwest of Block 9 and contains 6 to 9 kilometres of sedimentary section. The large structural feature identified in Block 9 lies on a direct hydrocarbon migration pathway from this depression where both the prolific Silurian Tanuf source rock, the major source of light hydrocarbons in the Middle East/North Africa area, and the Permo-Triassic Amanous shales, the source of the heavy oils in Safayeh-Wahab complex, are interpreted to be within the oil generating window. This primary target is the key play type in the geologically similar southeast flank of the Palmyrides Basin (Akkas, Arak, Al Heil, Doubayat and Soukhneh oil fields) and is confirmed on the northwest flank of the basin by Permo-Carboniferous hydrocarbon discoveries such as Harbaja, Tel Abyad and Al Hussein.

KOV expects that secondary targets for oil exploration in the area of Block 9 will be the Cretaceous Hayane limestones and dolomites, the zones from which a number of the wells near to Block 9 tested hydrocarbons.

Value creation potential in Block 9 exists for the development of hydrocarbons in: (i) large structural features associated the large gravity anomaly in the southeast part of the block; (ii) subcrop stratigraphic and structural plays associated with the flanks of the prolific Palmyrides basin; and (iii) accumulations of oil and/or natural gas in the under-explored El Kabir Graben which has a proven working petroleum system.

Resource Potential

RPS has made an assessment of the prospective oil and gas resources within Block 9 and has prepared the RPS Syria Block 9 Report. In preparing the RPS Syria Block 9 Report, RPS took a comprehensive review of all the available technical data as a basis for evaluating the potential of Block 9 and made a calculation of prospective resources for the identified prospects effective as at December 31, 2011. Two prospects, Itheria and Bashaer had been identified by the Company based on the 3D seismic and geological data interpreted by the Company’s technical personnel. Both are located in southeast focus area of Block 9. The Itheria-1 well had evaluated one of the potential target zones but had not penetrated the other target zones. The RPS Syria Block 9 Report took into consideration the information from the drilling of the upper part of the Itheria-1 well.

The prospective oil and gas resources identified in the RPS Syria Block 9 Report within the Itheria and Bashaer prospects are summarized in the tables below. It should be noted that there is no certainty that any portion of these resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.

PROSPECTIVE RESOURCES[1] (Un-risked 45% KOV Effective Interest)				
Prospect	**Resource Category**	**Low Estimate[2]**	**Best Estimate[3]**	**High Estimate[4]**
Itheria	Oil (MMBLS)	19	87	235
	Gas (BCF)	19	85	238
	Total MMBOE	**23**	**101**	**275**
Bashaer	Oil (MMBLS)	22	42	74
	Gas (BCF)	11	21	37
	Total MMBOE	**24**	**46**	**80**
Total[5]	Oil (MMBLS)	51	134	296
	Gas (BCF)	37	109	265
	Total MMBOE	**57**	**152**	**340**

Notes:

(1) "Prospective resources" are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development. Prospective resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be sub-classified based on project maturity.

(2) "Low estimate" is considered to be a conservative estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. If probabilistic methods are used, there should be at least a 90% probability (P90) that the quantities recovered will equal or exceed the low estimate.

(3) "Best estimate" is considered to be the best estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be at least a 50% probability (P50) that the quantities recovered will equal or exceed the best estimate.

(4) "High estimate" is considered to be an optimistic estimate of the quantity that will actually be recovered. It is unlikely that the actual remaining quantities recovered will exceed the high estimate. If probabilistic methods are used, there should be at least a 10% probability (P10) that the quantities recovered will equal or exceed the high estimate.

(5) The total of the Low, Best and High Estimates have been determined probabilistically and do not sum arithmetically and are based on any hydrocarbons discovered having a 50/50 chance of being oil or gas and on a boe ratio of six Mcf of gas being equal to one barrel of oil.

The basis for the foregoing estimates was the interpreted 3D seismic survey and available well and field data from the area, including the Itheria-1 well to the depth it was drilled prior to being suspended, and, consequently, there is a wide range of uncertainty in the estimated volumes. The prospective oil resources estimates above assume the hydrocarbon present in both prospects is oil, not gas/condensate. RPS believes that there is a 25% chance that the deeper sandstone formations may be gas/condensate bearing. In such case, the total resources may be increased due to the high reservoir pressure in the deep formations and higher recovery factor estimates for gas/condensate reservoirs as compared to oil reservoirs.

According to the RPS Syria Block 9 Report, the risks associated with recovery of the prospective resources from the Itheria prospect include:

The amount of erosion below the Cretaceous conformity (Rutbah) is uncertain.

There is potential to erode some of the Triassic source rock, or even the Tanf shale cap rock.

Poor deep well control.

The requirement for faults to seal was identified by RPS as a risk associated with recovery of the prospective resources from the Bashaer prospect.

Current Activity and Future Plans

In 2010, the Company completed the acquisition of 420 km^2 of 3D seismic data in the southeast corner of Block 9. The primary purpose of the new 3D survey was to better outline the size of the prospects already defined by the Company using 2D seismic data in the southeast focus area and to provide information that will help to accurately define the optimum drilling locations. Geophysical interpretation of the processed data has been integrated with the Company's understanding of the geology of the area and two prospects have been defined.

Drilling of the first exploratory well, at Itheria-1, commenced on July 22, 2011. The well was planned to be drilled to 3,256 metres and was designed to test a large structure with four-way closure defined by 3D seismic in an area approximately 200 kilometres due east of the City of Latakia. Primary targets are sandstones of Ordivician age and the deeper Cambrian carbonates. The Company's share of the costs of Itheria-1, after giving effect to the farm-out to MENA Syria, is 20%. The Company announced on October 17, 2011 that the drilling program was suspended at a depth of 2,072 metres. The Affendi Sandstone of Ordovician age, the first objective encountered, was penetrated at a depth of approximately 1,470 metres and did not have sufficient porosity or permeability to be a potential reservoir. Two other potential reservoirs, the Ordovician Khanasser Sandstone and the Middle Cambrian Burj Carbonate are expected to occur below the suspended depth. The difficult operating environment and the restrictions placed on the movement of currency made continuing operations untenable and resulted in an indefinite suspension of exploration activity. GPC granted Loon Latakia an extension of the primary term of the Block 9 PSC until October 27, 2012.

Material Agreements

(a) Contract for the Exploration, Development and Production of Petroleum

The Company entered into the Syria Block 9 PSC with the Government of the Syrian Arab Republic, represented by the Ministry of Petroleum and Mineral Resources and SPC on September 20, 2007 and it became effective on November 29, 2007. The Syria Block 9 PSC gives the Company the right to explore for and, provided that, in opinion of the parties to the agreement, discovered volumes of oil and gas are commercial and SPC approves the Block 9 development plan, produce oil and gas from Block 9, comprising 10,032 km^2 (2,478,876 acres) in northwest Syria. Following the execution of the agreement, the Company's interests were assigned to Loon Latakia. The first exploration phase of the Block 9 PSC was extended by eleven months to October 28, 2013 as confirmed by a letter from the Minister of Petroleum and Mineral Resources of the Syrian Arab Republic received by Loon Latakia in November 2011.

(b) Triton Block 9 Agreement

As part of the consideration for the Triton Acquisition, Loon Latakia agreed to hold a 20% beneficial interest in the Syria Block 9 PSC for Triton Singapore, now Ninox, pending approval by the Syrian authorities of a formal assignment of a 20% direct participating interest in the Syria Block 9 PSC. Approval from the Syrian authorities was received in July 2011, and thus the beneficial interest described above was automatically extinguished.

(c) Consulting Agreement

On April 20, 2006, the Company entered into a consulting agreement with Uniconsult Middle East ("**UME**"), a private Syrian company, under which it agreed to retain the services of UME in the event that it acquired the right to explore for and produce oil and gas from Block 9 and agreed to grant to UME the right to acquire a 5% interest in Block 9 (the "**UME Right**"), subject to the approval of the Ministry of Petroleum and Mineral Resources and SPC. On June 2, 2007, with the consent of KOV, UME assigned the UME Right to Ansco Inc. ("**Ansco**"), a private company incorporated under the laws of the State of California, USA.

(d) MENA Syria Farmout Agreement

In September 2010, Loon Latakia and MENA Syria entered into a farm-out agreement (the "**MENA Agreement**") effective as of June 17, 2010. Under the terms of the MENA Agreement, MENA Syria agreed to: (i) acquire a 30% interest in Block 9 by repaying to the Company 30% of approximately $10.4 million in expenditures incurred up to the date of the MENA Agreement; (ii) fund 60% of the costs to drill the first exploration well on Block 9; and (iii) assume liability for 30% of the bank guarantee posted by the Company with respect to Block 9. To allow MENA Syria sufficient time to finance their obligations under the MENA Agreement, the MENA Agreement provided that MENA Syria would pay the amounts payable under the MENA Agreement on or prior to December 17, 2010. The MENA Agreement was subsequently amended on October 14, 2010 to amend the cut-off date for certain payments by MENA Syria under the MENA Agreement from December 17, 2010 to February 15, 2011 and a payment of $1.0 million was made by MENA Syria to Loon Latakia. The MENA Agreement was amended again on January 13, 2011 to amend the cut-off date from February 15, 2011 to April 14, 2011 and a second payment of $1.0 million was made by MENA Syria to Loon Latakia.

On March 17, 2011, the Company was informed that the Syrian authorities had approved the assignment of a 30% participating interest in Syria Block 9 to MENA Syria. Consequently, MENA Syria now holds a direct 30% participating interest in Syria Block 9.

MENA Syria, was in default at December 31, 2011 for non-payment of its share of capital expenditures payable under both the Joint Operating Agreement for Syria Block 9 and the MENA Agreement and continues to be in default at the date of this AIF. MENA Syria owes the Company $651,000 under the terms of the MENA Agreement and owes the Company $810,000 in respect of funds paid by the Company on MENA Syria's behalf to fund the drilling of Itheria-1. The Company has been in regular discussion with MENA Syria, and they have confirmed they will pay all amounts owing, together with interest thereon, upon finalization of a potential private financing and/or from funds received from a contemplated asset sale. However there are no assurances that the amounts due will be collected.

(e) Joint Operating Agreement

On September 1, 2010, Loon Latakia, MENA Syria and Triton Singapore, now Ninox, entered into a Joint Operating Agreement in respect of their joint exploration for, and development and production of, hydrocarbons in Syria Block 9 (the "**Block 9 JOA**"). Loon Latakia is designated as 'Operator' under the Block 9 JOA. The Block 9 JOA sets out the terms and conditions that govern the conduct and relationship of the parties amongst themselves in respect of Syria Block 9. The Block 9 JOA is based on the model form operating agreement issued by the Association of the International Petroleum Negotiators ("**AIPN**"). The Block 9 JOA is effective as regards Ninox's and MENA Syria's respective beneficial interests in the Syria Block 9 PSC.

As a party to the Block 9 JOA, Loon Latakia must pay its participating interest share of Joint Account Expenses (as defined in the Block 9 JOA), including cash advances and interest accrued pursuant to the Block 9 JOA, when such contributions are due. Loon Latakia is also obliged to obtain and maintain any security required of it under the Block 9 JOA or the Syria Block 9 PSC.

(f) Guarantee

In accordance with the terms of the Syria Block 9 PSC, the Company posted a guarantee in respect of its work commitment in the amount of $7.5 million. As at December 31, 2011 the Company had a total of $3.185 million (December 31, 2010 - $5.041 million) remaining on the performance guarantee. The reduction of the bank guarantee is due to the completion of work commitments in Syria and the farm-out agreement pursuant to which MENA Syria agreed to fund 30% of the bank guarantee.

Partners

The Company, through Loon Latakia, currently holds a participating interest of 45% in the Syria Block 9 PSC.

The joint venture partners in Syria Block 9 are: KOV (operator through its indirectly wholly-owned subsidiary Loon Latakia), 45%; MENA Syria, 30%; Ninox, 20%; and Ansco (if the assignment is approved), 5%.

Brunei

Brunei is the third largest oil producer in Southeast Asia, and a significant producer of liquefied natural gas ("**LNG**"). Brunei is located on the northern coast of the island of Borneo adjacent to the South China Sea and shares a 381 kilometre border with the Malaysian state of Sarawak. Brunei benefits from extensive petroleum and natural gas fields, the source of one of the highest per capita GDP's in the world, estimated at more than US$49,000 for 2011. Crude oil and LNG are the main exports of Brunei.

The Company has interests in two production sharing agreements in Brunei which are described below.

Block L Production Sharing Agreement

The Company, through two of its indirect wholly-owned subsidiaries, owns a 90% working interest in the Brunei Block L PSA. Kulczyk Oil Brunei, an indirect wholly-owned subsidiary of the Company, owns a 40% working interest, and AED SEA, an indirect wholly-owned subsidiary of the Company, owns a further 50% working interest in the Brunei Block L PSA. The Brunei Block L PSA provides the right to explore for and, if the parties to the agreement establish that the discovery is capable of commercial exploitation and PetroleumBRUNEI approves the development plan, produce oil and gas from Block L, a 1,123 km^2 exploration and development block covering certain onshore and offshore areas of Brunei.

A 350 km^2 3D seismic survey, acquired by Kulczyk Oil Brunei and its Block L partners was completed in the second quarter of 2009. The survey was acquired in the Tutong area in the southwest section of Block L. In 2010, 3,037 line kilometres of aerial gravity and magnetic were acquired over Block L. The Company participated for its 40% working interest in two exploration wells, Lukut-1 and Lempuyang-1, which were drilled on Block L in 2010. Both wells encountered hydrocarbon indications while drilling and were cased to total depth. In 2011, Lempuyang-1 testing was terminated due to downhole failure. Lukut-1 remains to be tested. A West Jerudong petrophysical study was commenced along with biostratigraphy studies of samples from both Lukut-1 and Lempuyang-1. A 165.5 km^2 3D seismic survey, a 13.5 km^2 3D swath and 13 km of new 2D seismic survey where planned, tendered and commenced in 2011. As required under the terms of the Brunei Block L PSA, 1,131 km^2 out of a total of 2,254 km^2 in Block L were relinquished.

Most of Block L is located onshore. The offshore portion of Block L lies in relatively shallow waters. The Seria oil field lies approximately 12 kilometres to the southwest of Block L and the natural gas discovery at Bubut announced by Brunei Shell Petroleum Company Sendirian Berhad ("**BSP**") on November 9, 2007 lies less than one kilometre from the edge of Block L in the shallow offshore region. According to a technical paper by BSP in 2008, the Bubut-2 well, 400 to 500 metres from the Block L boundary, logged more than 190 metres of hydrocarbon pay in Miocene reservoir sands. Recent interpretations of seismic information by the Company suggest that between three to six km^2 of the Bubut structure may extend into Block L. It has been reported by BSP that Bubut, along with the 1970 Danau oil and gas discovery, lying less than three kilometres from the Block L boundary, will be developed contemporaneously by 2012 to supply natural gas which would be converted to LNG for export.

Block M Production Sharing Agreement

KOV Borneo, an indirect wholly-owned subsidiary of the Company, owns a 36% interest in the Brunei Block M PSA, which gives it the right to explore for and, if the parties to the agreement establish that the discovery is capable of commercial exploitation and PetroleumBRUNEI approves the development plan, produce oil and gas from Block M, a 1,505 km^2 exploration and development block covering certain onshore and offshore areas of Brunei. A 118 km^2 3D survey was shot by KOV Borneo and its joint venture partners over the Belait oil and gas field in the central portion of Block M in the second and third quarters of 2009. In the second and third quarters of 2010, a 136 km^2 3D seismic survey was completed in the area north of the Belait 3D and south of Block L in fulfillment of the contractual seismic commitments of both the Phase 1 and Phase 2 exploration periods on Block M. The Company participated to the extent of its 36% working interest in two wells, Markisa-1 and Mawar-1, which were drilled by the Company and its partners on Block M in 2010. Both wells encountered hydrocarbon indications while drilling and were cased to total depth pending further evaluation and possible testing. As required under the terms of the Brunei block M PSA 1,506 km^2 of Block M were relinquished. During 2011, a review of the 2010 drilling program along with further interpretation of the 3D seismic led to the identification of three drilling locations, all of which will be drilled as a part of the Phase 2 work commitment under the terms of the Brunei Block M PSA.

The area of Block M is generally jungle covered and mostly low lying, except where elevated over structural features such as the Belait Anticline. The giant billion-barrel Seria oil field lies directly adjacent to the western boundary of Block M. BSP, the operator of Seria, continues to find new reserves on the flanks of Seria and in deeper reservoirs after more than 80 years of development. The Belait oil and gas field, which lies within Block M, was discovered in the early 1900's and has produced oil and gas on a limited basis with reported cumulative oil production of 32,000 barrels of oil and tested gas rates as high as 15 million cubic feet of gas per day. Numerous wells reported hydrocarbons on test and indications of hydrocarbons through mud logs and log analysis. The initial focus of exploration on Block M by the Company and its partners continues to be the Belait anticline area.

Oil and Gas Potential

Brunei, which is underlaid by a geologic feature known as the Baram Delta, is well known for the significant reserves of petroleum and gas which have fuelled the nation's economy for more than 75 years. The BP Statistical Review of World Energy 2011 indicates that the Baram Delta petroleum system within Brunei has produced more than 2.4 billion barrels of oil and more than 6.0 Tcf of natural gas and has proved reserves of 1.1 billion barrels of oil and 10.6 Tcf of natural gas. Production from Brunei in 2010 was 172,000 bopd and 8.1 Bcf of natural gas.

Value creation potential in Block L exists for:

(a) medium to high risk exploration for oil and/or natural gas in the structural features underlying the Tutong 3D survey area to the east of the giant Seria field directly on trend with the under-explored Belait Anticline;

medium risk exploration and exploitation of accumulations of natural gas along the coastal strip in close proximity to the recently announced discovery at Bubut and earlier discoveries at Danau and Scout Rock; and

medium risk development or exploitation opportunities for both oil and natural gas in the commercially productive onshore Jerudong field.

Value creation potential in Block M exists for:

(b) low to medium risk development and exploitation of the Belait oil and gas field utilizing the new 3D seismic survey;

medium risk exploitation / exploration for oil on the eastern flank of the giant Seria field;

medium to high risk sub-thrust and intra-thrust structures which may contain oil or natural gas along the Belait Anticline trend; and

higher risk potential for oil or natural gas accumulations in structural culminations identified by gravity / magnetic survey.

Block L

The south western part of Block L and, in particular, the area where the 3D seismic survey was shot, is underlain by a substantial thickness (up to 4,000 metres) of sediments. The deepest zones comprise a sequence of deformed clastics and subordinate carbonates ranging in age from Late Cretaceous to Early Miocene. These rocks are overlain by a younger, less-deformed series of pro-gradational deltaic systems of Middle Miocene to Quaternary age. Trapping may be stratigraphic or structural and in most cases would be both. Primary targets underlying Block L are the Belait and Miri Formations of Miocene age.

It is generally recognized that a combination of significant clusters of oil and gas seeps, rudimentary geologic mapping and gravity interpretations led early explorers to success in finding the Miri, Seria, Jerudong and Belait fields. Within the area of the recent 3D seismic acquisition survey on Block L, along the trend of the Belait Anticline, there are more than fifty oil and gas seeps clustered in the Simbatang area. BSP drilled eight shallow exploration wells within the cluster between 1914 and 1918. All of these wells intersected good quality reservoir sands with gas and oil shows which at that time were deemed non-commercial.

Prospects arising from KOV's interpretation of the 3D seismic integrated with geology and well data by the technical personnel of KOV include:

Lempuyang – the Lempuyang-1 well commenced drilling in mid-July 2010 and reached a total depth of 3,220 metres in early October. The well encountered significant gas and cuttings shows and interpretation of wireline logs indicated three potential hydrocarbon-bearing zones. The joint venture partners in the well decided to test the two main zones with an aggregate gross thickness of 56.4 metres. Testing began in early February 2011 and the lowest zone, with a thickness of 22 metres, flowed water and a minor amount of gas. The second zone had gas flowing to surface and being flared and the well was cleaning up when a mechanical failure resulted in a loss of the pressure integrity of the downhole test equipment. The test was terminated without any measurement of gas rate and the well was suspended pending arrival of replacement equipment.

Languas - the Languas Prospect is a large, nearly contiguous three-way closure with amplitude support over most of the prospect. The objective section occurs at a depth of 11,500 feet (3,500 metres) in deltaic sediments overlying the geo-pressured Setap shale as indicated by seismic stratigraphy. This section has not been penetrated in any of the wells located on Block L. However, the BL-18 well in Block M to the south encountered thick, clean Ridan sands in a comparable stratigraphic position consistent with the reservoir section expected in the Languas Prospect.

Letup Letup - the Letup Letup Prospect is a four-way fault independent structural closure within the area of the Tutong 3D seismic survey. Reservoir section is expected to be similar to the productive Ridan Sands in the Belait Field. Structure is very low relief and has fair seismic amplitude.

Yellow Fin - the Yellow Fin Prospect is a large three-way faulted closure with amplitude support over most of the prospect. The objective section occurs at an intermediate depth of approximately

2,000 metres in the Belait Formation. This section has been penetrated by a number of wells in the area which had oil and gas shows.

Lukut - the Lukut Prospect (formerly identified as Simbatang South) is a large three-way faulted closure with amplitude support over most of the prospect. The objective section occurs at a shallow to intermediate depth of approximately 1,600 to 2,000 metres in the Belait Formation. This section has been penetrated by a number of wells in the area which had oil and gas shows. A cluster of Simbatang oil and gas seeps lies on the northern edge of the prospect. The Lukut-1 well was drilled in the second quarter of 2010 to a total depth of 2,366 metres. The well encountered gas shows and indications of hydrocarbons in the well cuttings over much of the drilled section and interpretation of wireline logs indicated ten potential reservoir zones. The well was cased to total depth pending further evaluation. Initial reservoir evaluation is planned for Q1 2013.

Lukut Updip - a large prospect identified using existing 2D seismic in combination with the existing 3D seismic. The prospect is updip from Lukut -1 which had hydrocarbon shows while drilling and showed hydrocarbon saturations using petrophysical analysis. The 3 way fault bounded prospect has potential P10 resource estimates of 172 MMboe. A prospective well would be of an intermediate depth and would terminate in the lower clinoform sequence, while penetration various amplitude anomalies. The current 2012 3D program is designed to help de-risk this prospect.

Flat Spot - Located southwest of Lempuyang -1, the Flat Spot prospect is a large and clearly defined fault bounded trap. An obvious hydrocarbon indicator "flat spot" can be easily identified using 3D seismic. This indicator is horizontal and bisects approximately 450m of potential gross reservoir thickness. Potential P10 volumes for this prospect are 86 MMboe.

Other prospects in the Block L area based on 2D seismic data, geological interpretation and the analysis of information from wells previously drilled in the area of Block L include:

Bubut Extension - the Bubut gas field is located approximately seven kilometres offshore from the Lumut/Tutong area of Block L. The discovery well, Bubut-1, was drilled by BSP in 1993 but the discovery was not formally confirmed until November 2007 after BSP drilled the Bubut-2ST in 2007. BSP also announced at that time that a development team had been put in place to prepare an integrated field development proposal for early production from the Bubut-Danau area directly into the LNG plant. The surface location of Bubut-1 is approximately 500 metres from the boundary of Block L and the surface location of the Bubut-2 is approximately 800 metres from the Block L boundary. A review of available seismic information by the Company suggests that the Bubut gas accumulation extends onto Block L.

Jerudong - the Jerudong Prospect occurs in the fault block which contained the productive Jerudong 2, Jerudong-9 and Jerudong-6 wells. The complex 3-way faulted trap contains known resource volumes with tested reservoirs. The 2012 West Jerudong 3D is being acquired to fully exploit this field.

Block M

Immediately to the east of the prolific Seria Anticline is the Belait Anticline which follows a similar SW to NE trend. The Belait Anticline underlies much of the central part of Block M and continues north into Block L underlying the area of the recent Tutong 3D seismic survey. The anticline is one of two primary structural features that dominate Block M and the southern part of Block L and it is clearly identified on the gravity / magnetic survey data recently acquired in Block M. The other primary feature is the Belait Syncline which widens and plunges to the north and dies out towards the south. The Belait anticline is bordered on the west by the westward verging Belait Fault, a large reverse fault with significant throw, and a series of en-echelon, eastward-verging, reverse faults on the western flank of the Belait Syncline.

