KULCZYK
OIL VENTURES

ANNUAL INFORMATION FORM
FOR THE YEAR ENDED DECEMBER 31, 2012

April 1, 2013

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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, 2012 unless otherwise specifically stated.

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

"**AED SEA**" means AED Southeast Asia Limited, a company existing under the laws of Cyprus, which is a wholly-owned subsidiary of KOV Cyprus;

"**AED SEA Acquisition**" means the acquisition by KOV Cyprus of all of the issued and outstanding shares of AED SEA effective December 5, 2011;

"**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 9 JOA**" means the Joint Operating Agreement dated September 1, 2010 in respect of Syria Block 9 among Loon Latakia, MENA Syria and Ninox;

"**Block L Operating Agreement**" means the operating agreement in respect of Block L dated August 28, 2006 among Kulczyk Oil Brunei and QAF;

"**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 in Brunei as set forth in the Brunei Block L 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 that were subject to the Brunei Block M PSA;

"**Brunei Block M PSA**" means the production sharing agreement for Brunei Block M which expired in August, 2012;

"**COGE Handbook**" means the Canadian Oil and Gas Evaluation Handbook;

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

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

"**Cub Energy**" means Cub Energy Inc. (formerly 3P Energy International Energy Corp.), a public company listed on the TSX-V;

"**EBRD**" means the European Bank for Reconstruction and Development;

"**EBRD Loan Facility**" means the $40.0 million loan facility provided by the EBRD to KUB-Gas;

“**Gastek**” means Gastek LLC, a private California company, which is a 30% shareholder of KUBGAS Holdings, and which is wholly-owned by Cub Energy;

“**GPC**” means General Petroleum Corporation, successor to the 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 formerly issued by the Company to KI;

“**KI Loan**” means the $12.0 million in debt funding provided by KI to KOV pursuant to the KI Loan Agreement;

“**KI Loan Agreement**” means the amended and restated loan agreement dated December 11, 2012 pursuant to which KI provided the KI Loan to KOV;

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

“**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, which is 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, which in turn owns 100% of KUB-Gas;

“**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, is a public company listed on the TSX-V, which 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;

“**MENA**” means MENA Hydrocarbons Inc., a public company listed on the TSX-V;

“**MENA Syria**” means MENA Hydrocarbons (Syria) Inc., a subsidiary of MENA;

“**Naftogaz**” means National Joint Stock Company Naftogaz of Ukraine, a state-owned company under the Ministry of Fuel and Energy of Ukraine;

“**Neconde**” means Neconde Energy Limited, a Nigerian exploration and development consortium company;

“**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;

“**OML 42**” means Oil Mining Licence 42, a block of hydrocarbon fields in the Niger Delta area of Nigeria;

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

“**Radwan**” means Radwan Investments GmBH, a private Austrian company;

“**RPS**” means RPS Energy, an engineering consulting company;

“**RPS Brunei Block L Report**” means the report of RPS effective July 31, 2012 and dated **September 1**, 2012 on their evaluation of the resource potential of Brunei Block L;

“**RPS Reports**” means, collectively, the RPS Brunei Block L Report, RPS Syria Block 9 Report, and the RPS Ukraine Report;

“**RPS Syria Block 9 Report**” means the report of RPS effective July 31, 2012 and dated September 1, 2012 on their evaluation of the resource potential of Syria Block 9;

“**RPS Ukraine Report**” means the report of RPS effective December 31, 2012 and dated March 20, 2013 on their evaluation of the reserves and the resource potential of KUB-Gas;

“**SHA**” means the shareholder’s agreement dated November 10, 2009, as amended, 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 Syria 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 Licences, and certain other property, plant and equipment described in the section "*Principal Oil and Gas Assets - Ukraine*";

"**Ukraine Licences**" or "**KUB-Gas Licences**" means the exploration and production special permits in five licence areas owned by KUB-Gas in Ukraine in the Makeevskoye, Olgovskoye, Krutogorovskoye, Vergunskoye and North Makeevskoye areas; and