The trap geometry of the Belait Field is a large, sharply folded and faulted anticline. The field covers almost 122 km^2 (30,000 acres) and is interpreted to be a thrusted pop-up structure on a pronounced wrench fault complex. There are likely multiple fault compartments complicated by irregular sands deposited in a coastal depositional environment (bars, beach, channels, deltas, etc.) meaning stratigraphic traps, or at least a large stratigraphic component in the trapping mechanisms. Sand units would be expected to pinch out to the northwest, thus stratigraphic traps would be best developed on the eastern side of the Seria and Belait anticlinal structures.

The primary reservoir targets in Block M are found in the Belait Formation. The Belait Formation is comprised of coarse fluvial and deltaic sands and shales with some coals and lignites. The Belait Formation was deposited over an eroded surface of the Temburong Formation. The fluvial sequence passes upwards into transgressive shallow marine represented by the coarsening upwards shoreface sands found in the Seria Field.

The Block M joint venture group is focused on implementing phased exploration programs, including the reprocessing and re-interpretation of existing seismic, the acquisition of new geophysical data. This work has included the acquisition of 254 km^2 of 3D seismic, 60 km of 2D seismic and a full block coverage gravity / magnetic airborne geophysical survey. Data from this work has been utilised by the joint venture participants in Block M in the formulation of an appraisal and development plan for the Belait Field.

In addition to the Belait Field development project, 15 exploration prospects/leads have been identified in Block M. Some prospects on Block M arising from the interpretation of geological and geophysical data, review of data from an aero-gravity and magnetic survey of the areas carried out in 2008 and from the analysis by KOV technical personnel of information from wells previously drilled in the area of Block M include:

Meritus: this propect is a sub-thrust target and will test for potential oil and gas reservoir sands in the Langsat and Ridan sands. Hydrocarbon potential in this prospect is augmented by interpreted hydrocarbons present in the Langsat sands penetrated in the Belait-16 wellbore. This prospect is to be drilled in 2012 to a total depth of 3,500 metres and has a P10 potential resource volume of 100 MMboe.

Melati: this prospect is an over-thrust play. The target formations include sandstones positioned in a fault bounded anticline. Belait-7 tested gas within this structure. This well is to be drilled in 2012 to a depth of 2000m and has a P10 potential resource volume of 2.3 MMboe.

Merawan – this prospect will test potential oil and gas reservoir sands on the footwall of the Belait Fault. This sub-thrust prospect has reservoirs similar to those tested by the Belait-13 and Belait-16 wells in a lower structural position. The potential trap is located beneath the Mawar/Markisa field area.

Mayapis – this prospect will test potential oil and gas reservoir sands on the footwall of the Belait Fault. Equivalent sands were tested by the Belait-13 well in a lower structural position and by the Belait-5 well, which is structurally higher than the Belait-13 well. The potential trap is located to the south of these wells in the area between the Belait Fault and an east-west trending normal fault.

Northern Sub-Thrust – this prospect will test potential oil and gas reservoir sands on the footwall of the Belait Fault. This sub-thrust prospect has reservoirs similar to those tested by the Belait-13 and Belait-16 wells in a lower structural position. The potential trap is located north of the 2009 3D area.

Mahawu – this prospect will test potential oil and gas reservoir sands in the intra-thrust zone east of the primary Belait Fault. This intra-thrust prospect has reservoirs similar to those tested by the Belait-12 in a lower structural position. This prospect is to be drilled in 2012 to an approximate depth of 2,500 metres and has a P10 potential resources volume of 93 MMboe

Mengkudu – this prospect will test potential oil and gas reservoir sands in the over-thrust zone in a large fault compartment immediately north northeast of the Mawar/Markisa fault block. This over-thrust prospect has reservoirs similar to those tested by the Belait-16, Belait-15 and Belait-10 in a lower structural position.

Mahogani – this prospect will test potential oil and gas reservoir sands in the over-thrust zone in a large fault compartment immediately north of the 2009 3D area. This over-thrust prospect has reservoirs similar to those tested by the Belait-15, Belait-7 and Belait-12 in a lower structural position.

Mengkuang – this prospect will test potential oil and gas reservoir sands in the over-thrust zone in a large fault compartment north of the 2009 3D area. This over-thrust prospect has reservoirs similar to those tested by the Belait-15, Belait-7 and Belait-12 in a lower structural position.

Melur – this prospect will test potential oil and gas reservoir sands in the over-thrust zone in a fault compartment south of the Mawar/Markisa discoveries. This over-thrust prospect has reservoirs similar to those tested by the Belait-18, Belait-17, Mawar-1 and Markisa-1.

Resource Potential

Block L

RPS has made an assessment of the contingent and prospective oil and gas resources within Block L and has prepared the RPS Brunei Block L Report. In preparing the RPS Brunei Block L Report, RPS took a comprehensive review of all the available technical data as a basis for evaluating the potential of Block l and made a calculation of contingent and prospective resources for the identified prospects effective as at December 31, 2011.

Contingent Resources

Contingent resources of 60,000 barrels of oil net to KOV were identified for one prospect area on Block L in the RPS report.

Prospective Resources

Prospective resources were identified in 14 prospects on Block L based upon interpretation of 3D and 2D seismic and on geological evaluation. The prospective oil and gas resources are summarized in the table below.

PROSPECTIVE RESOURCES – Brunei Block L (90% KOV Effective Interest)				
Prospect	**Resource Category**	**Low Estimate**	**Best Estimate**	**High Estimate**
Block L	Oil (MMbo)	189	283	430
	Gas (Bcf)	1013	1480	2203
	Total MMboe	**179**	**265**	**399**
Prospective Resource volumes have not been discounted for risk.				

Notes:

(1) *"Contingent Resources" are those quantities of petroleum that are estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not yet considered mature enough for commercial development because of one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters, or a lack of markets. Contingent Resources are further categorized into Low Estimate (1C), Best Estimate (2C) and High Estimate (3C) according to the level of certainty associated with the estimates and may be sub-classified based on economic viability.*

(2) *"Prospective resources" are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development. Prospective resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be sub-classified based on project maturity.*

(3) *"Low estimate" is considered to be a conservative estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. If probabilistic methods are used, there should be at least a 90% probability (P90) that the quantities recovered will equal or exceed the low estimate.*

(4) *"Best estimate" is considered to be the best estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be at least a 50% probability (P50) that the quantities recovered will equal or exceed the best estimate.*

(5) *"High estimate" is considered to be an optimistic estimate of the quantity that will actually be recovered. It is unlikely that the actual remaining quantities recovered will exceed the high estimate. If probabilistic methods are used, there should be at least a 10% probability (P10) that the quantities recovered will equal or exceed the high estimate.*

(6) *The total of the Low, Best and High Estimates have been determined probabilistically and do not sum arithmetically and are based on any hydrocarbons discovered having a 50/50 chance of being oil or gas and on a boe ratio of six Mcf of gas being equal to one barrel of oil.*

Block M

RPS has made an assessment of the contingent and prospective oil and gas resources within Block M and has prepared the RPS Brunei Block M Report. In preparing the RPS Brunei Block M Report, RPS took a comprehensive review of all the available technical data as a basis for evaluating the potential of Block M and made a calculation of contingent and prospective resources for the identified prospects effective as at December 31, 2011.

Contingent Resources

Two prospects in Block M were considered to have contingent resources based upon interpretation of 3D and 2D seismic, on geological evaluation and well information. Contingent resources of 110,000 barrels of oil net to KOV were identified by RPS for one prospect area on Block M while 2 Bcf of natural gas net to KOV were identified for the second prospect.

Prospective Resources

Prospective resources were identified in 11 prospects on Block M based upon interpretation of 3D and 2D seismic and on geological evaluation. The prospective oil and gas resources are summarized in the table below.

PROSPECTIVE RESOURCES – Brunei Block M (36% KOV Effective Interest)				
Prospect	**Resource Category**	**Low Estimate**	**Best Estimate**	**High Estimate**
Block M	Oil (MMbo)	15.5	35.6	93.6
	Gas (Bcf)	26.3	109.4	412.6
	Total MMboe	**10**	**27**	**81**
Prospective Resource volumes have not been discounted for risk.				

Notes:

(1) "Contingent Resources" are those quantities of petroleum that are estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not yet considered mature enough for commercial development because of one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters, or a lack of markets. Contingent Resources are further categorized into Low Estimate (1C), Best Estimate (2C) and High Estimate (3C) according to the level of certainty associated with the estimates and may be sub-classified based on economic viability.

(2) "Prospective resources" are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development. Prospective resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be sub-classified based on project maturity.

(3) "Low estimate" is considered to be a conservative estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. If probabilistic methods are used, there should be at least a 90% probability (P90) that the quantities recovered will equal or exceed the low estimate.

(4) "Best estimate" is considered to be the best estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be at least a 50% probability (P50) that the quantities recovered will equal or exceed the best estimate.

(5) "High estimate" is considered to be an optimistic estimate of the quantity that will actually be recovered. It is unlikely that the actual remaining quantities recovered will exceed the high estimate. If probabilistic methods are used, there should be at least a 10% probability (P10) that the quantities recovered will equal or exceed the high estimate.

(6) The total of the Low, Best and High Estimates have been determined probabilistically and do not sum arithmetically and are based on any hydrocarbons discovered having a 50/50 chance of being oil or gas and on a boe ratio of six Mcf of gas being equal to one barrel of oil.

Exploration Activity and Future Plans

Seismic Programs

Block L

On Block L, a 350 km^2 3D seismic acquisition program, was completed in the Tutong area on May 8, 2009. 165.5 km2 of 3D seismic, a 13.5 km^2 3D swath and 13 kilometres of 2D seismic will be acquired and processed between Q4 2011 and into Q2 2012. The new seismic will be tied into the 2009 3D seismic survey providing broad insight into the structural nature of Block L. The primary purpose of the 2011 and 2012 seismic program will be to fully evaluate the hydrocarbon potential within the structurally complex Jerudong prospect area, to de-risk the Lukut Updip prospect and to identify other potential prospects.

Block M

The Block M partners acquired a total of 118 km^2 of 3D seismic data in 2009 in the area of the earlier Belait gas discovery, 33 kilometres of 2D information was acquired to the south of the 3D area and 27 kilometres of 2D information was acquired in the area between the Belait oil pool and the Tutong area of Block L. Processing and interpretation of the acquired data were completed later in 2009 and interpretation of the processed data by technical personnel of KOV and its Block M partners assisted in the definition of the two drilling locations incorporated into the 2010 drilling campaign. In the second and third quarters of 2010, a 136 km^2 3D seismic survey was completed immediately north of the Belait 3D area to complete all contractual commitments for the Phase 1 and Phase 2 exploration periods for Block M.

Drilling & Testing

Block L

The Lukut-1 well, which was spud May 2, 2010, was drilled to a total depth of 2,366 metres. Gas logs which evaluated the hydrocarbon content of the drilling fluid during the drilling operation showed a continual increase in gas content with indications of C_1 to C_5 over the interval from 1,745 metres to 2,230 metres. An interpretation of wireline logs indicated ten zones of potential and the well was cased to total depth in June 2010 and suspended pending future testing. Current plans are to test three of the ten potential zones with testing currently expected to commence in 2013.

The Lempuyang-1 commenced drilling in mid-July 2010 and reached a total measured depth of 3,220 metres (true vertical depth of 2,817 metres). Significant drilling challenges related to managing over-pressured zones encountered during the drilling of the well contributed to the number of days between spud and the reaching of total depth and to the cessation of drilling above the 3,500 metre level which had originally been projected for this well. Overpressure was expected and was accounted for in the original well design. However, several significant gas kicks encountered while drilling meant that the design needed to be modified to suit the conditions in the wellbore. Three of the four target horizons were fully penetrated by the wellbore. Interpretation of wireline logs indicated possible gas-charged reservoirs at each of three lowest target horizons and the well was cased to total depth and suspended pending future testing.

The joint venture partners in Block L decided to test two of the three zones with an aggregate thickness of 56.4 metres. The first of these was perforated in early February 2011 and flowed water (potentially from one of the over-pressured sands below) and a small amount of gas. The second test was flowing gas to surface and was cleaning up when a mechanical failure resulted in a loss of the pressure integrity of the downhole test equipment. The test was terminated without any measurement of gas rate and the well was suspended pending arrival of replacement equipment.

A minimum of two exploration wells are planned to be drilled in Block L by August 2013. The locations for these wells will be confirmed later in 2012 once the seismic information currently being acquired has been processed and interpreted.

Block M

KOV will participate in drilling three prospects to test three different play types in 2012 to fulfill the Phase 2 drilling commitment under the terms of the Brunei Block M PSA. Rig contracting is underway with an expected spud date for the first well in the third quarter of 2012. Potential P10 volumes for the three prospects are 195 MMboe.

KOV participated in the drilling of a two wells on Block M in 2010. The Mawar-1 well, spud on August 25, 2010, was drilled to evaluate multiple sandstone objectives within the Middle to Late Miocene Belait Formation. It reached a total depth of 1,292 metres in mid-September and interpretation of drilling information together with wireline logs suggested that natural gas had been encountered in the primary objective (Ridan Sandstone) with a 25 metre thickness of Ridan reservoir indicated at a depth of 1,005 metres. A deeper secondary objective (Rampayoh Series) had good hydrocarbon indications in cuttings and sidewall cores in an interbedded sand-shale sequence. Mawar-1 was cased to total depth and suspended pending future testing.

Markisa-1 was drilled on a prospect identified on a 3D seismic data acquired by the Block M joint venture partners in 2009. It was drilled to evaluate the potential of a sandstone reservoir that produced oil in the 1920's and 1930's in an adjacent fault block. The Markisa-1 well was spud in late September 2009 and reached a total depth of 1,300 metres prior to the middle of October. The well encountered good oil shows through the Ridan Sandstone interval from 1,070 metres to 1,100 metres over a true vertical thickness of 29 metres. The well was cased to total depth and suspended pending future testing.

Testing of the Mawar and Markisa wells has been deferred until after the drilling of the three well during Phase 2 of the exploration program.

Material Agreements

Block L

(a) Production Sharing Agreement

Kulczyk Oil Brunei and QAF Brunei Sendirian Berhad ("**QAF**") entered into the Brunei Block L PSA dated August 28, 2006 with PetroleumBRUNEI, which granted to Kulczyk Oil Brunei and QAF the right to explore for and, if the parties decide that the discovered resources are sufficient for commercial exploitation and PetroleumBRUNEI approves the development plan, produce oil and natural gas from Block L. As of the date of the Brunei Block L PSA, Kulczyk Oil Brunei held a 90% working interest and QAF held a 10% working interest in the Brunei Block L PSA. The Company subsequently assigned a 50% interest in the Brunei Block L PSA to AED SEA, which it re-acquired in December 2011 when it purchased AED SEA from its then parent company, leaving the Company with an aggregate 90% working interest in Block L. The Brunei Block L PSA was entered into for a period of 30 years. In August 2010, the Company and its joint venture partners in Block L, elected to proceed with the Phase 2 exploration program under the Brunei Block L PSA.

In December, 2011, when KOV Cyprus acquired 100% of the share capital of AED SEA upon the closing of the AED SEA Acquisition, KOV, through its indirectly wholly-owned subsidiary SEA AED, assumed operatorship of Block L.

The Brunei Block L PSA provides PetroleumBRUNEI or its nominee with a right to acquire up to a 15% participating interest in Block L (the "**Block L Back-In Right**") at any time. The Block L Back-In Right will be taken pro-rata from the existing contractor parties' respective participating interests in the Brunei Block L PSA. If PetroleumBRUNEI exercises the Block L Back-In Right during the exploration period under the Brunei L PSA, its participating interest would be carried by the other contractor parties pro rata to their respective participating interests until expiry of the exploration period (after which it must bear its pro rata share of expenses). If PetroleumBRUNEI exercises the Back-In Right after expiry of the exploration period, it must pay its pro rata share of expenses.

(b) Operating Agreement

Kulczyk Oil Brunei entered into an operating agreement dated August 28, 2006 (the "**Block L Operating Agreement**") with QAF, initially appointing Kulczyk Oil Brunei as the operator. The Block L Operating Agreement sets out the terms and conditions that govern the conduct of the parties amongst themselves and the conduct of petroleum operations by the parties within Block L. The Block L Operating Agreement is based on the model form operating agreement issued by the AIPN. The purpose of the Block L Operating Agreement is to establish the respective rights and obligations for the parties with regard to operations under the Block L PSA including the joint exploration, appraisal, development, production and disposition of any crude oil or natural gas produced from Block L.

As a party to the Block L Operating Agreement, Kulczyk Oil Brunei must pay its participating interest share of Joint Account Expenses (as defined in the Brunei Block L Operating Agreement), including cash advances and interest accrued pursuant to the Block L Operating Agreement, when such contributions are due. Kulczyk Oil Brunei is also obliged to obtain and maintain any security required of it under the Block L Operating Agreement or the Brunei Block L PSA.

Pursuant to the agreement of assignment, assumption and amendment to the Block L Operating agreement dated May 12, 2008 (the "**Amending Agreement**"), Kulczyk Oil Brunei assigned to AED SEA an undivided 50% of its undivided 90% participating interest in the Block L Operating Agreement (which it then re-acquired in December 2011). In addition, under the terms of the Amending Agreement, Kulczyk Oil Brunei resigned as Operator and AED SEA was appointed as Operator, becoming effective May 23, 2008. With the company's re-acquisition of AED SEA in December 2011, it is now, through its indirectly wholly-owned subsidiary SEA AED, Operator for Block L. The Company is not aware of any breach of the Block L Operating Agreement by any party. The Block L Operating Agreement has the same term as the Brunei Block L PSA.

(c) Option Agreement

On April 23, 2007, Kulczyk Oil Brunei signed an option agreement (the "**Option Agreement**") with AED SEA, then a wholly-owned subsidiary of Nations Petroleum Company Ltd., a private international oil and gas company, under which AED SEA could acquire a 50% interest (the "**AED South East Asia Option**") in the Brunei Block L PSA from Kulczyk Oil Brunei. In consideration of the granting by the Company of the AED South East Asia Option, AED SEA agreed to pay Kulczyk Oil Brunei the money spent by Kulczyk Oil Brunei in connection with the Brunei Block L PSA from August 28, 2006 up to the date of the Option Agreement and fund 100% of the cost and expense of implementing the approved Phase 1 work program and budget, which included reprocessing existing seismic data and acquiring processing and interpreting a minimum of 300 km^2 of onshore 3D seismic in Block L. The Option Agreement resulted in Kulczyk Oil Brunei being reimbursed for approximately $1.4 million of previously incurred costs.

On January 28, 2008, AED SEA gave notice of its exercise of the AED South East Asia Option and by deed of assignment dated May 23, 2008, AED SEA was assigned a 50% working interest in Block L thereby reducing the interest of KOV Cyprus in the Brunei Block L PSA to 40%.

On May 23, 2008, PetroleumBRUNEI consented to the exercise of the AED South East Asia Option and as part of the approval of the assignment, Kulczyk Oil Brunei and AED SEA agreed to spend $4.5 million on work in addition to that specified in the Brunei Block L PSA for Phase 1 and the resulting minimum expenditure requirement for the Phase 1 exploration period under the Brunei Block L PSA was increased from $20.5 million to $25.0 million.

On November 6, 2008, PetroleumBRUNEI formally confirmed AED SEA as the operator of Block L under the Brunei Block L PSA.

In December, 2011, when KOV Cyprus acquired 100% of the share capital of AED SEA upon the closing of the AED SEA Acquisition, KOV, through its indirectly wholly-owned subsidiary SEA AED, assumed operatorship of Block L.

(d) Settlement Agreement

During 2007, the Company concluded a settlement agreement (the "**Settlement Agreement**") with Bumico Sendirian Berhad and Integra Mining (B) Sendirian Berhad, both private Brunei companies, and their shareholders relating to a legal challenge to its title to the Brunei Block L PSA pursuant to which the Company made a one-time $1.2 million payment and agreed to pay a total of $800,000 in quarterly instalments over the succeeding 18 months and a maximum of $3.5 million out of 10% of the Company's share of PSA Profit Oil (as in the Block L PSA). Pursuant to the Settlement Agreement, all disputes are resolved and there can be no further claims or assertions brought forth in connection with this challenge to the Company's title to the Brunei Block L PSA. The final quarterly payment was paid on May 7, 2009. As of the date of this AIF, all amounts owing under the Settlement Agreement have been paid, excluding the amounts, if any, that may be payable in the future based on the Company's share of PSA Profit Oil.

(e) Guarantee

On August 28, 2006, under the terms of the Brunei Block L PSA, the Company agreed to guarantee the performance by Kulczyk Oil Brunei of all of its contractual obligations under the Brunei Block L PSA. In addition, a bank guarantee in favour of PetroleumBRUNEI for the Phase 1 exploration period under the Brunei Block L PSA, in the amount of $6.83 million, was posted by the Company. In accordance with the terms of the Option Agreement, AED SEA replaced the bank guarantee and relieved the Company of its obligations thereunder subsequent to the approval of the assignment of a 50% interest in the Brunei Block L PSA to them in May 2008. Upon entering the Phase 2 exploration period under the Brunei Block L PSA Kulczyk Oil Brunei was the only joint venture partner to post its 40% share of the $5.33 million guarantee amount related to Phase 2 required by PetroleumBRUNEI.

In December, 2011, KOV Cyprus acquired 100% of the share capital of AED SEA upon the closing of the AED SEA Acquisition.

Block M

(a) Production Sharing Agreement

Valiant International Petroleum Limited ("**Valiant**") (now KOV Borneo), China Sino Oil Limited ("**China Oil**") and Jana Corporation Sdn Bhd ("**Jana**") (jointly, the "**Block M Contractor**") entered into the Brunei Block M PSA dated August 28, 2006 with PetroleumBRUNEI, which granted to the Block M Contractor the right to explore for and, if the parties to the agreement establish that the discovery is sufficient for commercial exploitation and PetroleumBRUNEI approves the development plan, produce oil and natural gas from Block M. As of the date of the Brunei Block M PSA, China Oil held a 60% working interest, Valiant held a 25% working interest and Jana held a 15% interest in the Brunei Block M PSA. The Brunei Block M PSA was entered into for a period of 30 years. The said agreement is being implemented according to a schedule provided therein.

On June 28, 2007, Triton acquired 100% of the shares in the capital of Valiant, whose principal asset was its right to explore for and produce oil and gas from Block M pursuant to its 25% working interest. On October 24, 2007, Valiant, a wholly-owned subsidiary of Triton, underwent a corporate name change, becoming "Triton Borneo Limited". Following the Triton Acquisition, on March 26, 2010, the name of Triton Borneo was changed to KOV Borneo Limited.

Under the terms of the Brunei Block M PSA, in the event of a third-party acquisition of any of the Block M Parties, PetroleumBRUNEI must be notified immediately. Upon notification, Petroleum BRUNEI may exercise its discretion to determine if the change of control is acceptable and, if it deems the change of control to be unacceptable, it may, alone or together with the remaining Block M Parties, purchase all of the target party's interest in the Block M PSA at a price equal to the arm's length market value. On

January 20, 2010, PetroleumBRUNEI advised the Company that it was waiving this right to purchase with respect to the Triton Acquisition.

The Brunei Block M PSA provides PetroleumBRUNEI or its nominee with a right to acquire up to a 15% participating interest in Block M (the "**Block M Back-In Right**") at any time. The Block M Back-In Right will be taken pro-rata from the existing contractor parties' respective participating interests in the Brunei Block M PSA. If PetroleumBRUNEI exercises the Block M Back-In Right during the exploration period under the Brunei M PSA, its participating interest would be carried by the other contractor parties pro rata to their respective participating interests until expiry of the exploration period (after which it must bear its pro rata share of expenses). If PetroleumBRUNEI exercises the Back-In Right after expiry of the exploration period, it must pay its pro rata share of expenses.

In February 2011, the Company announced that it and its joint venture partners in Block M had elected to proceed with the Phase 2 exploration program under the Brunei Block M PSA.

(b) Joint Operating Agreement

KOV Borneo entered into an operating agreement in August 2006 (the "**Block M Operating Agreement**") with China Oil and Jana. New Sino Oil Company Pty Ltd ("**NSO**", formerly Tap Energy (Borneo) Pty Ltd.) was assigned an undivided 39% interest in China Oil's undivided 60% participating interest in the Block M Operating Agreement under a Deed of Amendment dated February 19, 2008. Pursuant to this assignment, NSO was appointed operator under the Block M Operating Agreement. KOV Borneo acquired an additional 11% undivided participating interest in the Block M Operating Agreement pursuant to a second Deed of Amendment dated August 11, 2008, giving KOV Borneo a 36% total interest in the Block M Operating Agreement.

The Block M Operating Agreement sets out the terms and conditions that govern the conduct of the parties amongst themselves and the conduct of petroleum operations by the parties within Block M. The Block M Operating Agreement is based on the model form operating agreement issued by the AIPN. The purpose of the Block M Operating Agreement is to establish the respective rights and obligations of the parties with regard to operations under the Brunei Block M PSA including the joint exploration, appraisal, development, production and disposition of any crude oil or natural gas produced from Block M.

As a party to the Block M Operating Agreement, KOV Borneo must pay its participating interest share of Joint Account expenses (as defined in the Block M Operating Agreement), including cash advances and interest, when such contributions are due. KOV Borneo is also obliged to obtain and maintain any security required of it under the Block M Operating Agreement or the Brunei Block M PSA.

The obligations of KOV Borneo under the terms of the Block M Operating Agreement are comparable to the obligations of Kulczyk Oil Brunei under the terms of the Block L Operating Agreement. The Company is not aware of any breach of the Block M Operating Agreement by any party. The Block M Operating Agreement has the same term as the Brunei Block M PSA.

(c) Farmout Agreement

Pursuant to a Farmout Agreement dated May 5, 2008 between Jana and KOV Borneo, KOV Borneo was granted the right to earn (subject to the satisfaction of certain conditions) an undivided 11 % of Jana's undivided 15% working interest in the Brunei Block M PSA (the "**Earned Interest**"). As a condition of this agreement, KOV Borneo was obliged to fund Jana's remaining 4% interest in Phase 1 of the Block M Exploration Period (as defined in the Brunei Block M PSA) until the minimum expenditure required under Block M PSA was paid, at which point, Jana began paying according to its remaining 4% working interest. Upon commencing Phase 2 of the Block M Exploration Period, KOV Borneo will again be responsible for funding Jana's 4% interest until the minimum expenditure required under the Block M PSA Phase 2 obligations are paid. From that point forward, Jana will pay according to its 4% interest and KOV Borneo will pay in keeping with its 36% interest. Further, the transfer of the Earned Interest from Jana to KOV Borneo was also conditional upon obtaining PetroleumBRUNEI's approval. PetroleumBRUNEI granted its approval of the transfer of the Earned Interest on June 30, 2008. Upon satisfying the remaining conditions precedent, the Earned Interest of an undivided 11% working interest in the Brunei Block M PSA transferred to KOV Borneo, bringing its total working interest under the Brunei Block M PSA to 36%.

The value of a farm-out agreement can only be determined once the value of the underlying reserves has been determined through exploration, appraisal and development activities.

(d) Net Profit Payment

Pursuant to the terms of the Deed in Relation to Override dated February 19, 2008 between China Oil, NSO, KOV Borneo, Jana and HHD Sdn Bhd ("**HHD**"), KOV Borneo agreed to pay to Jana and HHD, on a quarterly basis, a royalty of 3.5% of the amount of net profit (as defined therein), attributable to the working interest of KOV Borneo which may be received by KOV Borneo from oil or natural gas produced or sold.

The value of net profit interest can only be determined once oil and gas reserves have been discovered and developed and net production revenues are being generated.

(e) Guarantee

On August 11, 2008, Triton and PetroleumBRUNEI entered into an agreement pursuant to which Triton guarantees the performance by KOV Borneo (as successor to Triton Singapore as owner of Block M interest) of its obligations under the Brunei Block M PSA.

The value of the guaranteed obligations arising from KOV Borneo's share of the work commitments with respect to Brunei Block M, is, in aggregate (for two phases), $7.9 million. As of the date of this AIF, there is no bank guarantee posted for Brunei Block M.

STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

Reserves

In accordance with the requirements of NI 51-101, RPS prepared a report called "*Evaluation of Natural Gas Reserves and Resources in Ukraine as of 31st December, 2011*" (the "**RPS Ukraine Report**"). The RPS Ukraine Report evaluates, effective as at the end of the 2011 fiscal year, the NGL and natural gas reserves of KUB-Gas. The Company owns an effective 70% interest in KUB-Gas. All of the Company's reserves are located in Ukraine.

In preparing the RPS Ukraine Report, RPS relied upon certain factual information and data furnished by KUB-Gas and the Company with respect to ownership interests, gas production, historical costs of operation and development, product prices, agreements relating to current and future operations, sales of production, and other relevant data to December 31, 2011.

All of the information derived from the RPS Ukraine Report and disclosed in this AIF has been reviewed and approved by RPS.

Attached as Appendix "A" hereto is Form 51-101F1 "Statement of Reserves Data and Other Oil and Gas Information". Form 51-101F2 "Report of Independent Qualified Reserves Evaluator" by RPS and Form 51-101F3 "Report of Management on Oil and Gas Disclosure", prepared in accordance with the requirements of National Instrument 51-101, are attached hereto respectively as Appendix "B" and Appendix "C".

DIVIDENDS

The Company has not declared or paid any dividends in its three most recently completed financial years, and does not foresee the declaration or payment of any dividends on its Common Shares in the near future. Any decision to pay dividends will be made by the Board of Directors on the basis of the Company's earnings, financial requirements and other conditions existing at such future time.

The Articles of the Company do not place any restrictions on the declaration and payment of dividends by the Company. In accordance with the ABCA, the By-laws of the Company restrict the Board of Directors from declaring and the Company from paying a dividend if there are reasonable grounds for believing that the Company is, or would be after the payment, unable to pay its liabilities as they become due, or the realizable value of the Company's assets would after the payment be less than the aggregate of its liabilities and stated capital of all classes of shares.

DESCRIPTION OF CAPITAL STRUCTURE

Pursuant to the Articles, the Company may issue an unlimited number of Common Shares and an unlimited number of preferred shares, issuable in series. As the date of this AIF, there are 420,804,367 Common Shares and no preferred shares issued and outstanding in the capital of the Company.

Common Shares

The holder of a Common Share is entitled to receive notice of and to attend all meetings of the shareholders of the Company and to exercise one vote for each Common Share held at meetings of shareholders of the Company, and in respect of all other matters upon which the shareholders of the Company are asked to vote upon. The holder of a Common Share is entitled to receive: (a) dividends if, as and when declared by the Board of Directors in respect of the Common Shares out of the monies of the Company properly applicable to the payment of dividends, the amount of which the Board of Directors, in their absolute discretion, may from time to time determine; and (b) pro rata the remaining property and assets of the Company upon its dissolution, liquidation or winding-up, subject to the rights of shares having priority over the Common Shares.

Preferred Shares

Preferred shares are issuable in series with such rights, privileges, restrictions and conditions attached to each series as the Board of Directors, prior to the issuance thereof, shall determine. Each series of preferred shares ranks in priority to all other shares of the Company in respect of the payment of dividends and, upon a winding up or liquidation, to receive such assets and property of the Company as are distributable to the holders of the preferred shares.

Pursuant to the Articles of the Company, the terms of any preferred shares issued by the Company from time to time in one or more series shall be determined by the Board of Directors who may by resolution fix before the issuance thereof the designation, preferences, rights, privileges, restrictions and conditions attaching to the preferred shares of each series, including the redemption price and conditions of redemption, if any.

MARKET FOR SECURITIES

Trading Price and Volume

The Common Shares of the Company are traded on the WSE. The following table sets forth information regarding the trading of the Common Shares on the WSE from the month the Common Shares commenced trading on the WSE to the date of this AIF:

	Closing price (PLN)		Trading Volume		
	High	Low	Maximum	Minimum	Monthly Average
2012					
March (1-28)	1.89	1.49	10,546,053	478,318	3,655,021
February	1.62	1.39	19,164,764	723,115	3,375,015
January	1.43	1.22	7,455,573	760,715	2,664,047
2011					
December	1.42	1.15	10,965,251	366,521	2,585,808
November	1.48	1.09	15,071,437	1,605,858	5,791,850
October	1.16	0.86	7,266,062	653,135	2,878,460
September	1.18	0.82	5,412,047	281,441	1,115,176
August	1.71	1.13	4,268,033	313,080	1,875,569
July	1.77	1.68	1,880,270	120,941	558,078
June	1.81	1.72	5,429,738	354,086	1,406,911
May	1.85	1.68	6,655,719	410,565	1,700,829
April	1.82	1.65	9,539,056	484,857	2,075,311
March	1.87	1.71	8,966,694	541,517	1,922,828
February	2.19	1.76	20,002,352	531,041	5,985,986
January	1.70	1.51	8,169,453	366,838	2,162,771

PRIOR SALES

The following table sets forth information regarding the issuance of Common Shares by the Company during the financial year ended December 31, 2011 and to the date of this AIF:

	Number of Common Shares	Stated Value (000's)	Per Share	Date of Issuance
Balance, December 31, 2010	402,103,330	$ 192,520		
Exercise of stock options	100,000	16	$ 0.16	January 8, 2011
Exercise of stock options	100,000	16	$ 0.16	January 8, 2011
Issued upon conversion of convertible debentures	18,501,037	10,733	$ 0.58	August 12, 2011
Equity portion of convertible debt	-	2,160		August 12, 2011
Balance, December 31, 2011	420,804,367	$ 205,445		

The Company has granted Common Share purchase options to officers, directors, employees and certain consultants with exercise prices equal to or greater than the fair value of the Common Shares on the grant date. Upon exercise, the options are settled in Common Shares issued from treasury. Options generally vest over two years and have a life of five years. As at the date of this AIF, there were 41,245,000 Common Shares issuable upon the exercise of outstanding options of the Company at prices ranging from $0.40 per Common Share to $0.73 per Common Share.

During the financial year ended December 31, 2011, the Company granted 11,130,000 share purchase options exercisable into 11,130,000 Common Shares, the particulars of which are set out in the following table:

Date of Grant	Number and Type of Securities Issued	Exercise Price ($)
March 16, 2011	1,530,000 options	$0.40
May 10, 2011	320,000 options	$0.40
August 1, 2011	1,289,000 options	$0.40
December 6, 2011	7,991,000 options	$0.40
Total:	**11,130,000 options**	

Each option entitles the holder thereof to acquire one Common Share, on the terms and conditions set forth in the Company's stock option plan, and expires five years from the date of issuance. For further information, please see "Executive Compensation" in the Company's information circular dated April 1, 2011 relating to the annual meeting of shareholders held on May 11, 2011.

On December 6, 2011 the Company revalued 5,007,000 share purchase options outstanding and held by Kulczyk Oil employees to $0.40 per share option. The share purchase options held by the directors, Chief Executive Officer, Executive Vice President and Vice Chairman were not revalued.

As part of the completion of the Triton Acquisition, the Company issued the TIG Convertible Debenture in the amount of $10,010,000 to TIG, to replace a convertible note that TIG had held as a creditor of Triton. The TIG Convertible Debenture is convertible to Common Shares at $0.5767 per Common Share. For further information, see "*Interest of Management and Others in Material Transactions – TIG Notes and TIG Convertible Debenture*" and *"Material Contracts – TIG Agreement and TIG Convertible Debenture"*.

On August 1, 2011, TIG sold its convertible debentures to a subsidiary of MWG, an unrelated third party, for the face value of $10.0 million plus accrued interest. On August 12, 2011, MWG converted the debentures into 18,501,037 common shares at $0.5767 per share.

DIRECTORS AND OFFICERS

The overall supervision of the management of the Company's business is vested in the Board of Directors and the President and the Chief Executive Officer of the Company to whom the Board of Directors has delegated the day-to-day management of the Company, other than in relation to certain matters specifically reserved to the competence of the Board of Directors by the ABCA. The President and Chief Executive Officer is supported by the officers in the performance of the day-to-day management of the Company.

Directors and Executive Officers

The following table sets out the name, province or country of residence, position, date of appointment, principal occupation, and principal occupation during the preceding five years for each of the directors and officers of the Company as of the date of this AIF. Each director is elected or appointed to serve until the next annual meeting of shareholders or until a successor is elected or appointed subject to the Articles and By-laws of the Company. The Company has eight executives (the "**Executive Officers**") based in Dubai, Calgary and Warsaw. All of the Executive Officers are active in the business of the Company on a day-to-day basis. There is no defined term of office for Executive Officers. The employment of any Executive Officer, subject to the terms and conditions of any employment agreements, may be terminated by the Board of Directors at any time.

Name	Province / Country of Residence	Position with the Company	Date of Appointment	Principal Occupation(s)
Jan. J. Kulczyk	St. Moritz, Switzerland	Chairman of the Board of Directors	December 10, 2008	Dr. Kulczyk has been President of the Supervisory Board of Kulczyk Investments S.A. since December 2007.
Timothy M. Elliott	Dubai, United Arab Emirates	President and Chief Executive Officer; Director	President and Chief Executive Officer since February 10, 2006; Director since April 10, 2001	Mr. Elliott has been President and Chief Executive Officer of the Company since February 2006.
Norman W. Holton	Calgary, Alberta, Canada	Vice Chairman of the Board of Directors	Vice Chairman of the Board of Directors since December 10, 2008; Director since July 30, 1993	Mr. Holton has been Vice Chairman of the Board of Directors since December 10, 2008. Prior thereto, he was Executive Chairman of the Company (since May 2007) and Chairman and Chief Executive Officer of the Company (from 1995 to February 2006).
Helmut J. Langanger(3)	Vienna, Austria	Director	November 9, 2011	From 1974 until 2010, Mr. Langanger was employed by Austrian company OMV where he was Group Executive Vice President EP, a member of the Executive Board and Managing Director Upstream.

Gary R. King [(1)(2)(3)]	Dubai, United Arab Emirates	Director	October 25, 2007	Mr. King has been an independent consultant since March 5, 2009. Prior thereto, he was the Chief Executive Officer of Dubai Natural Resources World, a private investment fund owned by the Government of Dubai (since September 1, 2008). Before this he was Chief Executive Officer of the Dubai Mercantile Exchange (from December 2005 to August 2008).
Manoj N. Madnani[(2)]	Dubai, United Arab Emirates	Director	October 25, 2007	Mr. Madnani has been Managing Director and a Board Member of Kulczyk Investments S.A. (Luxembourg) and related companies since June 2007. Prior to joining the Management Board of Kulczyk Investments S.A. he was Managing Director of The Marab Group, an oil and gas consultancy and investment banking firm based in Kuwait focusing on sovereign energy security and global investments in the energy sector (from July 2005 to May 2007).
Michael A. McVea [(1)(2)(3)]	Victoria, British Columbia, Canada	Director	February 10, 2006	Mr. McVea has been a retired barrister and solicitor and corporate director since 2004.
Dariusz Mioduski	St. Moritz, Switzerland	Director	December 10, 2008	Mr. Mioduski has been President and Chief Executive Officer of the Management Board of Kulczyk Investments S.A. since December 2007 and President of the Management Board of Kulczyk Holding S.A., a private investment holding company since May 2007. Prior to this he was an executive partner at CMS Cameron McKenna, an international law firm, in Warsaw, responsible for the entire Energy and Infrastructure Projects sector (since November 1997).
Stephen C. Akerfeldt [(1)]	Toronto, Ontario, Canada	Director	March 16, 2011	Mr. Akerfeldt has been President and a director of Ritz Plastics Inc., a private company that produces plastic parts primarily for the automotive industry by injection moulding, since 1999. From June 2007 until February 2011, he was Chairman of the Board and a director of Firstgold Corp., a gold exploration company and he was the Chief Executive Officer of Firstgold Corp. from January 2008 to July 2009.

Jock M. Graham	Dubai, United Arab Emirates	Executive Vice President	May 28, 2007	Mr. Graham has been Executive Vice President of the Company since February 2006 and prior to that was a consultant to the Company from March 2005.
Edwin A. Beaman	Calgary, Alberta, Canada	Vice President, Operations & Engineering	October 23, 2007	Mr. Beaman has been Vice President, Operations and Engineering for the Company since October 2007. Before that he was a consultant to the Company since April 2007 and prior to that, he was Vice President, Production of TUSK Energy Corporation since November, 2004.
Jakub J. Korczak	Warsaw, Poland	Vice President Investor Relation & Managing Director CEE	May 25, 2010	Prior to joining KOV in January 2010 as Proxy & Investor Relations Officer, Mr. Korczak was CFO and a board member at Bank Pocztowy (2009-2010) and head of strategy and IR officer at BRE Bank (2005-2009).
Trent A. Rehill	Calgary, Alberta, Canada	Vice President, Geosciences	May 25, 2010	Prior to joining the Company in March 2009 he was a Senior Staff Geologist for the Artumas Group working on assets in Tanzania and Mozambique. From July 2006 to July 2008, he was a Senior Explorationist/Team Leader for Woodside Energy based in Tripoli, Libya.
Paul H. Rose	Calgary, Alberta, Canada	Chief Financial Officer	April 27, 2007	Mr. Rose has served as Chief Financial Officer of the Company since April 2007. Prior to that Mr. Rose acted as the Chief Financial Officer of Jura from January 2007.
Alec Silenzi	Calgary, Alberta, Canada	Vice President Legal & General Counsel	January 16, 2012	Prior to joining the Company in January 2012, Mr. Silenzi was a partner in the law firm Gowlings LLP from September 2007. Prior to that he was an associate at the law firm Heenan Blaikie LLP from 2002.

Notes:

(1) Member of Audit Committee.
(2) Member of Compensation and Corporate Governance Committee.
(3) Member of Reserves Committee.

As of the date of this AIF, the directors and executive officers of KOV, as a group, beneficially own, or control or direct, directly or indirectly, an aggregate of 197,713,140 Common Shares, representing approximately 47% of the issued and outstanding Common Shares on a non-diluted basis. The information as to Common Shares beneficially owned, or controlled or directed, directly or indirectly, not being within the knowledge of the Company, has been furnished by the respective individuals.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Unless otherwise disclosed in this AIF, no director or executive officer of the Company:

(a) is, or has been within 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any company that, while that person was acting in that capacity:

(i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was issued while the proposed director was acting in the capacity as a director, chief executive officer or chief financial officer; or

(ii) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while he was acting in the capacity of a director, chief executive officer or chief financial officer except:

- On July 22, 2009 a cease trade order was issued by the Ontario Securities Commission against the insiders, management, officers and directors of Firstgold Corp., including Stephen C. Akerfeldt, for failure to file various continuous disclosure materials within the prescribed time frame as required by Ontario securities law. All outstanding continuous disclosure materials were subsequently filed and the cease trade order expired on October 10, 2009.

- In August 2002, Proprietary Industries Inc. ("**Proprietary**") (now Jura) faced certain accounting and regulatory issues which led to its then board of directors to voluntarily agree to a cease trade order. The Alberta Securities Commission ("**ASC**") launched an investigation of certain transactions that Proprietary's then senior officers had directed Proprietary to enter into between 1998 and 2002. The senior officers were dismissed from their positions in August 2002. Stephen C. Akerfeldt became a director of Proprietary in January 2003 and a settlement agreement was entered into between the ASC and Proprietary with respect to matters occurring prior to August 2002. The regulatory issues against Proprietary were resolved and the cease trade orders with respect to the shares of Proprietary were lifted in May 2004; or

(b) is, or has been within 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any company that while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets except:

- In January 2010, Firstgold Corp. filed for protection under Chapter 11 in the United States. Mr. Akerfeldt was at the time of the filing a director of Firstgold Corp.; or

(c) has, within 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

No director or executive officer has been subject to:

(a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable securityholder in deciding whether to vote for a proposed director.

Conflicts of Interest

As of the date of this AIF, KI holds 44.3% of the Company's issued and outstanding Common Shares, and three directors of the Company (Dr. Kulczyk, Mr. Mioduski and Mr. Madnani) hold senior executive positions with KI. KI's business activities are varied, and include investments in resource companies other than KOV; therefore, there is potential for a conflict of interest to arise.

Nemmoco Petroleum Corporation ("**Nemmoco**"), a private company of which 37.5% is owned by Timothy 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, 2011, the fees totalled $624,780 (December 31, 2010: $523,032). At December 31, 2011, $52,065 was owing to Nemmoco (2010 - $nil).

AUDIT COMMITTEE INFORMATION

In response to National Instrument 52-110 *Audit Committees* ("**NI 52-110**"), the Company has established terms of reference for its audit committee to address such items as: (a) the procedure to nominate the external auditor and recommend its compensation; (b) the overview of the external auditor's work; (c) pre-approval of non-audit services; (d) the review of financial statements, management's discussion and analysis and financial sections of other public reports requiring board approval; (e) the procedure to respond to complaints respecting accounting, internal accounting controls or auditing matters and the procedure for confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and (f) the review of the Company's hiring policies towards present or former employees or partners of the Company's present or former external auditor. The terms of reference for the Audit Committee are attached to this AIF as Appendix "F".

Composition of the Audit Committee

The Audit Committee is comprised of Michael A. McVea, Gary R. King and Stephen C. Akerfeldt. Mr. McVea is the chairman of the Audit Committee. Each of the members is "financially literate," as that term is defined in section 1.5 of NI 52-110 and each of the members are independent directors, as "independent" is defined in NI 52-110.

Relevant Education and Experience

Michael A. McVea

Mr. McVea has been a retired barrister and solicitor since 2004. Prior to that, he was Senior Partner of McVea, Shook, Wickham & Bishop, a general practice law firm from September 1981 to December 2002 and Associate Counsel with that firm from January 2003 to June 2004. Mr. McVea practiced mainly in the areas of business and corporate commercial law. He graduated from University of British Columbia, Canada, with a Bachelor of Laws degree in 1974. Mr. McVea was a director of TKE Energy Trust from November 2004 to November 2005. Mr. McVea is also a director of Loon Energy Corporation and a director and shareholder of McVea Investment Corp., a private investment company. In these roles, Mr. McVea has acquired experience and exposure to accounting and financial reporting issues, as well as capital markets procedures, policies and rules.

Gary R. King

Mr. King has been an independent consultant since March 5, 2009. Prior thereto, he was the Chief Executive Officer of Dubai Natural Resources World, a private investment fund owned by the Government of Dubai exploring new long-term investment avenues across the entire natural resources value chain including oil and gas, power, alternative energy, mining and agriculture, primarily in the developing world since September 1, 2008. Prior thereto, he was Chief Executive Officer of the Dubai Mercantile Exchange from December 2005 to August 2008, a Senior Vice President of Macquarie Bank from July 2005 to December 2005 and Managing Director of Matrix Commodities, a private trading company, from November 2004 to July 2005. Mr. King was Regional Head of Standard Bank London based in Dubai, United Arab Emirates from March 2001 to August 2004. Prior thereto he was employed by Emirates National Oil Company, lastly as Advisor, Group CEO Office from July 2002 to August 2004 and firstly as General Manager, Risk Management from January 1999 to March 2001. Prior thereto, Mr. King's experience included employment with Dragon Oil PLC, an international oil and gas exploration and production company, TransCanada International Petroleum (Asia Pacific PTE LTD), an international oil and gas exploration and production company, Morgan Stanley and Neste Oy, the national oil and energy company of Finland. Mr. King graduated from Imperial College, Royal School of Mines, London University, United Kingdom with a Masters Degree in Petroleum Exploration Geology in 1983. In addition to serving on the Board of Directors he is a director of Parker Drilling Company, a public corporation which trades on the New York Stock Exchange. In these roles, Mr. King has acquired experience and exposure to accounting and financial reporting issues, as well as capital markets procedures, policies and rules.

Stephen C. Akerfeldt

Mr. Akerfeldt has been President and a director of Ritz Plastics Inc., a private company that produces plastic parts primarily for the automotive industry by injection moulding, since 1999. From 2007 until February 2011, he was Chairman of the Board and a director of Firstgold Corp., a gold exploration company and he was the Chief Executive Officer of Firstgold Corp. from January 2008 to July 2009. In 1990, Mr. Akerfeldt founded Grayker Corporation, a private company which owned a large chain of dry cleaning stores, and he operated it with a partner until 2003 when it was sold. Prior thereto he served as Vice Chairman and Chief Financial Officer of Magna International Inc. from 1987 to 1990. Mr. Akerfeldt joined Coopers & Lybrand (now Price Waterhouse Coopers) in 1965 and worked with them until 1987. He was designated as a Chartered Accountant in 1969 and was made a partner in 1974. Mr. Akerfeldt graduated from the University of Waterloo, Waterloo, Ontario, Canada in 1966. Mr. Akerfeldt is currently a director of Jura and Armistice Resources, both are public corporations which trade on the TSX. In these roles, Mr. Akerfeldt has acquired experience and exposure to accounting and financial reporting issues, as well as capital markets procedures, policies and rules.