"**WSE**" means the 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
MMboe	million boe		
NGL	natural gas liquids	Mcfe	thousand cubic feet equivalent
MMBtu	million British thermal units	kPa	kilopascals, a measurement of pressure
Stb	standard stock tank barrel	psi	pounds per square inch, a measurement of pressure
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 ("**Mcfe**"). However, BOEs or Mcfes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf:1 bbl, or an Mcfe conversion ratio of 1 bbl:6 Mcf, is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

CONVERSIONS

To Convert From	To	Multiply By
feet	metres	0.305
metres	feet	3.281
miles	kilometres	1.609
kilometres	mles	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
psi	kilopascals	6.895
kilopascals	psi	0.145

CURRENCY PRESENTATION AND EXCHANGE RATE DATA

Unless otherwise indicated, references herein to "$", "US$", "U.S. dollars" 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 (www.bankofcanada.ca)	**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)
2010:			
Year-end	1.0544	2.9641	7.9617
Average	1.0299	3.0179	7.9433
Annual high	1.0077	2.7449	7.8861
Annual low	1.0544	3.4916	8.0100
2011:			
Year-end	1.0054	2.9641	7.9617
Average	1.0054	3.0157	7.9356
Annual high	0.9390	2.8518	7.8903
Annual low	1.0301	3.3571	8.0003
2012:			
Year-end	1.0051	3.0996	7.9930
Average	0.9996	3.2581	7.9911
Annual high	0.9599	3.5777	7.9840
Annual low	1.0299	3.0690	7.9930

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 and testing of wells;
- productive capacity of wells, anticipated or expected production rates and anticipated dates of commencement of production;
- the Company's intention to conduct additional reservoir stimulation programmes using hydraulic fracturing technology and implement a compression strategy in Ukraine;
- 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;
- transportation arrangements and markets for oil and/or gas produced from the Company's licence areas;
- 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;
- risks associated with the realization of the anticipated benefits of acquisitions and dispositions;
- the available of certain equipment and services and the Company's access to such equipment and services;
- political, social, fiscal, legal and economic risks 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 regulations (including environmental regulation) and changes in regulatory regimes (including recent developments relating to the Ukrainian land use registration system) in the countries in which the Company operates;
- the effects of sanctions, including those of the European Union, the Canadian government and the U.S. government on the Company's interests in Syria;
- risks of the effect of relinquishment obligations under the term of the Company's production sharing arrangements and governmental regulatory regimes in countries in which the Company operates;
- 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

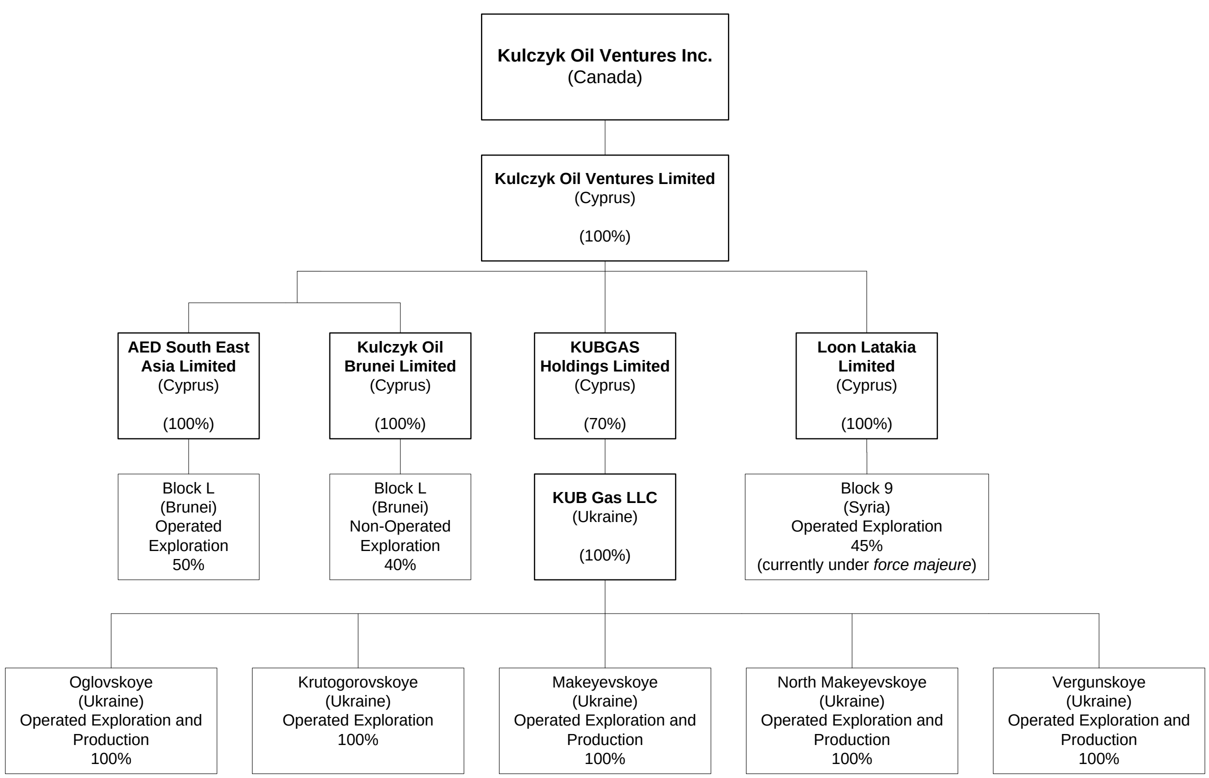
The Company was incorporated pursuant to the provisions of the ABCA on March 16, 1987 as Titan Diversified Holdings Ltd., a public investment company listed on the Alberta Stock Exchange, a predecessor to the TSX-V. On August 18, 1997, the name of the Company was changed to Loon Energy Inc. In December 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 the shareholders of the Company with protection against the dilution of their shareholdings in the Company by requiring majority shareholder approval for certain types of private placements by the Company, and to 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, three material indirect wholly-owned subsidiaries, Kulczyk Oil Brunei, Loon Latakia and AED SEA, and one indirect 70% owned subsidiary, KUBGAS Holdings, which in turn owns 100% of the shares of KUB-Gas.