Reliance on Certain Exemptions

At no time since the commencement of the Company's most recently completed financial year has the Company on the exemption in section 2.4 (*De Minimis Non-audit Services*), section 3.3(2) (*Controlled Companies*), section 3.4 (*Events Outside Control of Member*), section 3.5 (*Death, Disability or Resignation of Audit Committee Member*), section 3.6 (*Temporary Exemptions for Limited and Exceptional Circumstances*), or section 3.8 (*Acquisition of Financial Literacy*) or an exemption from this instrument in whole or in part, granted under Part 8 (*Exemptions)* of NI 52-110.

Audit Committee Oversight

At no time since the commencement of the Company's most recently completed financial year has a recommendation of the Audit Committee to nominate or compensate an external auditor not been adopted by the board of directors.

Pre-Approval Policies and Procedures

The Audit Committee pre-approves engagements for non-audit services provided by the external auditors or their affiliates, together with estimated fees and potential issues of independence**.**

External Auditor Service Fees (By Category)

Fiscal Year Ended December 31	2011	2010
Audit Fees(1)	$183,256	$408,552
Audit-Related Fees(2)	$-	$115,270
Tax Fees(3)	$234,874	$447,012
All Other Fees(4)	$106,314	$759,265

Notes:

(1) Audit fees include amounts paid for the Company's annual audit examination of consolidated financial statements, together with fees paid to the Company's auditors for their review of interim quarterly financial information.

(2) Audit-related fees include amounts paid for the International Financial Reporting Standards ("**IFRS**") conversion.

(3) Tax fees include amounts paid for income and other tax planning and compliance services.

(4) All other fees include amounts paid for listing on the WSE, accounting matters related to the KUB-Gas acquisition, and general accounting advice on various accounting matters.

RISK FACTORS

Management of the Company believes that the risks described below are the material risks relating to the market environment of the Company and the operations of Company as at the date of this AIF, although the information below does not purport to be an exhaustive list or summary of all of the risks that the Company may encounter. Additional risks and uncertainties not known to the Company as of the date of this AIF, or that the Company deems to be immaterial as at the date of this AIF, may also have an adverse effect on its business. The headings "Risks Relating to the Company's Market Environment", "Risks Relating to the Operations of the Company", and "Risks Related to the Ownership of Common Shares" used in the following presentation of risk factors is for the convenience of the reader only.

Risks Relating to the Operations of the Company

Exploration, Development and Production Risks

The Company is in the oil and natural gas business. The oil and natural gas business involves many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Company, meaning the capability to generate positive net revenues on a sustainable basis, will depend on its ability to find, acquire, develop and commercially produce oil and natural gas reserves.

In particular, the future value of the Company is dependent on the success of the Company's activities which are principally directed toward the further exploration, appraisal and development of its assets in Ukraine, Syria and Brunei. As of the date of this AIF, no proven or probable reserves have been assigned in connection with the Company's assets in Syria or Brunei given the early stage of development of these assets. The Company presently has the right in Syria and Brunei to explore for and, upon fulfillment of certain conditions, produce oil and natural gas that may be discovered.

The regulation of hydrocarbons in Ukraine is administered by a number of governmental bodies including the Ministry of Fuel and Energy of Ukraine, which is responsible for matters including energy strategy and regulation, and the Ministry of Environmental Protection and the State Geology Service, which are responsible for the award of exploration and development special permits and production special permits.

Specific rights and obligations of the Company are defined under the terms of the Ukraine Licenses, the Syria Block 9 PSC, the Brunei Block L PSA, and the Brunei Block M PSA. The work carried out by the Company under the licenses and production sharing agreements is divided into two stages, one devoted to exploration and the other to production. If it is determined that its oil and gas assets are capable of generating sustained positive cash flow from the production and sale of oil and gas (i.e. once the oil and gas assets are determined to be "commercial"), and following the approval of the development plan by the government or national oil company, the Company will be able to commence production without the need to satisfy other conditions.

Exploration, appraisal, and development of oil and natural gas reserves is speculative and involves a significant degree of risk. There is no guarantee that exploration or appraisal of the potential reserves in Ukraine, Syria and Brunei will lead to a discovery of commercial reserves or, if such reserves are discovered, that the Company will be able to realize such reserves as intended. There is no guarantee that the Company will be able to reach an agreement with the government authorities or the national oil company concerning a development plan, which is a prerequisite for the commencement of production.

Not all properties that are explored by the Company may ultimately be developed into new reserves. If at any stage the Company is precluded from pursuing its existing exploration or development activities in Brunei and Syria or the further development of the KUB-Gas Assets in Ukraine, or such programs are otherwise not continued, the Company's business, financial condition and/or results of operations and, accordingly, the trading price of the Common Shares, is likely to be materially adversely affected. The Company's future oil and natural gas reserves and the ongoing production of oil and natural gas therefrom, and therefore its ability to generate cash flows and earnings, are highly dependent upon the Company continually developing existing reserves of oil and natural gas or acquiring new oil and natural gas reserves. Without the continual addition of new reserves of oil and natural gas, any existing reserves the Company may have at any particular time, as well as the quantity of oil and natural gas produced from such reserves will decline over time as the existing reserves are depleted as a result of production activities. Any future increase in the Company's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects.

There is no assurance that commercial quantities of oil and natural gas will be discovered on the existing oil and gas assets of the Company or acquired in the future by the Company. Future oil and natural gas exploration may involve unprofitable efforts, not only from unsuccessful wells, but from wells that are productive but do not produce sufficient revenues to return a profit after deduction of expenditures, including the cost of drilling and operating expenses. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage may greatly increase the cost of operations, and field operating conditions may adversely affect the production from productive wells. These conditions include delays in obtaining governmental approvals or consent, restrictions on production from particular wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions.

The Company's Ukraine Assets include producing gas properties which the Company is currently operating. Oil and natural gas production operations are subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees. Losses resulting from the occurrence of any of these risks could have a material adverse effect on future results of operations, liquidity and financial condition, which, in turn, could have a material adverse effect on the trading price of the Common Shares.

Early Stage of Operations

The Company was incorporated in 1987 and has pursued its present business in international oil and gas ventures since 2001. During this period, the Company has been evaluating and acquiring interests in various oil and gas assets, and assets acquired in Syria and Brunei are in the "pre-production" phase, meaning that none of the Company's producing oil and gas assets in these two countries are currently generating any revenues from the production and sale of oil and gas. The Company, through its 70% ownership interest in KUB-Gas, earns net revenues from production activities in Ukraine. While the Company's operations in Ukraine are now generating significant earnings, its oil and natural gas projects in Syria and Brunei are in the exploration phases. Consequently, there is a high degree of uncertainty as to the success of the Company's ongoing activities. The 2011 fiscal year is the first for which the Company has generated positive cash flow from operations, however there can be no assurance that the Company will maintain or sustain profitability or positive cash flow from its operating activities. Failure to continue to generate positive cash flow could result in the Company needing to raise further equity to sustain operations until such time as the Company is able to realize the value it believes exists in its oil and gas assets, and the issuance of such additional equity could result in dilution to existing shareholders.

Additional Funding Requirements

The Company's business is at an early stage of development. The Company's properties in Syria and Brunei do not have any established reserves and no revenue has been derived from these prospects as of the date of this AIF. Continuing investment activities by the Company are dependent on its ability to access sufficient capital to complete exploration and development activities and to identify commercial oil and gas reserves.

The Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves now and in the future. The Company will require additional financing in order to carry out its oil and gas acquisition, exploration and development activities with such financing being either new debt or equity.

Expenditures will be incurred to satisfy contractual obligations arising from work commitments specified in the Syria Block 9 PSC, the Brunei Block L PSA, and the Brunei Block M PSA, and additional funding may be required to pay for further capital expenditures on these oil and gas assets if commercial quantities of oil or natural gas are discovered. While the Company anticipates that further capital expenditures planned to develop the Ukrainian Licenses will be funded through KUB-Gas internal cash flow from operations and the EBRD Loan Facility, actual expenditures may exceed those that are planned and may require further capital to be contributed by the Company. The Company's business is inherently risky, and the outcome of future exploration and development activities cannot be determined at this stage. If exploratory drilling activities in Syria and Brunei are successful and oil or natural gas is discovered, additional expenditures will be required to further define the extent and quality of the newly discovered reserves, and to develop and produce these reserves. The nature and type of work that will be required, and therefore the amount of future expenditure required to conduct this work, are very dependent on such factors as the size and characteristics of the newly discovered reserves. These factors are impossible to predict prior to the exploratory drilling being completed. Further, if exploratory drilling results in a discovery that the Company believes to be commercial, then equipment and production facilities will be required to commence production, and to transport the oil or gas to a purchaser. Again, there are many factors that will affect the type and location of production facilities required, and these cannot be predicted in advance of a discovery. Conversely, the drilling of an unsuccessful well may result in the Company deciding that no further work should be performed in a particular area, and that planned spending should be re-allocated to a different project. The Company's business planning therefore allocates funds to planned spending for each of its assets, but recognizes that such allocations may change as further information is acquired as a result of the outcome of ongoing drilling activities.

Failure to obtain financing deemed necessary by the Company on a timely basis could cause the Company to delay the development of assets that may otherwise be capable of producing revenue, forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. There can be no assurance that new debt or equity financing or cash that may be generated by future operations will be available or sufficient to meet the Company's' existing requirements or, if debt or equity financing is available, that it will be on commercial terms that may be acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or potential for future asset growth.

Working Capital Statement

The Company has consolidated working capital of $1.2 million as at December 31, 2011 (December 31, 2010 - $4.3 million) with an additional $3.8 million posted as cash security for a bank guarantee related to Syria (December 31, 2010 - $3.0 million). The Company believes that its cash resources at December 31, 2011 will not be sufficient to finance operations and planned capital spending anticipated for the next twelve months, and therefore additional funding will be required. Additional funding may be obtained by pursuing equity raises or measures including the reduction or deferral of currently planned capital expenditures and/or asset sales, any and all of which will be evaluated and implemented as deemed appropriate by Company management.

The failure by the Company to access sufficient additional capital or realize sufficient funds through the deferral of planned expenditures and/or from asset sales in order to fund its operations and planned capital expenditures could have a material adverse effect on the Company's financial condition, results of operations or potential for future asset growth.

Compliance with Foreign Regulatory Regimes

In most countries, including Ukraine, Syria, and Brunei, where the Company presently carries on business, all phases of oil and gas exploration, development and production are regulated by the government either directly or through agencies or national oil companies. Areas of regulation include exploration and production approvals and restrictions, production taxes and royalties, price controls, export controls, expropriation and relinquishment, environmental protection and health and safety. Regulations applicable to the Company derive both from national and local laws and from the production sharing or concession agreements governing the Company's interests in Syria and Brunei.

In the countries in which the Company carries on business, including Ukraine, Syria and Brunei, the state generally retains ownership of the minerals and consequently retains control of (and in many cases, participates in) the exploration and production of hydrocarbon reserves. Accordingly, the Company's operations may be materially affected by host governments through royalty payments, export taxes and regulations, surcharges, value-added taxes, production bonuses and other charges to a greater extent than would be the case if its operations were conducted in countries where mineral resources are not predominantly state-owned. In addition, transfers of ownership interests typically require government approval, which may delay or otherwise impede transfers, and the government may impose obligations on the Company or its subsidiaries to complete minimum work within specified timeframes. In the future, the Company may extend its interests in operations to other countries where similar circumstances may exist.

The Company's exploration and development activities are guided by the nature of the regulatory environment at the time the activities are planned. Subsequent changes in the regulatory environment or in the manner in which regulatory requirements are interpreted or enforced could have a material adverse effect on the Company's ability to conduct planned exploration and development activities and could render such activities uneconomical.

The Company may require licenses or permits from various governmental authorities to carry out its planned exploration, development and production activities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits when required. Neither can it be assured that the licenses and permits held by the Company will not expire or be revoked if the Company fails to comply with the terms of such licenses or permits, or in the event of any change of relevant laws or their interpretation.

The regulation of hydrocarbons in Ukraine is administered by a number of governmental bodies including the Ministry of Fuel and Energy of Ukraine, which is responsible for matters including energy strategy and regulation, and the Ministry of Environmental Protection and the State Geology Service, which are responsible for the award of exploration and development special permits and production special permits. The issuance of a special permit for exploration (including pilot production) or commercial production of oil and gas is also conditional on: (i) the local authorities consenting to allocate the land plot(s) necessary for the subsoil activities and (ii) the approval of the regional departments of the Ministry of Environmental Protection of Ukraine. The commencement of oil and gas commercial production is also subject to: (i) the State Committee of Ukraine on Industrial Safety, Labour Safety and Mining Control granting a mining allotment to the subsoil user; (ii) approval of the respective subsoil plot for commercial production by the Ministry of Fuel and Energy; and (iii) putting the subsoil plot into production.

The Company's activities within Syria are governed mainly by the Syria Block 9 PSC, the terms of which prevail over all other laws and regulations in Syria's statutory and regulatory regime.

Brunei is a country with a small population and skilled and semi-skilled labourers in the oil and gas industry may not be readily available with the skills and in the numbers required to carry out operations in an effective and timely manner. Undertaking an onshore seismic survey is a labour intensive project and foreign workers may be required. The Department of Labour, exercising their powers to grant work permits to the workers under the *Labour Act (Chapter 93)*, and the Department of Immigration, exercising their powers to grant working visas to the workers conducting the seismic survey under the *Immigration Act (Chapter 17)*, are not equipped to deal with large numbers of applications in short periods of time and this may cause delays. There is also a requirement for security screenings by the Internal Security Department of Brunei and health screenings by the Ministry of Health as part of the local requirements for foreign workers applying to work in Brunei.

The approval for permission to cut down trees in the Brunei forest for the purpose of bridging during seismic acquisition or for the construction of well sites and access roads is under the purview of the Department of Forestry pursuant to the *Forest Act (Chapter 46)* under Brunei law. The importation and storage of explosives, required for the acquisition of seismic data, requires a special permit under the *Arms and Explosives Act (Chapter 38)* of the laws of Brunei. Obtaining approval to import explosives from the required Brunei government authorities may take a considerable amount of time the duration of which cannot be controlled by the Company. The Company's seismic acquisition program on Block L completed in 2009 experienced delays of several months in obtaining necessary government approvals. Further time may be required to secure storage for the explosives after such approval has been obtained due to the lack of designated storage facilities for explosives in Brunei. The only available explosives storage facilities are the Royal Brunei Armed Forces and the Royal Brunei Police Force.

Although the Company believes that it and its subsidiaries have good relations with the current governments in all of the countries in which they hold assets, there can be no assurance that the actions of present or future governments in these countries, or of governments of other countries in which the Company and its subsidiaries may operate in the future, will not materially adversely affect the business or financial condition of the Company, which could adversely affect the trading price of the Common Shares.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

The Company intends to make acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully combining functions and integrating operations and procedures in a timely and efficient manner as well as the Company's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Company. The integration of acquired business may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters.

Although the Company conducts a due diligence review of properties prior to their acquisition that it believes to be consistent with industry practices, such reviews are inherently incomplete. It is not generally feasible to review in depth every individual property involved in each acquisition. Ordinarily, the Company will focus its due diligence efforts on higher valued properties and will sample the remainder. However, even an in-depth review of all properties and records may not necessarily reveal all existing or potential problems, nor will it permit a buyer to become sufficiently familiar with the properties to fully assess their deficiencies and capabilities. Inspections may not be performed on every well, and structural or environmental problems, such as ground water contamination, are not necessarily observable even when an inspection is undertaken. For acquisitions that may occur in the future, the Company may be required to assume liabilities, including environmental liabilities, and may acquire interests in properties on an "as is" basis. Such liabilities, should they exist, will typically be known to the Company as a result of its due diligence investigations, and would influence or be an adjustment to the agreed acquisition price. In addition, competition for the acquisition of prospective properties is intense, which may increase the cost of any potential acquisition. To date the Company's exploration and development activities have principally been based in Ukraine, Syria and Brunei, and the Company's limited presence in other regions may limit its ability to identify and complete acquisitions in other geographic areas. There can be no assurance that the Company will be able to successfully realize the anticipated benefits of any acquisition or disposition. The costs involved and time required to realize the anticipated benefits of planned acquisitions may exceed those benefits that may be realized by the Company, and may detract from available resources that could have been committed elsewhere for greater benefit.

Reserve and Resource Estimates

The reserve and resource estimates in respect of the Company's assets and the areas in which such assets are located contained in this AIF are estimates and no assurance can be given that the indicated levels of recovery will be realized. Ultimate recoverable reserves and resources may be significantly less than the estimates. Estimates of reserves and resources depend in large part upon the reliability of available geological and engineering data and the amount of such data available. Properties in the early stage of exploration and appraisal typically have a limited amount of geological and engineering data. Geological and engineering data are used to determine the probability that a reservoir of oil and/or natural gas exists at a particular location, and whether, and to what extent, such hydrocarbons are recoverable from the reservoir.

Reserve and resource estimates may also require revision based on actual production experience that may result from successful development of existing properties, further drilling and several other factors. Such figures have been determined based upon the terms of the various concession agreements and estimates of yield and recovery factors. All such estimates are to some degree uncertain, and classifications of reserve and resource estimates are only attempts to define the degree of uncertainty involved. For these reasons, estimates of the economically recoverable reserves or resources, prepared by different engineers or by the same engineers at different times, may vary.

Although the Company is unable to predict whether its exploration and assessment activities will result in newly discovered reserves, if such activities are successful, the Company will be able to begin producing gas and oil from newly discovered reserves. If the eventual commencement of production activities does occur, the Company's actual production of quantities of oil and gas, revenues and development and operating expenditures with respect to its reserve and resource estimates may vary from such estimates. As well, any estimates of future net revenues contained within reserve or resource reports are dependent on estimates of future oil prices, capital and operating costs. Variances to actual costs may be significant. As such, these estimates are subject to variations due to changes in the economic environment at the time and variances in future budgets and operating plans.

Debt Levels and Additional Capital Requirements

From time to time the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards and therefore preclude or reduce the Company's ability to obtain new debt for other activities. Depending on future exploration and development plans, the Company may require additional debt financing that may not be available or, if available, may not be available on terms acceptable to the Company. Neither the Company's Articles nor its By-laws limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time could impair the ability of the Company to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Financial Instruments

The Company, as part of its operations, carries a number of financial instruments including cash and short-term deposits, restricted cash, accounts receivable, marketable securities, accounts payable and accrued liabilities, and convertible debentures. The Company is exposed to the following risks related to its financial assets and liabilities:

Interest rate risk

The Company maintains its cash and cash equivalents in instruments that are redeemable at any time without penalty, thereby reducing its exposure to interest rate fluctuations thereon. Restricted cash is held in instruments that are redeemable upon meeting certain work commitments. Interest rate risks on the Company's obligations are not considered material because the rates on the convertible debentures are fixed and while the Company is exposed to interest rate fluctuations as interest rates on the EBRD Loan 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, 2011 includes $1.2 million due from MENA Syria, in respect of MENA Syria's farm-in on Block 9 as well as certain costs related to the 2011 drilling program paid for on MENA Syria's behalf by the Company. The Company's balance of accounts receivable consists predominately of receivables from other joint venture partners that are anticipated to be applied against future capital expenditures. In addition, the Company has receivables pertaining to commodity taxes recoverable from the federal government of Canada, interest earned on restricted cash deposits for which credit risk is assessed as being low as the funds are on deposit with major financial institutions and to the sales of its production in Ukraine.

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

Management has no formal credit policy in place for customers outside the Ukraine however the exposure to credit risk is a 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, 2011 the Company's primary currency exposure related to the Canadian dollar and the Ukraine Hryvnia. As at December 31, 2011 the balance kept in Polish Zlotys was not significant.

Economic factors affecting the Company's cash flow required for operations and for investments in accordance with the Company's consolidated statement of cash flows include fluctuations in foreign currency exchange rates. To date, the Company has raised equity funds denominated in Canadian dollars and Polish Zlotys, however exploration expenditures are incurred primarily in United States dollars, and therefore currency exchange rates have an ongoing impact on the Company's cash flows. Fluctuations in foreign currency exchange rates between United States dollars and Canadian dollars and the Polish Zloty resulted in a realized foreign exchange loss of $2.464 million for the year ended December 31, 2011 (2010 - $0.122 million).

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.

Commodity Hedging

From time to time the Company may enter into agreements to receive fixed prices on oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Company would not benefit from such increases.

As of the date of this AIF, the Company is not a party to any commodity hedging agreements and has not been a party to any such agreements in the past three years.

Fair Value

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

Liquidity risk

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

The Company monitors its liquidity position regularly to assess whether it has funds necessary to complete planned exploration commitments and programs on its petroleum and natural gas properties or that viable options are available to fund such commitments from new equity issuances or alternative sources of financing such as farm-out agreements. However, as an exploration company at an early stage of development without sufficient internally-generated cash flow to completely fund the Company's exploration and development projects, there are inherent liquidity risks, including the possibility that additional financing may not be available to the Company on a timely and/or cost effective basis, or that actual exploration expenditures may exceed those planned. Operating cash flow has, until the current fiscal year, been negative, and consists of net production revenues and expenses incurred and general and administration costs in the normal course of the Company's ongoing operating activities.

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

Foreign Exchange Risks and Hedging

The nature of the Company's activities results in exposure to fluctuations in foreign currency exchange rates. While the Company does not maintain a defined foreign exchange hedging program, and as of the date of this AIF, the Company is not a party to any foreign exchange hedging agreements and has not been a party to any such agreements in the past three years, it may determine it appropriate from time to time to enter into derivative financial instruments to reduce its exposure. The terms of these derivative instruments may limit the benefit of changes in currency value which are otherwise favourable to the Company and may result in financial or opportunity loss due to counterparty risks associated with these contracts. Utilization of derivate financial instruments may introduce increased volatility into the

Company's reported net earnings (losses) and does not eliminate the risk that the Company may sustain losses as a result of foreign currency fluctuations.

Title to properties

It is the practice of the Company in acquiring significant oil and natural gas concessions or interests in oil and natural gas concessions to fully examine the title to the interest under the key agreements pursuant to which the Company has been or will be granted exploration rights. The Company's practice is to utilize local and international legal counsel when deemed necessary to conduct what it believes to be necessary and appropriate levels of due diligence to confirm title to oil and natural gas concessions. Notwithstanding any due diligence which may be undertaken by the Company, there may be title defects which affect concession or licence agreements comprising a portion of the Company's properties, and which may adversely affect the Company. There is no guarantee that an unforeseen defect in title, changes in laws or change in their interpretation or political events will not arise to defeat or impair the claim of the Company to its properties which could result in a material adverse effect on the Company, including a reduction in the revenue to be received by the Company.

Syria Sanctions

The Company, through its wholly-owned subsidiary Loon Latakia, holds an interest in a production sharing contract giving it the right to explore for and produce oil and gas from a block located in Syria. The United States implemented economic sanctions against Syria in May 2004 in accordance with the *Syria Accountability Act*. These sanctions include the prohibition of the export to Syria of products of the United States other than food or medicine. Accordingly, many products and equipment that are commonly used in the international oil and gas industry that are manufactured in the United States may not be available within Syria.

Throughout 2011 and to the date of this AIF, the governments of Canada, the United States, the Arab League and the European Union have imposed increasingly restrictive sanctions targeting Syria. The effect of these sanctions have severely curtailed the Company's operations within Syria, and accordingly active operations have been suspended.

Crime and Governmental or Business Corruption

The Company may conduct business in countries or regions which have experienced high levels of governmental and business corruption and other criminal activity. The Company has a Code of Business Conduct and Ethics in place with which directors, officers and employees must comply. Findings against the Company, its directors, officers or employees, or their involvement in corruption or other illegal activity could result in criminal or civil penalties, including substantial monetary fines, against the Company, its directors, officers or employees. Any government investigations or other allegations against the Company, its directors, officers or employees, or finding of involvement in corruption or other illegal activity by such persons, could significantly damage the Company's reputation and its ability to do business, including affecting its rights under the various oil and natural gas concessions or through the loss of key personnel, and could materially adversely affect its financial condition and results of operations. Furthermore, alleged or actual involvement in corrupt practices or other illegal activities by the operators of certain of the Company's oil and natural gas concessions, joint venture partners of the Company or others with whom the Company conducts business, could also significantly damage the Company's reputation and business and materially adversely affect the Company's financial condition and results of operations.

Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. Capacity constraints resulting from growth may arise from the Company's ability on a timely basis to attract and retain appropriately qualified personnel or to adequately develop existing human resources to manage and operate a larger company. The Company's present internal systems and controls would also require changes to deal with a larger company, and time would be required to design, acquire and implement such systems. The ability of the Company to manage growth effectively will require it to continually assess its operational and financial systems and to implement changes as required and to train and manage its employee base. The Company's inability to deal with this growth may result in its failure to realize the benefits otherwise expected from such growth and could have a material adverse impact on its business, operations and potential for future growth.

Project Completion

The Company's current operations are, and future operations will be, subject to approvals of governmental authorities and, as a result, the Company has limited control over the nature and timing of the grant of such approvals for the exploration, development and operation of oil and natural gas concessions.

The Company's interests in oil and natural gas concessions and other contracts with governments and government bodies to explore and develop the properties are subject to specific requirements and obligations. If the Company fails to satisfy such requirements and obligations and there is a material breach of such contracts, such contracts could, under certain circumstances, be terminated. The termination of any of the Company's contracts granting rights in respect of the properties would have a material adverse effect on the Company, including the Company's financial condition.

Relinquishment Obligations under Applicable Legislation and Key Agreements

Consistent with international practice, the Syria Block 9 PSC, the Brunei Block L PSA, and the Brunei Block M PSA contain certain relinquishment provisions upon entering into subsequent exploration phases and upon the occurrence of certain events. Collectively, this will have the result of reducing the total area available to be explored by the Company for oil and natural gas if not offset in some manner. Depending on the size and location of the area, such relinquishment could have a material adverse effect on the Company's results of operations and prospects. The Company's future oil and natural gas reserves and production, and therefore its future cash flows and earnings, are affected by the ability of the Company to find and develop oil and natural gas reserves on its properties. Furthermore, the Company may be obligated to satisfy certain site restoration and abandonment obligations with respect to the relinquished lands.

Ukraine operates under a regulatory regime under which relinquishment is not relevant and therefore not a concern.

Reliance on Key Management Personnel

The success of the Company will depend in large measure on certain key personnel, which include the President and Chief Executive Officer, Vice Chairman of the Board of Directors, Executive Vice President, Vice President Operations and Engineering, Vice President Geosciences, Vice President Legal, Vice President Investor Relations and the Chief Financial Officer. The contributions of these individuals to the immediate operations of the Company are likely to be of central importance. The loss of the services of such key personnel could have a material adverse effect on the Company. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of its business. In assessing the risk of an investment in the Common Shares, investors should recognize that they are relying on the ability, expertise, judgment, discretion, integrity and good faith of management of the Company.

Reliance on Third Party Operators

It is common in the oil and gas industry for companies to form partnerships or joint ventures with other companies through which exploration, development and operating activities for a particular property or concession area are conducted. In such cases, one company is designated by agreement amongst the partnership or joint venture, to manage or "operate" the partnership or joint venture. The operator is the primary point of contact for the national oil company or the government and is responsible for implementing the field work by entering into agreements with various sub-contractors to provide drilling rigs and other equipment and services necessary for carrying out exploration and development operations. All the companies in the partnership or joint venture proportionately share liability for any possible claims and liabilities which may arise as a result of the operator's activities carried out for the benefit of the partnership or joint venture. The operation of Brunei Block M, in which the Company has a 36% working interest, is provided by an unrelated company. As a result, the Company may have limited ability to exercise influence over operations of this asset or its associated costs, which could adversely affect the Company's financial performance. The success and timing of the Company's activities on assets operated by others will depend on a number of factors that may be outside of the Company's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices. To the extent the Company is not designated as the operator of certain of its oil and gas properties, the Company is dependent on the technical ability and financial resources of the other companies who act as operator to comply with the terms of the agreements granting the interests in its properties and for the timing of activities related to such properties.

Shared Trademark and Trade Name

The Company shares the "Kulczyk" trademark and trade name with KI and many of KI's affiliates. KI, the major shareholder of the Company, is an international holding company of Polish origin which takes its name from Dr. Jan Kulczyk, a Polish entrepreneur and international businessman with core holdings in infrastructure and in the automotive and brewing industries. On November 6, 2008, Company and KI entered into a trade name and trade mark license agreement (the "**License Agreement**") under the terms of which, KI granted the Company a limited, non-exclusive, revocable and non-transferable license to use the trade name and trade-mark "Kulczyk" in connection with the Company's business and for domain names used in connection with the business of the Company. Pursuant to the License Agreement, the Company intends to continue identifying itself using names and logos that indicate a relationship with KI. Given that the Company shares a trademark and trade name with KI and many of its affiliates, any adverse development affecting the trademark, trade name or reputation of any of those companies could have a material adverse effect on the business, goodwill or reputation of the Company.

Loon Peru Limited Guarantee

The Company continues to be legally responsible for a parent company guarantee (the "**Loon Guarantee**") issued in August 2007 to the Government of Peru regarding the granting of a license contract to a former subsidiary company, Loon Peru Limited. The Company has no continuing ownership interest, directly or indirectly, in Loon Peru Limited following the implementation of Arrangement, the result of which was the transfer of ownership of the shares of Loon Peru Limited from the Company to a newly formed company, Loon Corp. The Company does not currently hold, either directly or indirectly, any shares in Loon Peru Limited.

Loon Corp and the Company have entered into an indemnification agreement in respect of the Loon Guarantee. Loon Corp 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.

Uncertainty Regarding Interpretation and Application of Foreign Laws and Regulations

The Company's exploration and development activities are located in countries with different legal systems. Rules, regulations and legal principles may differ both relating to matters of substantive law and in respect of such matters as court procedure and enforcement. All material production and exploration rights and related contracts of the Company are subject to the national or local laws and jurisdiction of the respective countries in which the operations are carried out. This means that the Company's ability to exercise or enforce its rights and obligations may differ between different countries.

Moreover, the jurisdictions in which the Company and its subsidiaries operate may have less developed legal systems than more established economies, which may result in risks such as: (a) effective legal redress in the courts of subject jurisdictions being more difficult to obtain, whether in respect of a breach of law or regulation, or an ownership dispute; (b) a higher degree of discretion on the part of governmental authorities; (c) the lack of judicial or administrative guidance on interpreting applicable rules and regulations, particularly where those rules and regulations are the result of recent legislative changes or have been recently adopted; (d) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; or (e) relative inexperience of the judiciary and courts in such matters. Enforcement of laws in some of the jurisdictions in which the Company and its subsidiaries operate may depend on and be subject to the interpretation placed upon such laws by the relevant local authority, and such authority may adopt an interpretation of an aspect of local law which differs from the advice that has been given to the Company. There can be no assurance that the Company's contracts, joint ventures, licenses, license applications or other legal arrangements will not be adversely affected by the actions of government authorities and the effectiveness of and enforcement of such arrangements in these jurisdictions. Effective legal redress in the courts of such jurisdictions, whether in respect of a breach of law or regulation or in an ownership dispute, may be more difficult to obtain. In certain jurisdictions, the commitment of local businesses, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain and legislation and regulations may be susceptible to revision or cancellation; legal redress may be uncertain or delayed. There can be no assurance that joint ventures, licenses, license applications or other legal arrangements will not be adversely affected by changes in governments, the actions of government authorities or others, or the effectiveness and enforcement of such arrangements.

Ukraine

Since independence, the Ukrainian legal system has been developing to support a market-based economy. The legal system is, however, in transition and is therefore subject to greater risks and uncertainties than a more mature legal system. In particular, risks include, but are not limited to, provisions in the laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted; inconsistencies between and among Ukraine's Constitution, laws, presidential decrees and Ukrainian governmental, ministerial and local orders, decisions, resolutions; and other acts. Also, there is a lack of judicial and administrative guidance on the interpretation of Ukrainian legislation, including the complicated mechanism of exercising constitutional jurisdiction by the Constitutional Court of Ukraine. This is further complicated by the relative inexperience of judges and courts in interpreting Ukrainian legislation in the same or similar cases, corruption within the judiciary and a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions.

Furthermore, several fundamental Ukrainian laws either have only relatively recently become effective or are still pending hearing or adoption by the Ukrainian Parliament. For example, in 2005 and 2004, Ukraine adopted a new civil code, a new commercial code, new civil and administrative procedural codes, a new law on state registration of proprietary rights to immovable property, a new law on international private law, new secured finance laws and a new law on personal income tax. The relatively recent origin of much of Ukrainian legislation, the lack of consensus about the scope, content and pace of economic and political reform, and the rapid evolution of the Ukrainian legal system in ways that may not always coincide with market developments, place the enforceability and underlying constitutionality of laws in doubt and may result in ambiguities, inconsistencies and anomalies. In addition, Ukrainian legislation in many cases contemplates implementing regulations, which have not yet been implemented.

Syria

The judicial system in Syria is an amalgam of Ottoman, French, and Islamic laws, with three levels of courts: (a) courts of first instance; (b) courts of appeals; and (c) the constitutional court, which is the highest tribunal. In addition, religious courts handle questions of personal and family law.

Foreign judgments can only be executed in Syria if they relate to civil or to commercial disputes upon the approval of the courts of first instance in the governorate where the judgment is to be executed. If there is no bilateral treaty on mutual recognition with the country concerned, the Syrian court will re-examine the case and scrutinize the foreign court's opinion. If a bilateral treaty exists, the Syrian court will limit its scrutiny to violations of Syrian public policy.

In Syria, neither public nor government institutions can agree to submit to arbitration unless provided for by statute. The state may only agree to arbitrate if it is bound by treaty. International arbitration held in Syria is subject to Syrian law and is generally covered by the same rules governing domestic arbitration. The enforcement of international arbitration awards generally follows the same rules as the enforcement of foreign court decisions.

Brunei

There are effectively two systems of law operating in Brunei: (a) the common law system, which follows English common law and applies to the business of the Company in Brunei; and (b) the Syariah Court system, which has limited, but exclusive jurisdiction to hear and decide on Islamic family law matters involving Muslim residents of Brunei. Under the *Application of Laws Act (Chapter 2)* under the laws of Brunei, the common law of England and the doctrine of equity, together with the statutes of general application in force in England prior to April 25, 1951, are in force in Brunei to the extent Brunei's circumstances permit, subject to native customs and local situations.

The *Arbitration Act of 1944* gives effect to the *1958 New York Convention on Recognition and Enforcement of Foreign Arbitral Awards*. The Arbitration Association Brunei Darussalam ("**AABD**") is the arbitral institution in Brunei. Part of its objective is to assist in developing and providing advisory and assistance support in the field of arbitration. To ensure that the membership and the panel of international arbitrators are kept to the highest possible standard, there is a wide range of leading international arbitrators, most of whom are non-Brunei nationals. The AABD assists domestic and international investors and parties in resolving commercial disputes and making arrangements for arbitration hearings.

The *Reciprocal Enforcement of Foreign Judgment Act (Chapter 177)* under Brunei law provides for reciprocity arrangements with certain countries on the enforcement of judgments.

In general, whether in Ukraine, Syria, Brunei, or elsewhere, if the Company becomes involved in legal disputes in order to defend or enforce any of its rights or obligations, such disputes or related litigation may be costly and time-consuming and the outcome may be highly uncertain. Even if the Company would ultimately prevail, such disputes and litigation may still have a substantially negative effect on the Company and its operations.

The KUB-Gas Acquisition may not meet the Company's expectations or the Company may fail to realize its anticipated benefits

Taking into account the nature of the business activity of KUB-Gas as a natural gas production company, and Ukraine, an emerging market in which KUB-Gas operates, the Company's investment in KUB-Gas may not meet its economic or financial expectations or the Company may not be able to fully realize the anticipated benefits in connection with this acquisition. This may be caused by:

- risks and uncertainties concerning KUB-Gas specifically, such as: (a) possible sanctions connected with the lack of filing with Ukraine's Anti-Monopoly Commission in connection with the 2005 KUB-Gas acquisition by Gastek, (b) potential actions against the KUB-Gas legal titles and its rights to its lands and leases, (c) potential actions against the KUB-Gas legal titles to certain real estate objects and natural gas wells, (d) potential litigation procedures over the KUB-Gas special permits, (e) failure to obtain, maintain or renew necessary licenses and special permits or failure to comply with the terms of its licenses and permits or relevant legislation, (f) short-term nature of natural gas sales contracts with customers, and (g) potential actions against KUB-Gas legal titles, assets and its rights to land or leases arising out of or in connection with compliance with its environmental and hazardous waste obligations;

- resource-industry specific risks, such as: (a) Ukraine's regulations concerning price controls at which natural gas and other production is sold, (b) competitive nature of the oil and natural gas industry in Ukraine, and (c) inadequate infrastructure that may affect the transportation of produced natural gas;

- country-related risks or uncertainties relating to Ukraine and arising because it is an emerging market and concerning its potential political or economic instability or uncertainty, as well as the Ukrainian legal, judicial and tax system and its potential instability or uncertainty; or

- commencing any regulatory or administrative actions, instigating any dispute or litigation, lodging a claim, issuing an order or undertaking any measure to:

    - suspend, revoke, cancel or terminate any Ukrainian Licenses;

    - expropriate any special permit, license or any KUB-Gas shares;

    - take measures tantamount to the expropriation of any Ukrainian Licenses or any KUB-Gas shares;

    - require or demand a change in control of KUB-Gas or any party; or

    - terminate, restrict, invalidate or challenge certain of KUB-Gas's real property rights, including challenging the titles to hold the land and to carry out exploration work.

The occurrence of any of the above-mentioned factors may have a material adverse effect on the Company's financial condition, results of operations or prospects in Ukraine.

Risk of annulling concessions held by KUB-Gas

Pursuant to Ukrainian law, geological exploration of mineral resources and the production of mineral resources owned by the State Fund of Mineral Deposits is conducted on the basis of licenses issued separately for each kind of these activities. Additionally, Ukrainian law mandates that the utilization of any kind of subsoil natural resources requires a license. Each license granted is accompanied by a license agreement specifying the terms of utilization of the subsoil natural resources. The license agreement sets out the key terms for the geological survey, exploration, drilling and production of mineral resources from the relevant subsoil resources area. The license agreement may additionally impose certain social or environmental commitments on the user of the resources.

KUB-Gas holds licenses for conducting geological survey and further pilot production of natural gas, condensate and oil in the licensed areas. According to these licenses, KUB-Gas must satisfy certain detailed requirements which include, among other things, an obligation to satisfy requirements of the state environmental inspection authorities. One of the requirements is obtaining title certificates to the land plots required for geological survey and pilot production in the licensed areas. A default under any of these requirements may result in voiding a license granted to KUB-Gas. Such an occurrence could have a material adverse effect on activities of KUB-Gas and on the business and financial condition of the Company.

Risk of Default by Gastek Relating to KUB-Gas

Should Gastek fail to meet its obligations, the Company may be required to fund Gastek's share of obligations which could adversely affect the business and financial condition of the Company.

Risks Relating to the Company's Market Environment

Competition

Oil and gas exploration is intensely competitive in all its phases and involves a high degree of risk. The Company competes with numerous other participants in the search for and the acquisition of oil and natural gas properties and in the marketing of oil and natural gas. The Company's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of the Company. The ability of the Company to increase reserves of oil and natural gas in the future will depend not only on its ability to explore and develop its present properties, but also on whether it is able to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include the proximity of and access to transportation infrastructure, transport prices and reliability of delivery. The Company makes decisions to acquire and exploit oil and natural gas properties in anticipation of realizing returns from the eventual sale of newly discovered oil and natural gas reserves that exceed the capital expenditures required to exploit and develop such reserves. The Company's inability to successfully compete for the acquisition of new oil and gas assets could materially adversely affect the trading price of the Common Shares.

Industry Trends

The Company's business, results of operations, financial condition and future growth are substantially dependent on prevailing crude oil prices. The price of crude oil is influenced by the world economy and can be substantially influenced by the ability of the Organization of Petroleum Exporting Countries ("**OPEC**") or other major producers of crude oil to adjust supply to world demand. Crude oil prices have also historically been impacted by political events causing disruptions in the supply of oil and by concerns over potential supply disruptions or actual supply disruptions triggered by regional events.

The impact on the oil and natural gas industry from commodity price volatility is significant. During periods of high prices, producers may generate sufficient cash flows to conduct active exploration programs without external capital. Increased commodity prices frequently translate into very busy periods for service suppliers, triggering premium costs for their services. The acquisition cost of oil and gas exploration and appraisal projects and producing properties similarly increase during these periods. During low commodity price periods, acquisition costs drop, as do internally generated funds to spend on exploration and development activities. During periods of decreased demand, the prices charged by the various service suppliers also tend to decline.

Another trend affecting the international oil and natural gas industry is the impact on capital markets caused by investor uncertainty in the world economy. The competitive nature of the oil and gas industry will cause opportunities for equity financings to be selective. Some companies will have to rely on internally generated funds to conduct their exploration and development programs.

It is impossible to accurately predict future crude oil and natural gas price movements. Any substantial decline in oil and natural gas prices would have a material adverse effect on the Company's revenues, operating income, cash flows and borrowing capacity and may require a reduction in the carrying value of the Company's properties, its planned level of spending for exploration and development and its level of reserves. No assurance can be given that commodity prices will be sustained at levels which will enable the Company to operate profitably.

Any substantial decline in crude oil and/or natural gas prices may also require the Company to write down the capitalized costs of certain oil and natural gas properties. Under IFRS, the net capitalized cost of oil and natural gas properties may not exceed a "ceiling limit", which is based, in part, upon estimated future net cash flows from reserves. If the net capitalized costs exceed this limit, the Company must charge the amount of the excess against earnings. As oil and natural gas prices decline, the Company's net capitalized cost may approach or exceed this cost ceiling, resulting in a charge against earnings. While a write down would not directly affect cash flow, the charge to earnings could be viewed unfavourably in the market and thus cause an adverse impact on the trading price of the Common Shares or could limit the

Company's ability to borrow funds or comply with covenants contained in future credit agreements or other debt instruments.

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

International Economic Risk

The economies of emerging market countries, including those of Ukraine, Syria and Brunei, may not compare favourably with those of developed countries with respect to such issues as growth of gross national product, reinvestment of capital, inflation, resources and balance of payment position. Such economies may rely heavily on particular industries or foreign capital and may be more vulnerable to diplomatic developments, the imposition of economic sanctions against a particular country or countries, changes in international trading patterns, trade barriers and other protectionist or retaliatory measures. Investments in such markets may also be adversely affected by governmental actions such as the imposition of capital controls, nationalization of companies or industries, expropriation of assets or the imposition of punitive taxes. In addition, the governments of certain countries may prohibit or impose substantial restrictions on foreign investing in their capital markets or in certain industries. Any of these actions could severely affect securities prices, impair the ability of the Company to transfer the assets or income of the Company, or otherwise adversely affect the operations of the Company. Other risks that may be associated with markets in emerging market countries include foreign exchange controls, difficulties in pricing securities, defaults on foreign government securities, difficulties in enforcing favourable legal judgments in foreign courts, and political and social instability.

Environmental

All phases of the oil and natural gas business present environmental risks and hazards and may be subject to environmental regulation pursuant to a variety of local laws and regulations in which such business is being conducted. Environmental legislation in the countries in which the Company or its subsidiaries carry on, or presently anticipates that it may carry on, business generally provide for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. Such legislation will also usually require that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving globally in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Company to incur costs to remedy such discharge. The Company believes that it is in material compliance with current applicable environmental regulations in the countries in which it carries on business in that it is not aware of, or been notified of any breach of such regulations. However, no assurance can be given that the interpretation or enforcement of environmental laws in the various jurisdictions in which the Company is active will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or potential for future asset growth.

The Company conducts operations in Ukraine. Oil and gas exploration and production companies in Ukraine are subject to a number of environmental and sanitary compliance requirements which are provided under a number of Ukrainian statutes. Primarily, these requirements relate to air pollution, water use and waste and sewage disposal. The Company is not aware of any breaches by KUB-Gas of environmental laws or regulations to which KUB-Gas is subject.

The Syrian government, with a view to protecting its environment and conforming with international environmental standards, introduced *Law No. 50 on the Protection of the Environment* ("**Law No. 50**") in

2002. Law No. 50 establishes the fundamental basis for the protection of the environment in Syria and the relevant legal processes to be followed by every industry that may cause damage to the Syrian environment.

As of the date of this AIF, there are no specific laws in Brunei which safeguard the environment. More specifically, there are currently no designated laws or regulations in Brunei governing oil and gas companies with respect to environmental matters. There are, however, provisions relating to the control of smoke emissions under the *Road Traffic Act (Chapter 68)*, which provides for restrictions on the smoke emissions of licensed motor vehicles in Brunei. Other relevant provisions can be found under the *Open Burning Order* which makes it an offence to openly burn materials or hazardous substances.

The Brunei government has taken active steps to safeguard against the damage that may be caused by oil pollution by amending the *Merchant Shipping Act (Chapter 154)*. The *Merchant Shipping (Civil Liability and Compensation for Oil Pollution) Order, 2008* gives effect to the *International Convention on Civil Liability for Oil Pollution Damage of 1992* and to the *International Convention on the Establishment of an International Fund for the Compensation of Oil Pollution Damage of 1992*. The public authority responsible for environmental matters in Brunei is the Department of Parks and Recreation, Ministry of Development.

Weather

Adverse weather conditions can cause delays and cost increases related to the capital spending programs of the Company such as drilling of exploration and development wells, completion of wells, construction of production facilities and pipelines and the acquisition of seismic data. In Ukraine, cold temperatures, heavy snows or extremely muddy conditions may cause delays to planned activities. In the Company's area of activity in Syria, sandstorms and both high and low temperatures can make operations more difficult and costly. The rainy season, from September to January, is the principal weather factor in Brunei.

Prices, Markets and Marketing

The marketability and price of oil and natural gas that may be acquired or discovered by the Company is affected by numerous factors beyond its control. The Company's ability to market its natural gas may depend upon its ability to acquire space on pipelines that deliver natural gas to commercial markets. Availability of pipeline capacity to new customers (such as the Company) is determined primarily by volume commitments and the duration of those commitments made by the pipeline operator to existing customers. The Company may also be affected by (a) deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities, (b) operational problems with such pipelines and facilities as well as, (c) extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. Commodity prices may also be impacted by the development of alternative fuel or energy sources.

Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation of projects.

The Company's profitability and future growth and the carrying value of its oil and gas properties are substantially dependent on prevailing prices of oil and gas. The Company's ability to borrow and to obtain additional capital on attractive terms is also substantially dependent upon oil and gas prices. Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors beyond the control of the Company. These factors include global economic conditions, the actions of OPEC, governmental regulation, political circumstances in the Middle East and elsewhere, the foreign supply of oil and natural gas, the price of foreign imports and the availability of alternative fuel sources. Conflicts, or conversely peaceful developments, arising in areas of the world which produce significant volumes of oil or natural gas, may have a significant impact on the price of oil and natural gas and any individual negative event could result in a material decline in prices and result in a reduction of the Company's net production revenue. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on the Company's carrying value of its proved reserves, borrowing capacity, revenues, profitability and cash flows from operations.

Variations in Foreign Exchange Rates and Interest Rates

World oil and natural gas prices are quoted in United States dollars and the price received by the Company may be affected in a positive or negative manner by fluctuations in the exchange rate of the U.S. dollar against other currencies in which business of the Company is transacted. In recent years, the U.S. dollar has fluctuated in value against a number of the world's currencies, including the Euro, the Polish Zloty, the Ukrainian Hryvnia and the Canadian dollar. Variations in exchange rates have the effect of impacting the stated value of oil and natural gas reserves and/or production revenue. Material changes in the value of the U.S. dollar can have a significant impact on the Company and accordingly any changes in future United States currency exchange rates could impact the future value of the Company's reserves and production revenues as determined by independent evaluators.

To the extent that the Company may engage in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which the Company may contract.

An increase in interest rates could result in a significant increase in the amount the Company would pay to service debt, if any, which could negatively impact the value of the Common Shares.

Availability of Equipment and Services

Oil and natural gas exploration and development activities are dependent on the availability of third-party service contractors to provide specialized drilling and other equipment and specialized services related to the drilling, testing, completion and production of oil and natural gas wells in the particular areas where such activities will be conducted. Limited equipment and services availability or access limitations may affect the availability of such equipment and services to the Company and may delay exploration and development activities. In the areas in which the Company operates, there can be a significant demand for drilling rigs and other equipment and services. Failure by the Company to secure necessary equipment and services in a timely manner could adversely affect the Company's business, results of operations or financial condition.

Insurance

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, or gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or in personal injury. The Company's involvement in the exploration for and development of oil and natural gas properties may result in the Company becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. All of these risks identified can be covered by various forms of insurance, including "property" insurance for damage to physical assets, "comprehensive general liability" insurance for third-party damages including those from injury and loss of life, and "control-of-well" for damages resulting from a blow-out, fire or explosion during the drilling of a well. The Company's practice is to ensure that it has insurance programs in place to cover - partially or entirely - all of these risks. The decision as to the quantum of insurance to obtain will be based on a case-by-case assessment of the cost of the insurance premium versus the risk of damages occurring and the consequent potential financial liability.

Insurance for the Company's assets in Brunei has been placed by the operators designated under operating agreements and confirmed in writing to the Company. The Operator for Brunei Block M is New Sino Oil Company Pty Ltd. The Company through indirectly wholly-owned subsidiaries operates its assets in Syria and Brunei Block L, and places insurance as required for the activity which is to be undertaken. Under Ukrainian law companies in the upstream oil and gas industry are required to insure against certain risks, and the Company has confirmed that KUB-Gas does have insurance coverage in place. KUB-Gas has also secured insurance on its property and operations for risks that are commonly insured by the Company in other countries within which it conducts operations. There may however be circumstances where such insurance will not cover or be adequate to cover the consequences of an event or where KUB-Gas may become liable for pollution or other operational hazards against which it either cannot insure or may have elected not to have insured. The Company has and will continue to obtain insurance in accordance with industry standards and upon consideration of advice provided by professional insurance brokers to address these risks. However such insurance may have limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, the Company may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Company. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the financial position of the Company, results of operations or prospects.

Local Economic and Political Risk

The Company's current exploration and development activities are located primarily in Ukraine, Syria and Brunei. Exploration and development activities in such countries may require protracted negotiations with host governments, national oil companies and third parties and may be subject to economic and political considerations such as the risks of war, actions by terrorist or insurgent groups, community disturbances, expropriation, nationalization, renegotiation, forced change or nullification of existing contracts or royalty rates, unenforceability of contractual rights, changing taxation policies or interpretations, adverse changes to laws (whether of general application or otherwise) or the interpretation thereof, foreign exchange restrictions, inflation, changing political conditions, the death or incapacitation of political leaders, local currency devaluation, currency controls, and foreign governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. Any of these or similar factors could have a material adverse effect on the Company's business, results of operations or financial condition. If a dispute arises in connection with foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or foreign arbitration tribunals.

Global Economic Crisis

On a worldwide scale, capital markets have experienced substantial volatility since early 2008. Volatility within global capital markets and continued weakening or delays in the recovery of capital markets may have an adverse effect on the ability of the Company to raise additional capital on a timely basis and on terms that it finds acceptable. In the event that global economic instability persists for an extended period of time, the operations of the Company and the quality of the shareholder's investment may be adversely affected and such factors may have a negative impact on the value, the holding period and the resale of the Common Shares.

Risks Relating to Ownership of the Common Shares

Controlling Shareholder is able to exercise significant control over the Affairs of the Company

As of the date of this AIF, 186,242,872 Common Shares, representing approximately 44.3% of the issued and outstanding Common Shares in the capital of the Company are held by KI. Dr. Jan Kulczyk, a director and Chairman of the Board of Directors of the Company, is the President of the Supervisory Board of KI. Two other directors of the Company, being Manoj Madnani and Dariusz Mioduski, are members of the Management Board of KI. The shareholding of KI in the Company allows KI to control the outcome of substantially all of the actions taken by the shareholders of the Company, including the election of directors. As of the date of this AIF, KI has sufficient voting power to, among other things, delay, deter or prevent a change in control of the Company that might otherwise be beneficial to its shareholders and may also discourage acquisition bids for the Company and limit the amount certain investors may be willing to pay for the Common Shares.

Sale of Common Shares by controlling and significant Shareholder(s) could have an adverse effect on the price of the Common Shares

The market price of the Common Shares could decline as a result of sales of a large number of Common Shares in the market or the perception that these sales may occur. These sales, or the possibility that these sales may occur, may make it more difficult for the Company to raise capital through future offerings of Common Shares at a time and at a price that the Company deems appropriate.

As of the date of this AIF, 186,242,872 Common Shares, representing approximately 44.3% of the issued and outstanding Common Shares in the capital of the Company are held by KI. The Company cannot predict whether KI will sell any of the Shares it holds in the public market. Sales by KI of a large number of the Shares in the public market, or the potential for such sales, could decrease the trading price of the Common Shares and could impair the Company's ability to raise capital through future offerings of Common Shares.

Dilution may be experienced due to future financing or acquisition activities

The Company's Articles allow it to issue an unlimited number of Common Shares and an unlimited number of Preferred Shares, issuable in series, for such consideration and on such terms and conditions as shall be established by its Board of Directors, in many cases, without the approval of the shareholders. In addition, as at the date of this AIF, there were 41,245,000 Common Shares issuable upon the exercise of outstanding options of the Company at prices ranging from $0.38 per Common Share to $0.73 per Common Share. The Company may issue additional Common Shares on the exercise of options or other securities exercisable for Common Shares. The Company may also issue Common Shares to finance future acquisitions and other projects. The Company cannot predict the size of future issuances of Common Shares or the effect that future issuances and sales of Common Shares will have on the market price of the Common Shares. Issuances of a substantial number of additional Common Shares, or the perception that such issuances could occur, may adversely affect prevailing market prices for the Common Shares. With any additional issuance of Common Shares, investors will suffer dilution to their voting power and may experience dilution in earnings per Common Share.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The Company is not and has not been a party to, nor is any of the Company's property the subject of and has not been the subject of a legal proceeding since the beginning of the financial year ending December 31, 2011.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

General

This section includes a description of the material interest, direct or indirect, of directors or executive officers of KOV, persons or companies that beneficially own, control, or direct more than 10% of the voting securities of the Company, or an associate or affiliate of any of such directors, executive officers, persons or companies, in transactions conducted by the Company within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Company.

KI Equity Purchases

On May 25, 2010, KI purchased 82,010,582 Common Shares at market price pursuant to the Company's initial public offering of its Common Shares on the WSE.

KI Debenture

On September 9, 2009, the Company and KI finalized arrangements for KI, the majority shareholder of the Company, to provide KOV with up to $8.0 million in funding to enable the Company to meet its financial commitments prior to the closing of the offering of the Common Shares on the WSE in May 2010. In connection with such arrangements, the Company issued the KI Debenture, an unsecured convertible debenture, for a principal amount of up to $8.0 million to KI, scheduled to mature on August 31, 2010. Interest under the KI Debenture was payable at a rate of 7.16% per annum, compounded semi-annually. On November 9, 2009, and again on January 10, 2010, the KI Debenture was amended to increase the total principal amount available to $20.0 million; all other terms and conditions remain unchanged.

As at March 31, 2010, the Company had drawn $20.0 million under the terms of the KI Debenture. On May 25, 2010, the first day the Company's shares traded on the WSE, the parties to the KI Debenture agreed to the conversion of approximately $14.4 million of principal outstanding under the KI Debenture to 25,000,000 Common Shares. On July 8, 2010, the remaining principal outstanding of approximately $4.6 million was converted to 10,086,842 Common Shares and the interest accrued to the conversion date was paid in cash.

KI/Radwan Convertible Debentures

On August 11, 2011, the Company signed the KI/Radwan Debentures, new unsecured convertible debenture agreements with KI and Radwan. The total amount available under the KI/Radwan Debentures is $23.5 million, bearing interest at a rate of 7.16% per annum, and is expected to be converted to Common Shares at a future date, either upon listing on AIM or on August 11, 2012, whichever date is earlier. The KI/Radwan Debentures also include a provision for an implied additional 12.84% interest to be paid in Common Shares upon conversion. At December 31, 2011, the Company had drawn $9.9 million from KI and $0.6 million from Radwan.

KI Services

The Company has agreements for ongoing corporate and advisory services to be provided to the Company by both Kulczyk Holdings S.A. ("**KH**") and KI. During 2011, the Company paid $210,000 in monthly fees to KI for services provided (2010 - $210,000), and paid $90,000 in monthly fees to KH (2010 - $90,000) for services provided in both cases pursuant to service agreements that expired in June 2011. During the year ended December 31, 2010, the Company paid a $450,000 fee to KI for its assistance with the KUB-Gas Acquisition. The Company also paid $616,857 to KI as interest on the KI Debenture during the 2010 fiscal year. The Company owed no amounts to either KI or KH at December 31, 2011, 2010 or 2009.

KI Trade Name and Trade-Mark License Agreement

On November 6, 2008, KOV and KI entered into the License Agreement. Under the terms of the License Agreement, KI granted the Company a limited, non-exclusive, revocable and non-transferable license to use the trade name and trade-mark "Kulczyk" (the "**Marks**") in connection with the Company's business and for domain names used in connection with the business of the Company. The license to use the Marks is at no cost to KOV, and will expire upon the termination of the License Agreement.

The License Agreement does not grant KOV any proprietary or other right, title or interest in or to the Marks and all goodwill associated with the Marks belongs to and shall enure to KI. KI may require that KOV put on all business material containing or using the Marks notice that KOV is a user of the Marks under license from KI. KI may require KOV at its own cost to take the necessary steps to protect the Marks against any infringement, imitation, dilution or challenge. KOV will indemnify KI for all claims arising out of KOV's use of the Marks or any breach of the License Agreement by the Company. KOV may grant a sublicense to use the Marks to a subsidiary in limited circumstances.

The License Agreement is regarded as material by KOV as it gives the Company the right to use the name "Kulczyk".

TIG Notes and TIG Convertible Debenture

On August 11, 2009, KOV entered into an agreement with TIG pursuant to which KOV agreed to purchase from TIG (directly or through one or more of its affiliates) and TIG agreed to sell to KOV, all of TIG's right, title and interest in and to an aggregate of $15,015,000 principal amount 7.16% convertible unsecured loan notes of Triton (the "**TIG Notes**"), at a purchase price of $15,015,000 payable as to $5,005,000 in cash with the balance payable through the issuance of a $10,010,000 principal amount 7.16% secured subordinated convertible debenture of KOV (the TIG Convertible Debenture)..

Prior to the closing of the Triton Acquisition, KI, an affiliate of KOV, assumed KOV's obligation to purchase $5,005,000 of the TIG Notes in cash pursuant to an assignment and assumption agreement dated September 15, 2009 and acquired on that date $5,005,000 of the TIG Notes. KI immediately converted the TIG Notes into Triton shares at a conversion price of $3.80 per share, resulting in KI acquiring 1,317,105 shares in Triton. Such shares were subsequently tendered by KI to KOV's extended offer to acquire all of the issued and outstanding shares of Triton and KI received as consideration therefor 7,232,224 Common Shares and 1,317,105 Series A Preferred Shares.

On September 15, 2009, financial closing of the Triton Acquisition took place, and the Company issued secured convertible debentures in the aggregate amount of $10,010,000 which mature on August 12, 2011 (TIG Convertible Debenture) in exchange for the TIG Notes. The TIG Convertible Debenture is secured by a floating charge on all of the Company's present and after-acquired property and bears interest at a rate of 7.16% compounding semi-annually, payable annually. The Company has a pre-emptive right to repay the TIG Convertible Debenture in full upon a proposed transfer by TIG of the TIG Convertible Debenture. The TIG Convertible Debenture is convertible at any time after May 25, 2010 (the date of completion of an offering of the Common Shares pursuant to an equity raise on the WSE) and prior to the maturity date at a conversion price equal to the lesser of $0.692 per Common Share and the price for which the Common Shares were offered in May 2010 pursuant to the equity raise on the WSE. The conversion price was subsequently fixed at $0.5767 per Common Share by an amending agreement dated August 16, 2010. In September 2010, the Company paid accrued interest of $729,545 in cash.

On August 1, 2011, TIG sold its convertible debentures to a subsidiary of MWG, an unrelated third party, for the face value of $10.0 million plus accrued interest. On August 12, 2011, MWG converted the debentures into 18,501,037 common shares at $0.5767 per share.

TRANSFER AGENT AND REGISTRAR

The registrar and transfer agent for the Common Shares is Computershare Trust Company of Canada at its principal office in Calgary, Alberta.

MATERIAL CONTRACTS

The following is a list of material contracts required to be disclosed under National Instrument 51-102 *Continuous Disclosure Obligations*, which were still in effect as of the date hereof, broken down into contracts entered into in the ordinary course of business and contracts entered into outside the ordinary course of business, as well as the reasons for which any given contract is regarded as material by KOV and the information where any given contract is discussed in this AIF.

Contracts Entered into in the Ordinary Course of Business

For further information on the following agreements, see *"Principal Oil and Gas Assets – Syria - Material Agreements".*

- *Syria Productions Sharing Contract (Syria Block 9 PSC)*
- *Consulting Agreement*

For further information on the following agreements, see "*Principal Oil and Gas Assets – Brunei - Material Agreements*".

- *Brunei – Block L*
- *Joint Bidding Agreement*
- *Block L Production Sharing Agreement (Block L PSA)*
- *Block L Operating Agreement*
- *Option Agreement*
- *Settlement Agreement*
- *Guarantee*
- *Joint Bidding Agreement*
- *Sale and Purchase Agreement (AED SEA)*
- *Block M Production Sharing Agreement (Block M PSA)*
- *Block M Joint Operating Agreement*
- *MENA Agreement*

Contracts Entered into Outside the Ordinary Course of Business

KUB Gas Acquisition

For further information on the following agreements, see *"Significant Acquisitions – KUB-Gas".*

- *Shareholders' Agreement*
- *Guarantee*
- *Put Option Deed*

For further information on the following agreements, see *"Interest of Management and Others in Material Transactions".*

- *License Agreement*

Other Material Agreements Entered into Outside the Ordinary Course of Business

KI/Radwan Convertible Debentures

For further information on the KI/Radwan Convertible Debentures, see "*Interest of Management and Others in Material Transactions – KI/Radwan Convertible Debentures*".

Nigeria Option

For further information on the Nigeria Option, please see section *"General Development of the Business"*.

EBRD Loan Facility

For further information on the EBRD Loan Facility, please see section *"General Development of the Business"*.

AED SEA Acquisition

For further information on the AED SEA Acquisition, please see section *"General Development of the Business"*.

INTERESTS OF EXPERTS

KPMG LLP, Chartered Accountants (the auditors of the Company) prepared an auditors' report on the consolidated balance sheets of the Company as at December 31, 2011, and the consolidated statement of operations and retained earnings and cash flows for the year then ended, which auditor's report relates to the most recently completed fiscal year of the Company. As of March 19, 2012, KPMG LLP, Chartered Accountants have reported that they are independent in accordance with the rules of professional conduct of the Institute of Chartered Accountants of Alberta.

Information relating to the contingent and prospective resources related to the KUB-Gas Assets in Ukraine, the proven, probable and possible reserves of the Company in Ukraine, and prospective resources of the Company in Syria Block 9 and the contingent and prospective resources of the Company in Brunei included in this AIF were evaluated by RPS, as an independent third party qualified reserves evaluators. As of the date hereof, to the knowledge of the Company, the partners, employees and associates of RPS, as a group, own, directly or indirectly, less than 1% of the outstanding Common Shares.

ADDITIONAL INFORMATION

Additional information regarding the Company may be found on SEDAR at www.sedar.com. In particular, additional information, including director's and officer's remuneration and indebtedness, the principal holders of Common Shares and the securities authorized for issuance under equity compensation plans, is contained in the Company's information circular dated April 1, 2011 relating to the annual meeting of shareholders held on May 11, 2011. Additional financial information is provided in the consolidated comparative audited financial statements of the Company and the notes thereto and the management's discussion and analysis for the financial year ended December 31, 2011.

KULCZYK
OIL VENTURES

APPENDIX A

KULCZYK OIL VENTURES INC.
STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION
(Form 51-101F1)

Part 1 – Date of Statement

This statement of reserves data and other oil and gas information is dated March 29, 2012. The effective date of the information being provided in this statement is December 31, 2011 and the preparation date of such information is March 29, 2012.

Part 2 – Disclosure of Reserves Data

In accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities, the tables contained in this filing are a summary of the oil and natural gas reserves and the value of future net revenue of Kulczyk Oil Ventures Inc. (the "**Company**" or "**Kulczyk Oil**") as evaluated by RPS Energy ("**RPS**") effective as at December 31, 2011, based on their report dated March 20, 2011 (the "**RPS Ukraine Report**"). RPS is an independent qualified reserves evaluator and auditor.

The RPS Ukraine Report evaluated the reserves of KUB-Gas LLC ("**KUB-Gas**"), a natural gas and natural gas liquids producing company in the Ukraine in which the Company indirectly owns an effective 70% interest. The Company owns a 70% interest in a subsidiary (Loon Ukraine Holdings Limited) which owns 100% of the shares of KUB-Gas. The assets of KUB-Gas evaluated in the RPS Ukraine Report are the only reserves of the Company and the tables below show the reserves and discounted cash flow values for both KUB-Gas's 100% full field interest plus the Company's effective 70% working interest share.

It should not be assumed that the undiscounted or discounted net present value of future net revenue attributable to the Company's reserves estimated by RPS represent the fair market value of those reserves. The recovery and reserve estimates of the Company's natural gas and natural gas liquids reserves provided are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater than or less than the estimates provided.

In preparing this report, RPS relied upon certain factual information and data furnished by the Company and KUB-Gas with respect to ownership interests, natural gas and natural gas liquids production, historical costs of operation and development, product prices, agreements relating to current and future operations, sales of production, and other relevant data. The extent and character of all factual information and data supplied were relied upon by RPS in preparing their report and was accepted as represented without independent verification. RPS relied upon representations made by the Company as to the completeness and accuracy of the data provided and that no material changes in the performance of the properties has occurred nor is expected to occur, from that which was projected in this report, between the date that the data was obtained for this evaluation and the date of this report, and that no new data has come to light that may result in a material change to the evaluation of the reserves presented in this report.

The evaluation has been conducted within RPS's understanding of petroleum legislation, taxation and other regulations that currently apply to these interests. However, RPS is not in a position to and did not attest to the property title, financial interest relationships or encumbrances related to the Ukrainian licenses.

The evaluation reflects RPS's informed judgment based on the Canadian Oil and Gas Evaluation Handbook Standards, but is subject to generally recognised uncertainties associated with the interpretation of geological, geophysical and engineering data. The reported hydrocarbon resource volumes are estimates based on professional engineering judgment and are subject to future revisions, upward or downward, as a result of future operations or as additional information become available.

The following tables are prepared from information contained in the RPS Ukraine Report as of December 31, 2011. Some of the numbers in the tables may not add due to rounding.

Reserves Data

SUMMARY OF NATURAL GAS AND NATURAL GAS LIQUIDS RESERVES BASED ON FORECAST PRICES AND COSTS
AS AT DECEMBER 31, 2011
100% Full Field Interest

Table 2.1-1 - 100%	NATURAL GAS		NATURAL GAS LIQUIDS		BOE EQUIVALENTS [1]	
	Gross (MMcf)	Net (MMcf)	Gross (Mbbl)	Net (Mbbl)	Gross (MBOE)	Net (MBOE)
RESERVES CATEGORY [2]						
PROVED						
Developed Producing	13,166	10,873	105	49	2,299	1,861
Developed Non-Producing	5,840	4,809	31	15	1,005	816
Undeveloped	18,374	15,319	120	56	3,183	2,609
TOTAL PROVED	**37,380**	**31,001**	**256**	**119**	**6,486**	**5,286**
PROBABLE	15,507	12,960	180	84	2,765	2,244
TOTAL PROVED PLUS PROBABLE	**52,887**	**43,960**	**436**	**204**	**9,251**	**7,530**
POSSIBLE	16,466	13,781	215	101	2,959	2,397
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	**69,353**	**57,741**	**651**	**304**	**12,210**	**9,928**

Notes:
(1) See information related to BOE conversion ratio on page 29 of this document.
(2) See definitions of “proved”, “probable” and “possible” reserves on page 10 of this document.

SUMMARY OF NATURAL GAS AND NATURAL GAS LIQUIDS RESERVES BASED ON FORECAST PRICES AND COSTS
AS AT DECEMBER 31, 2011
70% KOV Working Interest

Table 2.1-1 - 70%	NATURAL GAS		NATURAL GAS LIQUIDS		BOE EQUIVALENTS [1]	
	Gross (MMcf)	Net (MMcf)	Gross (Mbbl)	Net (Mbbl)	Gross (MBOE)	Net (MBOE)
RESERVES CATEGORY [2]						
PROVED						
Developed Producing	9,216	7,611	73	34	1,609	1,303
Developed Non-Producing	4,088	3,366	22	10	703	571
Undeveloped	12,862	10,723	84	39	2,228	1,827
TOTAL PROVED	**26,166**	**21,700**	**179**	**84**	**4,540**	**3,700**
PROBABLE	10,855	9,072	126	59	1,935	1,571
TOTAL PROVED PLUS PROBABLE	**37,021**	**30,772**	**306**	**143**	**6,476**	**5,271**
POSSIBLE	11,526	9,647	150	70	2,071	1,678
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	**48,547**	**40,419**	**456**	**213**	**8,547**	**6,949**

Notes:
(1) See information related to BOE conversion ratio on page 29 of this document.
(2) See definitions of “proved”, “probable” and “possible” reserves on page 10 of this document.

SUMMARY OF AGGREGATE NET PRESENT VALUES OF FUTURE NET REVENUE BASED ON FORECAST PRICES AND COSTS
AS AT DECEMBER 31, 2011
100% Full Field Interest

	BEFORE INCOME TAXES DISCOUNTED AT (% / YEAR)					AFTER INCOME TAXES DISCOUNTED AT (% / YEAR)					UNIT VALUE BEFORE INCOME TAX DISCOUNTED AT 10% / YEAR
	0	5	10	15	20	0	5	10	15	20	
RESERVES CATEGORY	MM$	MM$	MM$	MM$	MM$	MM$	MM$	MM$	MM$	MM$	($/McfGE)
PROVED											
Developed Producing	82.1	72.5	65.0	59.1	54.3	70.5	62.0	55.4	50.2	46.0	5.82
Developed Non-Producing	35.6	31.5	28.3	25.7	23.5	29.0	25.4	22.7	20.4	18.6	5.77
Undeveloped	92.9	76.3	63.9	54.4	47.0	76.7	62.1	51.4	43.2	36.9	4.08
TOTAL PROVED	**210.6**	**180.2**	**157.2**	**139.2**	**124.9**	**176.3**	**149.5**	**129.4**	**113.9**	**101.5**	**4.96**
PROBABLE	118.6	92.6	75.4	63.4	54.5	98.8	77.0	62.6	52.5	45.1	5.60
TOTAL PROVED PLUS PROBABLE	**329.2**	**272.8**	**232.6**	**202.6**	**179.4**	**275.0**	**226.5**	**192.0**	**166.4**	**146.7**	**5.15**
POSSIBLE	130.3	93.3	72.3	58.9	49.7	109.0	77.8	60.1	48.9	41.2	5.03
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	**459.5**	**366.1**	**304.8**	**261.5**	**229.2**	**384.0**	**304.3**	**252.1**	**215.3**	**187.9**	**5.12**

Notes:
(1) The unit values are based on net reserves.
(2) All values are presented in United States dollars.
(3) See definitions of “proved”, “probable” and “possible” reserves on page 10 of this document.
(4) See information related to McfGE conversion ratio on page 29 of this document.