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, 2012.

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 until 2001, at which time the Company changed its focus to international oil and gas assets. In 2006, it entered into the Brunei Block L PSA and in 2007, it entered into 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 late 2008, the Company made a strategic decision to focus its future efforts on the exploration for and development of oil and gas in Asia and Europe and enhance overall shareholder value through a series of corporate transactions with the ultimate goal of listing the Common Shares on the WSE. In December 2008, following the completion of the Arrangement, the Common Shares 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. As part of the implementation of the Arrangement, Dr. Jan Kulczyk and Mr. Dariusz Mioduski of KI joined the Board of Directors, with Dr. Kulczyk being appointed as Chairman of the Board of Directors, a position he held until he retired from the Board of Directors effective May 12, 2012. Mr. Manoj Madnani of KI continued as a director of the Company. The Company continues to be a reporting issuer in the Provinces of Alberta, British Columbia and Ontario in Canada.

KI Debenture

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. The KI Debenture was amended in November 2009 to increase the amount of the funding available to $11.0 million, and again in January 2010 to increase the amount of the funding available to $20.0 million, in each case with all other terms and conditions remaining unchanged.

On May 25, 2010, the first day the Common Shares traded on the WSE, the Company had drawn $20.0 million under the terms of the KI Debenture, and 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.

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 the closing of the Triton Acquisition, 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 principal asset of Triton was a 36% working interest in the Brunei Block M PSA. In August 2012, the exploration phase of the Brunei Block M PSA expired.

As part of the completion of the Triton Acquisition, the Company issued the TIG Convertible Debenture, a secured subordinated convertible debenture in the amount of $10.01 million, to TIG which was convertible into Common Shares at $0.5767 per Common Share, to replace a convertible note that TIG had held as a creditor of Triton. On August 1, 2011, TIG sold the TIG Convertible Debenture to a subsidiary of Milet Wirschaftsdeaten GesmbH ("**MWG**"), an unrelated third party, for the face value of $10.1 million plus accrued interest. On August 12, 2011, MWG converted the TIG Convertible Debenture into 18,501,037 Common Shares at $0.5767 per Common Share. For further information, please see "*Interest of Management and Others in Material Transactions – TIG Notes and TIG Convertible Debenture"*.

On closing, the Triton shareholders also received an aggregate of 13,670,723 Series A Preferred Shares of the Company, which were redeemed and cancelled by the Company and 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. Triton Singapore is a private company registered in Singapore which was formerly managed by the former executive officers of Triton.

In 2011, Ninox Energy Pte Ltd ("**Ninox**"), a privately held Australian company managed by one of the former executive officers of Triton, acquired 100% of the share capital of Triton Singapore in a share exchange transaction and, after this transaction and certain other share issuances by Ninox, the Company now owns an approximate 1.61% interest in Ninox.

KUB-Gas

On November 10, 2009, the Company, through its subsidiaries KOV Cyprus and KUBGAS Holdings, entered into two 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 licences near the City of Lugansk in the northeast part of Ukraine as well as certain well servicing assets.

Through a series of steps which were completed in June 2010 following the payment by the Company of the balance of the purchase price, less certain closing adjustments, shortly after the completion of its initial public offering in Poland, KOV Cyprus now holds 70% of the ordinary issued equity of KUBGAS Holdings, with Cub Energy (which acquired Gastek in 2012) 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 licence in the same area as its other four licences, bringing the number of licences held by KUB-Gas to five. Four of the five licences currently produce natural gas and condensate. Three of the four producing licences are production licences, with two of these licences having been converted from exploration licences to production licences in February 2012 and April 2012. The other two licences are exploration licences, with one of these producing limited production volumes on a test basis. 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 Agreements – Shareholders' Agreement"*.

The reserves and certain resources of KUB-Gas have been evaluated in the RPS Ukraine Report. For further information please see *"Statement of Reserves Data and Other Oil and Gas Information".*

Initial Public Offering in Poland

In May 2010, the Company completed an initial public offering of 166,394,000 Common Shares in Poland, all of which were admitted for trading on the WSE under the symbol “KOV”. The 166,394,000 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), and began trading on the WSE on May 25, 2010.

Nigeria Option

On May 6, 2011, the Company announced that it had been granted an option to acquire a 20% shareholding in Neconde Energy Limited (“**Neconde**”), a Nigerian consortium company which on November 30, 2011 completed the acquisition of 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 for a purchase price of $585.0 million. The remaining 55% participating interest in OML 42 is held by the Nigerian National Petroleum Company. KI, the major shareholder of the Company, had provided the Company with bridge financing in respect of the Company's share of the Neconde acquisition costs of OML 42. 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 and the ownership of the 20% interest in Neconde transferred to KI.

EBRD Loan Facility

In May 2011, KUB-Gas finalized an agreement for a loan facility of up to $40.0 million (the “**EBRD Loan Facility**”) from the European Bank for Reconstruction and Development (“**EBRD**”). The proceeds of the EBRD Loan Facility are to be used to fund development of the Ukraine Licences. The EBRD Loan Facility bears interest at variable rates, to a maximum annual rate of 19.0%. The loan proceeds from the EBRD Loan Facility are to be advanced in two tranches, with a first $23.0 million tranche being advanced in 2011 and the remaining $17.0 million tranche presently remaining undrawn, but available to KOV beginning in 2012 when the Olgovskoye and Makeevskoye licences were converted to production licences. KOV, as the indirect majority owner of KUB-Gas, has provided a guarantee for the entire amount of the EBRD Loan Facility outstanding from time to time. The EBRD Loan Facility balance outstanding is to be repaid in thirteen equal semi-annual payments, which commenced in July 2012 with a repayment in the amount of $1.8 million. As at December 31, 2012, the entire first tranche in the amount of $23.0 million had been drawn. On January 8, 2013, the Company announced that a $10.0 million prepayment had been made under the EBRD Loan Facility, and, with the regularly scheduled repayment on January 15, 2013 in the amount of $1.8 million, the principal balance outstanding of the EBRD Loan Facility after that time was $9.5 million.

KI/Radwan Debentures

On August 11, 2011, the Company entered into new, unsecured convertible debenture agreements with KI and Radwan (the “**KI/Radwan Debentures**”). The total amount available under the KI/Radwan Debentures was $23.5 million, bearing interest at a rate of 8.0% per annum, payable annually. The KI/Radwan Debentures also included a provision for an implied additional 12.0% in interest to be paid in KOV shares upon conversion. Notices of conversion were received by the Company prior to the maturity date of the KI/Radwan Debentures of August 11, 2012, and shortly thereafter, the full amount of $23.5 million principal and all accrued interest outstanding under the KI/Radwan Debentures were converted to Common Shares at a price of approximately $0.43 per Common Share, resulting in an aggregate of 60,499,029 Common Shares being issued to KI and Radwan on August 14, 2012.