SUMMARY OF AGGREGATE NET PRESENT VALUES OF FUTURE NET REVENUE BASED ON FORECAST PRICES AND COSTS
AS AT DECEMBER 31, 2011
70% KOV Working Interest

RESERVES CATEGORY	BEFORE INCOME TAXES DISCOUNTED AT (% / YEAR) 0 MM$	5 MM$	10 MM$	15 MM$	20 MM$	AFTER INCOME TAXES DISCOUNTED AT (% / YEAR) 0 MM$	5 MM$	10 MM$	15 MM$	20 MM$	UNIT VALUE BEFORE INCOME TAX DISCOUNTED AT 10% / YEAR ($/McfGE)
PROVED											
Developed Producing	57.5	50.7	45.5	41.4	38.0	49.4	43.4	38.8	35.1	32.2	5.82
Developed Non-Producing	24.9	22.0	19.8	18.0	16.5	20.3	17.8	15.9	14.3	13.0	5.77
Undeveloped	65.0	53.4	44.7	38.1	32.9	53.7	43.5	35.9	30.3	25.8	4.08
TOTAL PROVED	**147.4**	**126.1**	**110.0**	**97.5**	**87.4**	**123.4**	**104.7**	**90.6**	**79.7**	**71.1**	**4.96**
PROBABLE	83.0	64.8	52.8	44.4	38.2	69.1	53.9	43.8	36.8	31.6	5.60
TOTAL PROVED PLUS PROBABLE	**230.5**	**190.9**	**162.8**	**141.8**	**125.6**	**192.5**	**158.5**	**134.4**	**116.5**	**102.7**	**5.15**
POSSIBLE	91.2	65.3	50.6	41.3	34.8	76.3	54.5	42.1	34.2	28.8	5.03
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	**321.7**	**256.3**	**213.4**	**183.1**	**160.4**	**268.8**	**213.0**	**176.5**	**150.7**	**131.5**	**5.12**

Notes:

(1) The unit values are based on net reserve volumes.
(2) All values are presented in United States dollars.
(3) See definitions of “proved”, “probable” and “possible” reserves on page 10 of this document.
(4) See information related to McfGE conversion ratio on page 29 of this document.

TOTAL FUTURE NET REVENUE (UNDISCOUNTED)
AS AT DECEMBER 31, 2011
FORECASTS PRICES AND COSTS
100% Full Field Interest

RESERVES CATEGORY	REVENUE MM$	ROYALTIES MM$	OPERATING COSTS MM$	EXPLORATION AND DEVELOPMENT COSTS MM$	ABANDONMENT AND RECLAMATION COSTS MM$	FUTURE NET REVENUE BEFORE INCOME TAXES MM$	INCOME TAXES MM$	FUTURE NET REVENUE AFTER INCOME TAXES MM$
PROVED								
Developed Producing	140.2	27.5	27.1	3.1	0.4	82.1	11.6	70.5
Developed Non-Producing	59.9	11.5	6.4	5.8	0.6	35.6	6.6	29.0
Undeveloped	197.9	36.5	31.9	33.0	3.7	92.9	16.2	76.7
TOTAL PROVED	**398.0**	**75.6**	**65.4**	**41.8**	**4.7**	**210.6**	**34.3**	**176.3**
PROBABLE	182.5	35.6	28.1	-	0.2	118.6	19.9	98.8
TOTAL PROVED PLUS PROBABLE	**580.6**	**111.2**	**93.4**	**41.8**	**4.9**	**329.2**	**54.2**	**275.0**
POSSIBLE	203.6	40.0	33.0	-	0.3	130.3	21.3	109.0
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	**784.1**	**151.2**	**126.4**	**41.8**	**5.2**	**459.5**	**75.5**	**384.0**

Notes:
(1) All values are presented in United States dollars.
(2) Operating costs include taxes other than on income.
(3) See definitions of “proved”, “probable” and “possible” reserves on page 10 of this document.

TOTAL FUTURE NET REVENUE (UNDISCOUNTED)
AS AT DECEMBER 31, 2011
FORECASTS PRICES AND COSTS
70% KOV Working Interest

RESERVES CATEGORY	REVENUE MM$	ROYALTIES MM$	OPERATING COSTS MM$	EXPLORATION AND DEVELOPMENT COSTS MM$	ABANDONMENT AND RECLAMATION COSTS MM$	FUTURE NET REVENUE BEFORE INCOME TAXES MM$	INCOME TAXES MM$	FUTURE NET REVENUE AFTER INCOME TAXES MM$
PROVED								
Developed Producing	98.1	19.3	19.0	2.2	0.3	57.5	8.1	49.4
Developed Non-Producing	41.9	8.1	4.5	4.0	0.4	24.9	4.6	20.3
Undeveloped	138.6	25.6	22.3	23.1	2.6	65.0	11.3	53.7
TOTAL PROVED	**278.6**	**52.9**	**45.8**	**29.3**	**3.3**	**147.4**	**24.0**	**123.4**
PROBABLE	127.8	24.9	19.6	-	0.2	83.0	13.9	69.1
TOTAL PROVED PLUS PROBABLE	**406.4**	**77.8**	**65.4**	**29.3**	**3.4**	**230.5**	**37.9**	**192.5**
POSSIBLE	142.5	28.0	23.1	-	0.2	91.2	14.9	76.3
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	**548.9**	**105.8**	**88.5**	**29.3**	**3.6**	**321.7**	**52.9**	**268.8**

Notes:
(1) All values are presented in United States dollars.
(2) Operating costs include taxes other than on income.
(3) See definitions of “proved”, “probable” and “possible” reserves on page 10 of this document.

FUTURE NET REVENUE BY PRODUCTION GROUP BASED ON FORECAST PRICES AND COSTS AS AT DECEMBER 31, 2011

Reserve Category(1)	Production Group	Future Net Revenue Before Income Taxes (Discounted at 10%/Year) ($MM)		Unit Value ($ / Mcf for Natural Gas) ($ / Bbl for Oil and Natural Gas Liquids) ($ / McfGE for Totals)
		100% Full Field Interest	70% KOV Working Interest	
Proved	Light & Medium Oil (including solution gas and other by-products)			
	Heavy Oil (including solution gas and other by-products			
	Natural Gas (including by products)	157.2	110.0	4.96
	Non-conventional oil and gas activities			
	Total	**157.2**	**110.0**	**4.96**
Proved + Probable	Light & Medium Oil (including solution gas and other by-products)			
	Heavy Oil (including solution gas and other by-products			
	Natural Gas (including by products)	232.6	162.8	5.15
	Non-conventional oil and gas activities			
	Total	**232.6**	**162.8**	**5.15**
Proved + Probable + Possible	Light & Medium Oil (including solution gas and other by-products)			
	Heavy Oil (including solution gas and other by-products			
	Natural Gas (including by products)	304.8	213.4	5.12
	Non-conventional oil and gas activities			
	Total	**304.8**	**213.4**	**5.12**

Notes:
(1) See definitions of “proved”, “probable” and “possible” reserves on page 10 of this document.
(2) See information related to McfGE conversion ratio on page 29 of this document.

OIL AND GAS RESERVES AND NET PRESENT VALUES BY PRODUCTION GROUP BASED ON FORECAST PRICES AND COSTS AS AT DECEMBER 31, 2011

Notes:

1. "Gross Reserves" are the Company's working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of the Company. "Net Reserves" are the Company's working interest (operating or non-operating) share after deduction of royalty obligations, plus the Company's royalty interests in reserves.
2. "Proved" reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. There is a 90% probability that the actual remaining quantities recovered will exceed the estimated proved reserves.
3. "Probable" reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.
4. "Possible" reserves are those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.
5. "Developed" reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g. when compared to the cost of drilling a well) to put the reserves on production.
6. "Developed Producing" reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
7. "Developed Non-Producing" reserves are those reserves that either have not been on production, or have previously been on production, but are shut in, and the date of resumption of production is unknown.
8. "Undeveloped" reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned.

Part 3 - Pricing Assumptions

The following table details the benchmark reference prices for the only region (Ukraine) in which the Company operated as at December 31, 2011, reflected in the reserves data disclosed above under "Part 2 – Disclosure of Reserves Data". Forecast prices are provided by RPS. The forecast price assumptions assume the continuance of current laws and regulations and take into account inflation with respect to future operating and capital costs. Natural Gas forecast prices are generally based on previous experience in Ukraine and then inflated at 2% per year for each forecast year. Natural Gas liquids (Condensate) forecast prices are equal to 82% of the Real 2011 Brent price based on information provided by the Company and from industry observers.

SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS AS AT DECEMBER 31, 2011
FORECAST PRICES AND COSTS

Year	Brent	Partnership Condensate (excl. VAT)	Imported Russian Gas at Ukrainian border (excl. VAT)	Partnership Gas (excl. VAT)	US$ Price Inflation Rate	US$ Cost Inflation Rate	Exchange Rate Hryvnia per $
	$ / bbl	$ / bbl	$ / Mcf	$ / Mcf	% / Year	% / Year	x.x
2012	110.00	87.08	9.16	9.38	2.0%	2.0%	8.00
2013	105.50	83.52	8.78	9.56	2.0%	2.0%	8.00
2014	101.00	82.01	8.41	10.00	2.0%	2.0%	8.00
2015	100.81	81.86	8.39	10.20	2.0%	2.0%	8.00
2016	102.83	83.50	8.56	10.41	2.0%	2.0%	8.00
2017	104.89	85.17	8.73	10.62	2.0%	2.0%	8.00
2018	106.99	86.87	8.91	10.83	2.0%	2.0%	8.00
2019	109.13	88.61	9.09	11.05	2.0%	2.0%	8.00
2020	111.31	90.38	9.27	11.27	2.0%	2.0%	8.00
2021	113.53	92.19	9.45	11.49	2.0%	2.0%	8.00
2022	115.80	94.03	9.64	11.72	2.0%	2.0%	8.00
2023	118.12	95.91	9.83	11.96	2.0%	2.0%	8.00
2024	120.48	97.83	10.03	12.19	2.0%	2.0%	8.00
2025	122.89	99.78	10.23	12.44	2.0%	2.0%	8.00
2026	125.35	101.78	10.44	12.69	2.0%	2.0%	8.00
2027	127.86	103.82	10.65	12.94	2.0%	2.0%	8.00
2028	130.41	105.89	10.86	13.20	2.0%	2.0%	8.00
2029	133.02	108.01	11.08	13.46	2.0%	2.0%	8.00
2030	135.68	110.17	11.30	13.73	2.0%	2.0%	8.00
2031	138.40	112.37	11.52	14.01	2.0%	2.0%	8.00
2032	141.17	114.62	11.75	14.29	2.0%	2.0%	8.00
2033	143.99	116.91	11.99	14.57	2.0%	2.0%	8.00
2034	146.87	119.25	12.23	14.87	2.0%	2.0%	8.00
2035	149.81	121.64	12.47	15.16	2.0%	2.0%	8.00

The weighted average price of the natural gas sold by KUB-Gas during the 2011 fiscal year was US$10.25 per Mcf (excl: VAT).

Part 4 – Reconciliation of Changes in Reserves

The following table sets forth a reconciliation of the changes in the Company's gross reserves as at December 31, 2011 against such reserves as at December 31, 2010 based on the forecast price and cost assumptions stated on page 11 of this document:

RECONCILIATION OF COMPANY GROSS RESERVES BY PRINCIPAL PRODUCT TYPE BASED ON FORECAST PRICES AND COSTS AS AT DECEMBER 31, 2011
100% Full Field Interest

	LIGHT AND MEDIUM OIL (Includes NGL's)			ASSOCIATED AND NON-ASSOCIATED GAS			Combined Boe		
	Gross Proved (Mbbl)	Gross Probable (Mbbl)	Gross Proved + Probable (Mbbl)	Gross Proved (MMscf)	Gross Probable (MMscf)	Gross Proved + Probable (MMscf)	Gross Proved (MBoe)	Gross Probable (MBoe)	Gross Proved + Probable (MBoe)
UKRAINE									
December 31, 2010	345	174	520	40,161	21,940	62,101	7,039	3,831	10,870
Extensions	209	77	287	24,369	9,882	34,251	4,271	1,725	5,995
Improved Recovery	-	-	-	-	-	-	-	-	-
Technical Revisions	(280)	6	(353)	(24,020)	(16,315)	(40,335)	(4,283)	(2,713)	(7,076)
Discoveries	-	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-
Production + Inventory changes	(17)	-	(17)	(3,130)	-	(3,130)	(539)	-	(539)
		-			-		-	-	-
December 31, 2011	256	180	436	37,380	15,507	52,887	6,486	2,765	9,251

Notes:
(1) See definitions of “proved”, “probable” and “possible” reserves on page 10 of this document.
(2) See information related to BOE conversion ratio on page 29 of this document.

RECONCILIATION OF COMPANY GROSS RESERVES BY PRINCIPAL PRODUCT TYPE BASED ON FORECAST PRICES AND COSTS AS AT DECEMBER 31, 2011
70% KOV Working Interest

	LIGHT AND MEDIUM OIL (Includes NGL's)			ASSOCIATED AND NON-ASSOCIATED GAS			Combined Boe		
	Gross Proved (Mbbl)	Gross Probable (Mbbl)	Gross Proved + Probable (Mbbl)	Gross Proved (MMscf)	Gross Probable (MMscf)	Gross Proved + Probable (MMscf)	Gross Proved (MBoe)	Gross Probable (MBoe)	Gross Proved + Probable (MBoe)
UKRAINE									
December 31, 2010	242	122	364	28,113	15,358	43,471	4,927	2,681	7,609
Extensions	147	54	201	17,058	6,918	23,976	2,990	1,207	4,197
Improved Recovery	-	-	-	-	-	-	-	-	-
Technical Revisions	(196)	4	(247)	(16,814)	(11,421)	(28,235)	(2,998)	(1,899)	(4,953)
Discoveries	-	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-
Production + Inventory changes	(12)	-	(12)	(2,191)	-	(2,191)	(377)	-	(377)
	-	-	-	-	-	-	-	-	-
December 31, 2011	179	126	306	26,166	10,855	37,021	4,540	1,935	6,476

Notes:
(1) See definitions of “proved”, “probable” and “possible” reserves on page 10 of this document.
(2) See information related to BOE conversion ratio on page 29 of this document.

Part 5 – Additional Information Relating to Reserves Data

Undeveloped Reserves *(all volumes reported in this section are "net" for the 100% full field interest)*

Proved Undeveloped Reserves

The proved undeveloped net reserves of the Company as at December 31, 2011 were 15.3 Bcf of natural gas and 56.4 Mbbls of natural gas liquids for a total of 2,609 Mboe of proved undeveloped reserves. The Company acquired all of its proved undeveloped reserves in 2010, and therefore has no proved undeveloped reserves attributed to it in any of the financial years prior to 2010.

The Company attributes proved undeveloped reserves on the basis of those reserves expected to be recovered from known accumulations where significant expenditure (eg. when compared to the cost drilling a well) is required to render them capable of production. "Proved" reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves. The Company's plan is to develop its proven undeveloped reserves over the next two years through techniques including stimulation treatments (including fracs, selective acidizing), dual completions, and further drilling.

Probable Undeveloped Reserves

The probable undeveloped net reserves of the Company as at December 31, 2011 were 13.0 Bcf of natural gas and 84 Mbbls of natural gas liquids for a total of 2,244 Mboe of probable undeveloped reserves. The Company acquired all of its probable undeveloped reserves in 2010, and therefore has no probable undeveloped reserves attributed to it in any of the financial years prior to 2010.

The Company attributes probable undeveloped reserves on the basis of those reserves expected to be recovered from known accumulations where significant expenditure (eg. when compared to the cost drilling a well) is required to render them capable of production. "Probable" reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves. The Company's plan is to develop its probable undeveloped reserves through further drilling, and techniques including stimulation treatments (including fracs, selective acidizing) and dual completions.

The Company presently anticipates that it will commence development of its probable undeveloped reserves within the next two years.

Significant Factors or Uncertainties Affecting Reserves Data

The estimation of reserves requires significant judgment and decisions based on available geological, geophysical, engineering and economic data. These estimates can change substantially as additional information from ongoing development activities and production performance becomes available and as economic and political conditions impact oil and gas prices and costs change. The Company's estimates are based on current production forecasts, prices and economic conditions, including the demand within Ukraine for natural gas and natural gas liquids. All of the Company's reserves are evaluated by RPS, an independent engineering firm.

As circumstances change and additional data becomes available, reserve estimates also change. Based on new information, reserves estimates are reviewed and revised, either upward or downward, as warranted. Although every reasonable effort has been made by the Company to ensure that reserves estimate are accurate, revisions may arise as new information becomes available. As new geological, production and economic data is incorporated into the process of estimating reserves, the accuracy of the reserve estimate improves.

Certain information regarding the Company set forth in this report, including management's assessment of the Company's future plans and operations contain forward-looking statements that involve substantial known and unknown risks and uncertainties. These risks include, but are not limited to: the risks associated with the oil and gas industry, commodity prices and exchange rates; industry related risks that could include, but are not limited to, operational risks in exploration, development and production, delays or changes in plans; risks associated with the uncertainty of reserve estimates; health and safety risk; and the uncertainty of estimates and projections of production, costs and expenses. Competition from other producers, the lack of available qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources are additional risks the Company faces in this market. (See the "Risk Factors" section contained within the Company's Annual Information Form (Form 51-102F2) for the year ended December 31, 2011 filed under the Company's SEDAR profile (www.sedar.com). The Company's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward looking statements and accordingly, no assurance can be given that any events anticipated by the forward looking statements will transpire or occur, and if any of them do, what benefits the Company may derive therefrom. The reader is cautioned not to place undue reliance on this forward looking information.

The Company anticipates that any future exploration and development costs associated with its reserves will be financed through combinations of internally-generated cash flow, debt and equity financing. All of the natural gas and condensate produced by the Company during 2011 was sold by the operator of the property to industrial users in the local Ukraine market with the price received being based on the price set by the Ukrainian government for its gas sales to industrial users. The Company does not have any hedges in place.

Future Development Costs

The following table shows the development costs anticipated in the next five years, which have been deducted in the estimation of the future net revenues of the proved and probable reserves.

Table 5.3	Total Proved Estimated Using Forecast Prices and Costs (Undiscounted) ($MM)		Total Proved Plus Probable Estimated Using Forecast Prices and Costs (Undiscounted) ($MM)	
YEAR	**100% Full Field Interest**	**70% KOV Working Interest**	**100% Full Field Interest**	**70% KOV Working Interest**
2012	14.48	10.14	14.48	10.14
2013	13.72	9.60	13.72	9.60
2014	10.98	7.69	10.98	7.69
2015	2.66	1.86	2.66	1.86
2016	0	0	0	0
Total for five years	41.8	29.26	41.8	29.26
Remainder	0	0	0	0
Total for all years	**41.8**	**29.26**	**41.8**	**29.26**

The Company's current cash balance, internally-generated cash flow and future debt and equity placements will allow the Company to complete the development costs specified above. It is anticipated that the cost arising from debt that may be placed to fund future development activities will reflect rates for asset based lending prevailing in Ukraine, which are currently in the mid to high teens. The effect of the costs of the expected funding would have minimal impact on the revenues or reserves currently being reported.

Part 6 – Other Oil and Gas Information

Oil and Gas Properties and Wells

The Company has an interest in four (net 2.8) gas processing facilities located onshore in Ukraine. None of these facilities have any form of relinquishment, surrender, back-in or change in ownership to which they are subject.

The following table sets forth the number of wells in which the Company held a working interest as at December 31, 2011:

Table 6.1	**OIL**		**NATURAL GAS**	
	Gross	**Net**	**Gross**	**Net**
Ukraine				
Producing	**-**	-	14	9.8
Non-producing	-	-	9	6.3
Brunei[(1)]				
Producing	**-**	-	-	-
Non-producing	-	-	4	2.5
TOTAL	**-**	**-**	**27**	**18.6**

Note 1: No attributed reserves.

Relinquishments

Brunei Block L

In 2006, a wholly-owned subsidiary of the Company, Kulczyk Oil Brunei Limited ("**KOV Brunei**"), and QAF Brunei Sdn. Bhd. ("**QAF**") signed a Production Sharing Agreement ("**Brunei Block L PSA**") with Brunei National Petroleum Company Sendirian Berhad ("**PetroleumBRUNEI**"). The Block L PSA granted QAF and KOV Brunei the right to explore for and produce oil and gas from Block L. In 2008, Nations Petroleum (SE Asia) Limited ("**Nations**") was assigned a 50% working interest in the Block L PSA which reduced the interest of the Company, through KOV Brunei, to 40%, and Nations became the operator of Block L. On January 25, 2010, AED South East Asia Limited ("**AED SEA**") Oil Limited, a wholly-owned subsidiary of AED Oil Limited ("**AED**"), an Australian public company, acquired Nation's 50% operating interest in Brunei Block L and AED SEA became the operator of Block L. By a Purchase and Sale Agreement dated December 5, 2011, the Company acquired all of the share capital of AED SEA from the receivers/administrators for AED such that, as of December 31, 2011, the Company has a 90% interest in

Block L (40% through KOV Brunei and 50% through AED SEA) and is the operator.

Block L originally comprised approximately 2,220 square kilometres which included both onshore and shallow offshore areas of northern Brunei. By Notice from PetroleumBRUNEI dated October 6, 2011, and with an effective date of February 28, 2011, KOV Brunei, AED SEA and QAF relinquished approximately 50% of Block L as required under the terms of the Brunei Block L PSA resulting in Block L having an area of 1,123 square kilometres including both onshore and shallow offshore areas of northern Brunei as of December 31, 2011. The Brunei Block L PSA provides for an exploration period of six years from the date of the Brunei Block L PSA, August 28, 2006, divided into two phases, Phase 1 and Phase 2. The exploration period under the terms of the Block L PSA was extended by one year, until August 27, 2013.

In August 2010, the joint venture partners elected to proceed with the Phase 2 exploration period. The amended minimum work obligations for Phase 2 include (i) acquire and process 13 kilometres of onshore 2D seismic data, (ii) acquire and process not less than 130 square kilometres of 3D seismic data, iii) acquire and process 13.5 square kilometres of onshore 3D swath data (iv) acquire and process not less than 34.5 square kilometres of onshore 3D seismic and (v) drill at least two onshore exploration wells, each to a minimum depth of 2,000 metres. The Contractor is required to spend a minimum of $16 million during Phase 2 and the work commitments are required to be completed during the Phase 2 period, which continues until August 27, 2013.

Brunei Block M

The Company acquired a 36% interest in the Brunei Block M Production Sharing Agreement ("**Block M PSA**") effective September 15, 2009. Brunei Block M covers an onshore area of Brunei approximately 3,011 square kilometres (744,000 acres) and is immediately south of the Company's interest in Block L.

The Block M exploration period is 6 years from the date of the Block M PSA, August 28, 2006, and is divided into Phase 1 and Phase 2 which may run concurrently. Under the terms of the Brunei Block M PSA, on the last day of Phase 1, the Block M Parties shall either: (a) elect to relinquish 50% of the lands covered by the Brunei Block M PSA (the "**Block M Agreement Area**") and enter into Phase 2; or (b) elect to relinquish all of the Block M Agreement Area. The Block M Parties may seek to retain 50% of the original Block M Agreement Area which they are obliged to relinquish (the "**Block M Retention Area**") if, among other things: (a) the Block M Parties have fully satisfied the Block M PSA Phase 1 Obligations and the Block M PSA Phase 1 Expenditure; and (b) the Block M Parties, within six months of electing to retain the Block M Retention Area, attempt to negotiate a new production sharing agreement with PetroleumBRUNEI with respect to the Block M Parties obligations and activities in the Block M Retention Area.

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

By Notice from PetroleumBRUNEI dated July 20, 2011, and with an effective date of August 27, 2011, Kulczyk Oil Borneo Limited and its joint venture partners relinquished approximately 50% of Block M as required under the terms of the Brunei Block M PSA resulting in Block M having an area of 1,505 square kilometres onshore Brunei as of December 31, 2011. The joint venture partners have applied to re-acquire the lands relinquished.

Syria Block 9

Through a wholly-owned subsidiary, Kulczyk Oil holds a 100% participating interest in a Contract for the Exploration, Development, and Production of Petroleum ("**PSC**") between the Government of the Syrian Arab Republic, Syrian Petroleum Company ("**SPC**") and the Company. The Contract became effective on November 29, 2007. This agreement gives the Company the right to explore for and produce oil and gas from Block 9, a 10,032 square kilometre block in north-western Syria.

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. In July 2011, the Syrian authorities gave formal approval to the assignment of a 20% participating interest in the Block 9 PSC to Ninox Petroleum Pty Ltd. (formerly Triton Petroleum Pte Limited), a private 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.

Under the terms of the PSC, the Company has a first phase exploration period of four years during which it has committed to acquire 350 square kilometres of 3D seismic and drill two exploration wells. Phase 2 of the exploration period is three years long and Phase 3 is two years long. The Company has the ability to obtain license extensions in phases by committing to performing additional work on an agreed basis.

If the Company elects to enter into Phase 2 it shall relinquish to the Syrian government 25% of the lands covered by the Syria Block 9 PSC (the "**Area**") less the land converted to a development area. If the Company elects to enter into Phase 3 it shall relinquish to the Syrian government 25% of the Area less the land converted to a development area. At the end of the Block 9 Exploration Period, the Company shall relinquish to the Syrian government the remainder of the Area not converted to a development area.

The Syrian authorities extended the term of the first exploration period under the Block 9 PSC to October 27, 2012.