AED SEA Acquisition

Pursuant to a sales and purchase agreement dated December 5, 2011, KOV Cyprus acquired all of the issued and outstanding shares 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 (Receivers and Administrators appointed), an Australian public company, for $200,000, plus the assumption of AED

SEA's unpaid obligations to the joint venture. AED SEA's sole asset is a 50% working interest in the Brunei Block L PSA, which provides it the right to explore for and, if the parties to the Brunei Block L PSA establish that the discovery is capable of commercial exploitation and PetroleumBRUNEI approves the development plan, produce oil and gas from Brunei Block L, an exploration and development block covering certain onshore and offshore areas of Brunei. As a result of the AED SEA Acquisition, the Company now holds an aggregate 90% interest in Brunei Block L, and is, through its indirectly wholly-owned subsidiary AED SEA, also the operator of Brunei Block L. The Company, through the joint venture, was successful in obtaining an extension of the licence term to August 27, 2013 as well as revising the work commitments to correspond with the current work plan.

KI Loan

On June 22, 2012, the Company finalized an arrangement with KI for the provision of up to $12.0 million in funding to KOV (the "**KI Loan**") to fund KOV's ongoing working capital requirements. KI agreed to provide funding by way of a loan to KOV for the principal amount of up to $12.0 million. Interest is payable at a rate of 15.0% per annum, and KOV may at any time prepay the loan in whole or in part.

On December 11, 2012, the Company and KI entered into an amended and restated loan agreement (the "**KI Loan Agreement**") to, among other things, extend the term of the loan by one year from December 31, 2012 to December 31, 2013, and to make amounts owing under the loan convertible into Common Shares. The KI Loan Agreement provides that KOV shall use its commercially reasonable efforts to complete an IPO by no later than December 31, 2013. For the purposes of the KI Loan Agreement, an "IPO" is defined as: (a) the initial public offering or the admission to trading of the Common Shares on the AIM Market of the London Stock Exchange; (b) the acquisition of KOV by an entity listed on a recognized stock exchange for securities of such entity; (c) the acquisition of an entity listed on a recognized stock exchange by KOV for securities of KOV; or (d) any other transaction or arrangement which results in KOV being listed, directly or indirectly, on a recognized stock exchange other than the WSE. In the event of an IPO, the KI Loan Agreement provides for the automatic conversion of the outstanding principal amount under the KI Loan, together with all accrued and unpaid interest thereon and any other fees or costs payable by KOV to KI in connection with the KI Loan, if any. If Common Shares are issued by KOV in connection with the IPO, the conversion price for the KI Loan will be either the offer price per Common Share in the IPO or the issue price per Common Share in the IPO. If no Common Shares are issued by KOV in connection with the IPO, the conversion price for the KI Loan will be either the volume weighted average price of a Common Share on the WSE during the five trading days prior to and excluding the date of the IPO or the exchange ratio per Common Share in the IPO. Under the terms of the KI Loan Agreement, interest, payable monthly, remains unchanged at 15.0% per annum.

As at December 31, 2012, the Company had drawn $10.0 million under the terms of the KI Loan. As of the date of this AIF, KI held 240,807,193 Common Shares, representing 49.99% of the total number of Common Shares outstanding. According to the early warning report filed by KI on SEDAR on December 19, 2012, KI and Radwan at that time collectively held an aggregate of 267,435,553 Common Shares representing approximately 55.52% of the total number of Common Shares outstanding. Radwan may, in certain circumstances, be considered to be a joint actor to KI for the purposes of Canadian securities law.

2013 ACTIVITY

For 2013, the Company will continue to focus on enhancing production and revenues from its existing properties in Ukraine, operating the drilling of two wells on Brunei Block L, and expanding its portfolio through the evaluation of new opportunities for investment.

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 Brunei Assets and the Syria 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 Brunei, and expanding its portfolio through the evaluation of new opportunities for investment. The Company's exploration activities in Syria are currently suspended due to the prevailing political crisis in the country.

The Ukraine Assets provide the Company with ongoing revenues from gas and condensate production and the Company's expertise has contributed to a steady increase in production volumes during 2012 as a result of both surface and sub-surface optimisation and discovery of new reserves. In February 2012, the Ukrainian Ministry of Fuel and Energy formally acknowledged the conversion of the Olgovskye licences from an exploration licence to a 20-year production licence, and the conversion of the Makeevskoye licence from an exploration licence to a production licence was completed in April 2012. The Ukraine Assets are operated by KUB-Gas, a wholly-owned subsidiary of KUBGAS Holdings, which is an indirect 70% owned subsidiary of the Company.

The following table sets forth a summary of the Company's revenues from gas and condensate production from the Ukraine Assets.

	2012		**2011**	
	Total for Company (000's)	Total: Ukraine (to Customers outside of the Company's consolidated group)	Total for Company (000's)	Total: Ukraine (to Customers outside of the Company's consolidated group)
Natural Gas Sales	$92,420	100%	$32,084	100%
Natural Gas Liquid Sales	$7,168	100%	$3,143	100%
Total Consolidated Revenue	$99,588	100%	$35,227	100%

In Brunei, exploration work on Brunei Block L is conducted by the Company's subsidiaries, AED SEA and Kulczyk Oil Brunei, through a joint venture with another local company. AED SEA is the designated operator of the joint venture with the work program calling for the drilling of two wells on Brunei Block L in 2013. The first well in the 2013 drilling program is expected to commence drilling in April 2013.

Exploration work in Syria, which has been conducted by the Company's subsidiary, Loon Latakia, remains suspended as at the date of this AIF. The first exploration well was spud on Syria Block 9 in July 2011 and was suspended without reaching total depth in October 2011. Effective July 16, 2012, the Company, in its capacity as operator of Syria Block 9, declared a *force majeure* event due to difficult operating conditions and restrictions on the movement of funds both into and within the country, which together resulted in circumstances under which it was impossible for the Company to meet its obligations under the Syria Block 9 PSC. The Company continues to monitor operating conditions in Syria to assess when a recommencement of its Syrian operations may become possible.

In the event that oil or natural gas is discovered by one or more of the wells drilled by the Company or its joint venture partners on the Brunei Assets, and on the Syria Assets at such time the *force majeure* conditions are resolved and the Company recommences exploration activities on the Syria Assets, and they determine that the discovered reserves are capable of commercial exploitation, they will submit a development plan as required under the terms of the Brunei Block L PSA or the Syria Block 9 PSC. After agreement with PetroleumBRUNEI, in the case of Brunei, and the GPC, in the case of Syria, 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.

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 Company's management 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.

Specialized Skill and Knowledge

The Company's management team has overall expertise in all professional disciplines impacting international oil and gas projects and, collectively, has over 218 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. The management team's specialized skills and knowledge include:

- 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, the application of modern technology to legacy assets and arranging appropriate financing to fund the necessary capital commitments;

- experience in the Americas, Europe, the Middle East, Southeast Asia and Africa and extensive global contacts in the oil and gas business, which can be utilized to exploit existing assets and develop new opportunities for growth effectively;

- strong deal-making capability leading to seamless transaction execution from initial scoping of deal through to due diligence and finalization of contracts; and

- highly effective evaluation of opportunities, ensuring the optimisation and acceleration of development and production plans and an efficient use of personnel and financial and technical resources.

The management of KOV believes that the experience of its international management team, combined with its effective evaluation of opportunities, 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 maximize the future revenues of the Company and help mitigate the risks inherent in oil and gas exploration and development.

In particular, KOV's reserves, production and operating cash flow platform in Ukraine balance its development, appraisal and exploration opportunities. Since acquiring the Ukraine Assets in June 2010, gross production has increased from 5.0 MMcfd to 25.3 MMcfd in December 2012 and net operating cash flow increased from $3.7 million for the month of June 2010 to $6.8 million for the month of December 2012. The Company continues to develop its Ukraine production base with additional development drilling and well stimulations, as well as planning the drilling of higher potential impact exploratory wells in Ukraine and Brunei, which offer significant potential upsides.