Properties with no Attributed Reserves

Table 6.2 Location	Gross Area	Net Area	Work Commitments (Gross)	Rights to Expire within One Year
Brunei Block L	1,123 km^2	1,011 km^2 (90%)	Phase 1 – ended August 27, 2010; work commitments require a minimum spend of $25.0 million. Status: Phase 1 complete and work commitments met.	N/A
			Phase 2 – ending August 27, 2013; work commitments require a minimum spend of $16.0 million. Status: Phase 2 in progress	No
Brunei Block M	1,505 km^2	542 km^2 (36%)	Phase 1 – ended August 27, 2011; work commitments require a minimum spend of $12.525 million. Status: Phase 1complete, with one well drilling commitment carried over and to be completed by the conclusion of the Phase 2 period.	N/A
			Phase 2 – ending August 27, 2012; work commitments require a minimum spend of $7.325 million. Status: Phase 2 in progress	Potential yes – depending on outcome of drilling
Syria Block 9	10,032 km^2	4,514 km^2 (36%)	Phase 1 – extended to October 27, 2012; work commitments require a minimum spend of $7.5 million. Status: Phase 1 in progress, however operations suspended at present.	Potential yes – depending on outcome of drilling.
			Phase 2 – ending November 2014; work commitments require a minimum spend of $7.0 million. Status: Phase 2 not committed to yet.	N/A
			Phase 3 – ending November 2016; work commitments require a minimum spend of $2.5 million. Status: Phase 3 not committed to yet.	N/A

Significant Factors or Uncertainties Relevant to Properties with no Attributed Reserves

The Company's properties for which there are no attributed reserves include Brunei Block L, Brunei Block M and Syria Block 9 – all of which contain exploration and appraisal projects upon which exploration wells have been drilled in 2010 and 2011 , or for which exploration wells are expected to be drilled in succeeding years commencing in 2012. There can be no certainty that the drilling of these wells will result in the discovery of recoverable reserves in commercial quantities.

The Company has indefinitely suspended its operations within Syria due to a difficult operating environment and will continue to monitor operating conditions to assess when a recommencement of its Syrian operations is possible. The Syrian authorities extended the term of the first exploration period under the Block 9 PSC to October 27, 2012.

For the foreseeable future, the Company will be conducting exploration activities such as seismic acquisition programs and exploratory drilling that will require third party services. The market for the provision of such services in Brunei and Syria is relatively limited, with the consequence that these services may be secured at a cost that does not reflect a market where such services are more broadly available, and therefore more competitively priced. This is particularly true for Syria, where the economic sanctions imposed by various countries have reduced the number of international service companies that provide their services within the country.

Forward Contracts

The Company has no forward contracts.

Additional Information Concerning Abandonment and Reclamation Costs

The estimated abandonment and restoration costs used by RPS are based on discussions with the Company's engineering personnel who, in turn, evaluated information provided by Ukraine based field and technical personnel with experience in the four producing fields in Ukraine. The Company expects to incur abandonment and reclamation costs for 25 wells (17.5 net wells), and does not expect to incur abandonment and restoration costs in the next three years. All future abandonment and reclamation costs are deducted in determining Future Net Revenues (100% Full Field Interest and 70% KOV Working Interest). All costs have been included in the RPS report.

FUTURE ABANDONMENT AND RECLAMATION COSTS
100% Full Field Interest

Table 6.4 – 100% **Year**	**Total Proved Estimated Using Forecast Prices and Costs(1) (Undiscounted)** ($M)	**Total Proved Estimated Using Forecast Prices and Costs(1) (10% Discounted)** ($M)	**Total Proved Plus Probable Estimated Using Forecast Prices and Costs(1) (Undiscounted)** ($M)	**Total Proved Plus Probable Estimated Using Forecast Prices and Costs(1) (10% Discounted)** ($M)
2011	-	-	-	-
2012	-	-	-	-
2013	-	-	-	-
Total for three years	-	-	-	-
Remainder	4.7	2.9	4.9	3.1
Total for all years	4.7	2.9	4.9	3.1

Note (1): Costs are net of estimated salvage value.

FUTURE ABANDONMENT AND RECLAMATION COSTS
KOV 70% KOV Working Interest

Table 6.4 – 70% Year	Total Proved Estimated Using Forecast Prices and Costs(1) (Undiscounted) ($M)	Total Proved Estimated Using Forecast Prices and Costs(1) (10% Discounted) ($M)	Total Proved Plus Probable Estimated Using Forecast Prices and Costs(1) (Undiscounted) ($M)	Total Proved Plus Probable Estimated Using Forecast Prices and Costs(1) (10% Discounted) ($M)
2011	-	-	-	-
2012	-	-	-	-
2013	-	-	-	-
Total for three years	-	-	-	-
Remainder	3.3	2.0	3.4	2.9
Total for all years	3.3	2.0	3.4	2.9

Note (1): Costs are net of estimated salvage value.

Tax Horizon

The Company is currently taxable in Ukraine and is expected to continue to be currently taxable thereafter.

Costs Incurred

During the 2011 fiscal year, the Company incurred capital expenditures of $39.8 million on its oil and natural gas properties. The following table reflects the Company's capital expenditures by country and type (in thousands of US$'s):

Table 6.6	Property Acquisition Costs		Exploration Costs	Development Costs
	Proved Properties	Unproved Properties		
Brunei	0	0	6,252	0
Syria	0	0	3,563	0
Ukraine	0	0	1,377	28,781
Total	0	0	**11,192**	**28,561**

Exploration and Development Activities

The following table summarizes the Company's drilling results. There was no drilling by the Company, or in which the Company participated, on its assets in Brunei, Ukraine and Syria prior to 2010. The Company expects to test some or all of the wells drilled in Brunei, and anticipates that it will drill additional exploration wells in Brunei and Syria. Further exploration and development drilling is anticipated to occur in Ukraine. There were no service wells or stratigraphic test wells drilled.

Table 6.7	**Exploration**		**Development**		**Total**	
	Gross	Net	Gross	Net	Gross	Net
2011						
Ukraine gas/condensate wells	1.0	0.7	4.0	2.8	5.0	3.5
Brunei cased wells	-	-	-	-	-	-
Dry and abandoned	-	-	-	-	-	-
Total wells	1.0	0.7	4.0	2.8	5.0	3.5
Success rate (%)	100	100	100	100	100	100
Average working interest (%)	70	70	70	70	70	70

Production Estimates

The following table is a summary of the gross (prior to royalties) volume of the Company's estimated production for 2012, which is reflected in the estimate of future net revenue in the RPS Ukraine Report based on forecast prices and costs.

Table 6.8 Estimated 2012 Production

100% Full Field Interest **Reserve Category**	**Conventional Natural Gas (MMcf)**	**Natural Gas Liquids (Mbbl)**	**Oil Equivalent (MBOE)** (1)
Gross proved reserves	**6,753.7**	**53.0**	**1,178.6**
Significant fields (2)			
- Olgovskoye field	3,199.7	33.6	566.9
- Makeevskoye field	3,106.0	19.2	536.9
Gross probable reserves	**1,037.2**	**19.4**	**192.2**
Significant fields ()			
- Olgovskoye field	706.7	13.2	130.9
- Makeevskoye field	300.0	6.2	56.2

Notes:

(1) See information related to BOE conversion ratio on page 29 of this document.
(2) Significant fields include those which account for 20% or more of estimated production for 2012. All of the Company's significant producing fields are located in Ukraine.

Table 6.8 Estimated 2012 Production

70% KOV Working Interest Reserve Category	Conventional Natural Gas (MMcf)	Natural Gas Liquids (Mbbl)	Oil Equivalent (MBOE) [1]
Gross proved reserves	**4,727.6**	**37.1**	**825.1**
Significant fields [2]			
- Olgovskoye field	2,239.8	23.5	396.8
- Makeevskoye field	2,174.2	13.5	375.8
Gross probable reserves	**726.0**	**13.6**	**134.6**
Significant fields [2]			
- Olgovskoye field	494.7	9.2	91.6
- Makeevskoye field	210.0	4.3	39.3

Notes:
(1) See information related to BOE conversion ratio on page 29 of this document.
(2) Significant fields include those which account for 20% or more of estimated production for 2012. All of the Company's significant producing fields are located in Ukraine.

Production History

The following tables set forth KOV's average daily production volumes and unit prices received, royalties, operating expenses and netbacks received for the periods indicated**.** All of the information presented relates to the Company's operations in Ukraine.

Table 6.9-1	**2011**			
	Dec 31	**Sept 30**	**Jun 30**	**Mar 31**
Average Daily Production – 100% Full Field Interest				
Gas (Mcf/d)	12,053.82	10,090.81	6,030.48	6,046.32
NGL (bbl/d)	124.92	78.23	53.42	54.01
Combined (BOE/d)	2,135.03	1,766.56	1,056.81	1,062.51
Average Daily Production – 70% KOV Working Interest share				
Gas (Mcf/d)	8,437.68	7.063.57	4,221.33	4,232.42
NGL (bbl/d)	87.44	54.76	37.39	37.81
Combined (BOE/d)	1,494.53	1,236.59	739.77	743.75
Average Price Received				
Gas ($/Mcf)	$ 11.75	$ 10.53	$ 8.94	$ 8.03
NGL ($/bbl)	96.81	102.83	102.75	84.74
Combined ($BOE)	72.06	64.93	56.14	50.03
Royalties				
Gas ($/Mcf)	(1.95)	(1.71)	(1.52)	(1.38)
NGL ($/bbl)	(0.05)	(0.05)	(0.05)	(0.05)
Combined ($/BOE)	(13.99)	(12.30)	(11.29)	(10.29)
Operating Expenses				
Combined ($/BOE)	(5.69)	(5.46)	(7.68)	(7.36)
Transportation	0.00	0.00	0.00	0.00
Netback Received				
Combined ($/BOE)	$ 52.37	$ 47.18	$ 37.18	$ 32.38

Production Volumes
For the Year ended December 31, 2011

The following table sets forth the Company's 70% working interest share of total production volume together with production volumes for each important field for the Company's most recently completed financial year. These production volumes reflect the Company's 70% working interest share of production volumes for the year ended December 31, 2011.

Table 6.9-2b	**Conventional Natural Gas (MCF)**	**Natural Gas Liquids (Bbls)**	**Oil Equivalent (BOE's)** [1]
Total production volume	2,192,043	20,180	385,520
Ukraine production volume	2,192,043	20,180	385,520
Important fields:			
- Olgovskoye (Ukraine)	985,010	14,141	178,309
- Makeevskoye (Ukraine)	797,256	5,868	138,744

Note (1): See information related to BOE conversion ratio on page 29 of this document.

ABBREVIATIONS AND CONVERSION

OIL AND NATURAL GAS		NATURAL GAS	
Bbl	Barrel	Mscf	Thousand standard cubic feet
Bbls	Barrels	MMscf	Millions standard cubic feet
Mbbls	Thousand barrels	Mscf/d	Thousand standard cubic feet per day
MMbbls	Million barrels	MMscf/d	Million standard cubic feet per day
MSTB	1,000 stock tank barrels	MMBTU	Million British Thermal units
Bbls/d	Barrels per day	Bscf	Billion standard cubic feet
NGLs	Natural gas liquids	GJ	gigajoule
STB	Stock tank barrels of oil		
STB/d	Stock tank barrels of oil per day		

OTHER

BOE	Barrel of oil equivalent on the basis that 1 barrel of oil is equivalent to 6 Mscf of natural gas. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 1 barrel of oil for 6 Mscf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
BOE/d	Barrel of oil equivalent per day
McfGE	Thousand cubic feet of natural gas equivalent. As with BOE's, the use of McfGE's may be misleading, particularly if used in isolation. An McfGE conversion ratio of 1 Bbl:6Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
m^3	cubic metres

RPS Energy

Suite 1400, 800 – Fifth Avenue S.W., Calgary, Alberta T2P 3T6 Canada
T +1 403 265 7226 F +1 403 269 3175 W www rpsgroup.com W www apa-inc.com

March 23, 2012

The Board of Directors,
Kulczyk Oil Ventures Inc.
Suite 1170, 700 4th Avenue S.W.
Calgary, AB
Canada, T2P 3J4

Subject: Form 51-101F2, Report on Reserves Data

1. We have evaluated the Vergunskoye, Olgovskoye, Makeevskoye and Krutogorovskoye (Ukraine) reserves data of Kulczyk Oil Ventures Inc. (the "Company") as at December 31, 2011. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2011, estimated using forecast prices and costs.

2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation. We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.

4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2011, and identifies the respective portions thereof that we have evaluated and reported on to the Company's management and board of directors:

Independent Qualified Reserves Evaluator	Description of Evaluation Report	Preparation Date of Evaluation Report	Location of Reserves	Net Present Value of Future Net Revenue Before Income Taxes Proved + Probable Reserves Million US Dollars, 10% discount rate		
				Audited	Evaluated	Reviewed
RPS Energy	"Evaluation of Natural Gas Reserves: Vergunskoye, Olgovskoye, Makeevskoye and Krutogorovskoye License Interests, Ukraine based on Forecast Prices and Costs as at December 31, 2011, Kulczyk Oil Ventures Inc."	March 20, 2012	Ukraine	$ n/a-	$162.8	$ n/a

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.

6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.

7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

RPS Energy Canada Ltd.

B.D. Weatherill

Brian D. Weatherill, P.Eng.

APPENDIX C

FORM 51-101 F3
REPORT OF MANAGEMENT AND DIRECTORS ON OIL AND GAS DISCLOSURE

This is the form referred to in item 3 of section 2.1 of National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* (“NI 51-101”)

1. Terms to which a meaning is ascribed in NI 51-101 have the same meaning in this form;
2. The report referred to item 3 of section 2.1 of NI 51-101 shall in all material respects be as follows:

Report of Management and Directors on Reserves Data and Other Information

The management of Kulczyk Oil Ventures Inc. (the "**Company**") are responsible for the preparation and disclosure of information with respect to the Company’s oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2011, the end of the most recently completed fiscal year, estimated using forecast prices and costs.

The Company commissioned an independent qualified reserves evaluator (RPS Energy) to evaluate the Company’s reserves data and has filed the 51-101 F2 letter from RPS Energy together with the Form 51-101 F1 Statement of Reserves Data.

The board of directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management of the Company. The board of directors has, approved

(a) the content and filing with securities regulatory authorities of Form 51-101 F1 containing information detailing the Company's oil and gas activities;

(b) the content and filing with securities regulatory authorities of Form 51-101 F2 which is the report of the independent qualified reserves evaluator on reserves data; and

(c) the content and filing of this report.

(signed by: Timothy M. Elliott)	*(signed by: Norman W. Holton*
Timothy M. Elliott President & Chief Executive Officer	Norman W. Holton Director & Vice Chairman
(signed by: Helmut J. Langanger	*(signed by: Michael A. McVea*
Helmut J. Langanger Director & Chair of Reserves Committee	Michael A. McVea Director & Member of Reserves Committee

March 29, 2012

KULCZYK OIL VENTURES

RESERVE EVALUATION COMMITTEE

TERMS OF REFERENCE

Adopted by the Board of Directors on December 21, 2006 and amended November 12, 2009

<u>COMPOSITION, PROCEDURES AND ORGANIZATION</u>

1. The Reserve Evaluation Committee (the "**Committee**") of Kulczyk Oil Ventures Inc. (the "**Corporation**") shall consist of not less than three members of the Board of Directors of the Corporation (the "**Board**"), the majority of whom shall satisfy the requirements of National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("**NI 51-101**") and, in addition, be "independent" within the meaning of National Instrument 52-110 *Audit Committees* ("**NI 52-110**") (collectively, "**Independent**").

2. The Board, at its organizational meeting held in conjunction with each annual general meeting of the shareholders of the Corporation, shall appoint the members of the Committee for the ensuing year. If the Board shall fail to do so, persons who were members of the Committee immediately preceding the most recent annual meeting of shareholders of the Corporation, provided they continue to be directors of the Corporation and remain qualified to serve on the Committee, shall be deemed to be reappointed to the Committee. The Board may at any time remove or replace any member of the Committee and may fill any vacancy in the Committee.

<u>CHAIR</u>

3. Unless the Board shall have appointed a chair of the Committee, the members of the Committee shall elect a chair (the "**Chair**") from amongst their number.

4. The Chair shall be Independent.

5. The Chair will provide leadership to the Committee and will lead the Committee in fulfilling the duties set out in its mandate.

6. The Chair's duties will be to:

   (a) provide overall leadership to enhance the effectiveness of the Committee;

   (b) take all reasonable steps to ensure that the responsibility and duties of the Committee, as outlined in its mandate, are well understood by Committee members and executed as effectively as possible;

   (c) foster ethical and responsible decision making by the Committee and its individual members;

(d) provide effective Committee leadership, overseeing all aspects of the Committee's direction and administration in fulfilling the terms of its mandate;

(e) oversee the structure, composition, membership and activities delegated to the Committee;

(f) establish the agenda for each Committee meeting;

(g) chair all meetings of the Committee, including closed sessions and "*in camera*" sessions; provided, however, that if the Chair is not present at a meeting, the Committee members present will choose an Independent Committee member to chair the meeting;

(h) encourage Committee members to ask questions and express viewpoints during meetings;

(i) deal effectively with dissent and work constructively towards arriving at decisions and achieving consensus;

(j) ensure that the Committee meets in separate, regularly scheduled, non-management, "*in camera*" sessions;

(k) ensure that the Committee meets in separate, non-management, closed sessions with internal personnel or outside advisors, as needed or appropriate;

(l) ensure that the Committee meets in separate, regularly scheduled, non-management, "*in camera*" sessions;

(m) report to the Audit Committee of the Corporation, as required, on the activities, findings and any recommendations of the Committee;

(n) following each meeting of the Committee, report to the Board on the activities and any recommendations of the Committee;

(o) ensure that Committee materials are available to any director of the Corporation on request;

(p) take all reasonable steps to ensure that Committee members receive written information and are exposed to presentations from management to fulfill the Committee mandate;

(q) ensure that a performance evaluation of the Committee and the Chair is conducted, soliciting input from all Committee members, other directors and appropriate members of management;

(r) retain, oversee, compensate and terminate independent advisors to assist the Committee in its activities; and

(s) carry out any other appropriate duties and responsibilities assigned by the Board or delegated by the Committee.

MEETINGS OF THE COMMITTEE

7. The Committee shall meet annually prior to the approval by the Board of the Corporation's annual financial statements and the reports and statements referred to in section 2.1 of NI 51-101 and, thereafter, as may be directed by the Board or, upon their own volition, as circumstances may warrant.

8. The Chair shall appoint a secretary for each meeting to keep minutes of such meeting. The minutes of the Committee will be in writing and duly entered into the books of the Corporation and shall be available to all members of the Board.

9. The quorum for meetings shall be a majority of the members of the Committee, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak to and to hear each other.

10. The Committee may have access to, and direct contact with, any employee, contractor, supplier, customer or other person that is engaged in any business relationship with the Corporation, to confirm information or to investigate any matter within its mandate.

11. Notices calling meetings shall be sent to all Committee members, to the Chief Executive Officer, to the Chairman, Vice Chairman and to all other directors.

REPORTING

12. The Committee shall provide the Board with a summary of all meetings and of its recommendations, together with a copy of the minutes of such meeting for insertion into the minute book of the Corporation. Where minutes have not yet been published, the Chair shall provide the Board with oral reports as requested

13. All information reviewed and discussed by the Committee at any meeting shall be retained and made available for examination by the Board upon request to the Chair.

COMMITTEE RESPONSIBILITIES

14. The Committee shall have the general responsibility of overseeing the evaluation of the Corporation's petroleum and natural gas reserves, including retaining an "independent" (as such term is defined in NI 51-101) engineering firm (the "**Engineering Firm**") which is a "qualified reserve evaluator" (as such term is defined in NI 51-101) to prepare a report (the "**Report**") of an evaluation of the Corporation's petroleum and natural gas reserves, including all information required by Form 51-101F1 and Form 51-101F2 under NI 51-101, all in compliance with NI 51-101, and of meeting with representatives of the Engineering Firm and management to discuss the Report's preparation and the conclusions contained in the Report.

General Responsibilities

15. The Committee's general responsibilities shall be:

(a) to discuss and review with management the selection of the Engineering Firm that is qualified to prepare a report of an evaluation of the Corporation's petroleum and natural gas reserves;

(b) to consider and review with management any change of the Engineering Firm;

(c) to receive the Report and consider the principal assumptions upon which it is based;

(d) to consider and review the Corporation's input into the Report and the key assumptions used therein;

(e) to present a report (the "**Committee Report**") to the Board of the results of such review and to recommend whether the Report should be accepted by the Board; and

(f) consider review and report to the Board in respect of the scope of the annual review of the Engineering Firm.

Specific Responsibilities

16. Prior to presenting the Committee Report to the Board, the Committee shall:

(a) review the Corporation's procedures relating to the disclosure of information with respect to “oil and gas activities” (as defined in NI 51-101), including its procedures for complying with the disclosure requirements and restrictions of applicable securities laws;

(b) review the appointment of the Engineering Firm and, in the case of any proposed change in such appointment, determine the reasons for the proposal and whether there have been disputes between the Engineering Firm and management;

(c) review the Corporation's procedures for providing information to the Engineering Firm;

(d) meet with management and the Engineering Firm to:

(i) determine whether any restrictions affect the ability of the Engineering Firm to report on “reserves data” (as defined in NI 51-101) “without reservation” (as defined in NI 51-101); and

(ii) review the “reserves data” and the Report;

(e) review those items set out in section 3.4(e) of NI 51-101 and make a recommendation to the Board as to whether to approve the content and filing of the statements and reports referred to in section 3.4(e) of NI 51-101;

(f) hold an *in camera* meeting with representatives of the Engineering Firm to discuss the Report, including the following:

(i) the scope of the Engineering Firm's engagement by the Corporation and, in particular, any restrictions or “reservations” (as defined in NI 51-101) thereon;

(ii) the details of any relationship which the Engineering Firm has with the Corporation that may affect or might be viewed as affecting its independence;

(iii) the process followed by the Engineering Firm in conducting its reserve analysis;

(iv) the sources of information for the Report;

(v) whether the Engineering Firm has any reason to think that any of the information provided to it was not accurate or correct;

(vi) whether the Engineering Firm had access to all information it thought relevant to complete its engagement and ensure satisfaction of NI 51-101;

(vii) discussion of the price and cost forecasts used in the Report and whether the assumptions used are still current;

(viii) discussion of the assumptions made regarding oil and gas marketing and whether the Engineering Firm still considers these assumptions to be reasonable;

(ix) discussion of the reserve additions and reserve revisions which occurred from the previous report of Corporation's reserves to that of the Report and the reasons for such revisions;

(x) consideration of operating costs, working interests, royalty burdens, required capital expenditures and timing, recovery rates and decline rates;

(xi) whether the Engineering Firm considered it necessary to carry out any on-site inspections as part of its reserve analysis; and

(xii) what levels of oil and gas production were assumed in the Report and whether the Engineering Firm had access to information since the date of the Report which allows it to confirm or disaffirm the production profiles and other aspects of the Report since the date of the Report.

(g) in reviewing the Report, meeting with representatives of the Engineering Firm and presenting the Committee Report to the Board, the Committee shall be entitled to retain, and rely upon, the advice of outside experts; and

(h) the Committee may do such other things within the scope of its responsibilities as it may, in its discretion, deem appropriate.

Periodic Responsibilities

17. The Committee shall review and approve all material change reports and related press releases for compliance with NI 51-101.

18. The Committee shall review and pre-approve all disclosure proposed to be made by and on behalf of the Corporation:

(a) to the public;

(b) in any document filed with a securities regulatory authority; or

(c) in other circumstances in which, at the time of making the disclosure, the Corporation knows, or ought reasonably to know, that the disclosure is or will become available to the public,

with respect to its compliance with NI 51-101.

19. When directed by the Board, the Committee shall:

(a) review the procedures relating to disclosure of information with respect to the Corporation's oil and gas activities, including the Corporation's procedures for complying with the disclosure requirements and restrictions of NI 51-101;

(b) review the procedures of the Corporation for providing information to “qualified reserves evaluators” and “qualified reserve auditors” (as such terms are defined in NI 51-101); and

(c) to have and carry out the same responsibilities as described above under “Specific Responsibilities” for any evaluation required or requested by management or the Board that is not a year end evaluation.

(d) On an annual basis, the Committee shall review and assess the adequacy of these terms of reference and submit to the Board such amendments as the Committee considers appropriate.