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

High Quality Deal Flow

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

The management of KOV believes that forming alliances with local and industry partners is an essential part of the sourcing and securing of new opportunities, through benefiting from such partners' local market knowledge and relationships, and helps mitigate the inherent operational risks associated with the exploration and development of gas and oil assets. Retention by local partners of equity in assets adds further comfort and mutual alignment in business development. In turn, local companies benefit from the technical expertise and business experience of the KOV team.

KOV has a strong track record of partnering with local companies in each of the countries in which it operates, and management believes that continuing to partner with local companies will help ensure continued success in bidding for and winning new assets.

Flexible Financing Structure

The management of KOV seek to ensure an optimal mix of financing to fund the Company's operations, particularly its capital commitment obligations. The Company's principal sources of funding have been, and will likely continue to be, equity, debt, and farm-out arrangements. As at December 31, 2012, the Company had total borrowings of $31.445 million, of which $21.445 million was with the EBRD pursuant to the EBRD Loan Facility, and the remaining $10.0 million being the amount outstanding under the KI

Loan. The Company currently has farm-out arrangements in place in respect of certain interests held by the Company in Syria Block 9.

Leverage Expertise

KOV will continue to utilize 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 Brunei, wet weather makes certain parts of the Company's lands inaccessible for drilling or seismic operations during certain parts of the year. In Syria, sandstorms can cause disruption in field operations as can cold weather in the winter months.

Employees

As at December 31, 2012, the Company had 31 direct employees in its offices in Calgary (18), Dubai (2), Warsaw (3) and Brunei (8), with an additional 412 staff employed directly by KUB-Gas in Ukraine. KOV operates indirectly in Ukraine through its indirect 70% owned subsidiary KUB-Gas. As at December 31, 2012, the Company's operations on the Syrian Assets remained suspended. However, two employees remain on Loon Latakia's payroll. Prior to the suspension of the project and the declaration of *force majeure* under the Syria Block 9 PSC, KOV (through its indirectly wholly-owned subsidiary Loon Latakia) operated directly as operator of the Syrian Assets. In Brunei, KOV is the operator of Block L (through its indirectly wholly-owned subsidiary AED SEA).

PRINCIPAL OIL AND GAS ASSETS

This section of the AIF 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, Brunei Block L and Syria Block 9 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 COGE 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, Brunei Block L and Syria Block 9 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

In Ukraine, the Company has an indirect 70% shareholding in KUBGAS Holdings, a private Ukrainian company, which owns 100% of the share capital of KUB-Gas, one of the largest private gas producers in Ukraine, selling gas domestically to both gas traders and industrial consumers. KUB-Gas holds a 100% interest in the Ukraine Licences, as well as a drilling rig, a specialized workover rig and other well servicing assets, as well as over 20 kilometres of main gas pipelines connected to the Ukrainian gas transportation infrastructure. The remaining 30% shareholding in KUBGAS Holdings is held by Gastek. On March 29, 2012, Gastek was acquired by Cub Energy, a public oil and gas company listed in Canada on the TSX-V. The relationship between KOV (through KOV Cyrus) and Gastek is governed by the SHA, the material terms of which are described below in “*Principal Oil and Gas Assets – Ukraine – Material Agreements – Shareholders’ Agreement”.*

All five of the Ukraine Licences held by KUB-Gas (Vergunskoye, Olgovskoye, Krutogorovskoye, Makeevskoye and North Makeevskoye) are located in the Lugansk, Donetsk and Kharkov oblasts in the northeast part of Ukraine and relate to areas situated in the Dnieper-Donetsk basin, an elongated basin of northwest to southeast orientation that is comparable in size and geology to the North Sea central rift. KUB-Gas must hold these licences in order to conduct its current natural gas and condensate producing operations in Ukraine.

KOV acquired its indirect 70% shareholding in KUB-Gas in June 2010 and in July 2010, the first full production month following the acquisition, KUB-Gas’ production from its four producing licence areas amounted to 4.877 MMcfd of natural gas (3.414 MMcfd net to KOV). Production during the month of February 2013, the most recent month for which data is available as at the date of this AIF, from the four producing licence areas was 25.8 MMcfd of natural gas (18.1 MMcfd net to KOV) and 205 bbl/d condensate (143 bbl/d net to KOV).

At the time of the acquisition of KUB-Gas, KUB-Gas held one 20-year production licence (Vergunskoye) and three exploration licences (Olgovskoye, Makeevskoye and Krutogorovskoye). The Vergunskoye exploration licence, which had been on production since the 1970’s, had been converted to a 20-year production special permit in 2009. The Olgovskoye exploration licence was converted to a 20-year production special permit in February 2012, and the Makeevskoye special permit was converted to a 20-year production special permit in April 2012. Management has applied for regulatory approval to, and expects that the Company will be able to, convert the remaining Krutogorovskoye exploration special permit into a 20-year production special permit.

KUB-Gas was awarded an additional exploration licence (North Makeevskoye) in December 2010. The North Makeevskoye licence area is 19,000 hectares (47,000 acres) in size and is adjacent to the Makeevskoye and Olgovskoye licences. The Board of Directors believe that the North Makeevskoye licence is prospective for gas production from multiple zones within the Moscovian, Bashkirian and Serpukhovian sedimentary sections. A 71 km^2 seismic programme over this licence area was completed in the second quarter of 2011, and in June 2012 a second 3D seismic survey programme was completed over this licence area under which 225 km^2 of 3D seismic survey data was acquired. Interpretation of the North Makeevskoye 3D seismic survey identified five additional structural prospects, the first of which was evaluated by the drilling of a gas discovery well at North Makeevskoye 2 (“**NM-2**”), which was abandoned in February 2013 after being drilled to a depth of 3,150 metres after wireline logs and other information obtained during the drilling operation did not indicate any prospective zones.

Each of the four producing licence areas (Vergunskoye, Olgovskoye, Krutogorovskoye, and Makeevskoye) has its own pipelines connecting each producing well to a central processing facility within each licence area where the gas is separated from the water and condensate and other impurities and treated. From the central processing facility, the gas is transported by pipeline and delivered to the national pipeline infrastructure. The majority of the gas is sold to wholesalers (gas traders) within the price cap set by the National Electricity Regulatory Commission of Ukraine ("**NERCU**") by reference to the Russian import gas price. The actual prices agreed between KUB-Gas and its customers are reviewed monthly by NERCU to ensure compliance with the price cap and prices vary from month to month based on market conditions. A small portion of the gas is sold directly to end consumers.

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. Investments into geological exploration and prospecting since independence have 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.

Naftogaz 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. Naftogaz 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, Iskander Energy Corporation, Shelton Petroleum AB and Cadogan Petroleum plc. In January 2013, Royal Dutch Shell PLC announced that it had signed a 50-year profit sharing deal with the government of Ukraine to explore and drill for natural gas in shale rock formations in the eastern part of the country. A number of private Ukrainian oil and gas companies, including KUB-Gas, are also active in the country.

The domestic gas price within Ukraine is set by NERCU by reference to the Russian imported gas price. Natural gas prices in Ukraine increased significantly in 2012 compared to 2011 and to 2010 as a result of changes in prices charged by Russia at the Russia/Ukraine 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. See "*Risk Factors - Foreign Exchange Risks and Commodity Hedging*".

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 December 2012 was $11.64 per Mcf for natural gas and $92.41 per barrel for condensate. The average realized price during the month of February 2013 remained unchanged at $11.64 per Mcf for natural gas and increased slightly to $93.66 per barrel for condensate. Natural gas sales for a particular month were traditionally prepaid on the 10th day of that month, which is also the date that any adjustments to actual for the previous month are settled. For the month of February 2013, natural gas sales receipts were received throughout the month, and the Company has yet to determine whether this change is temporary, or is reflective of a more competitive gas sales market and will continue into the future.

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. See "*Risk Factors – Compliance with Foreign Regulatory Regimes*".

Licensing 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 "*Principal Oil and Gas Assets – Ukraine - KUB-Gas Assets*".

The regulation of hydrocarbons in Ukraine is administered by a number of governmental bodies including the Ministry of Energy and Coal Industry of Ukraine (the former Ministry of Fuel and Energy of Ukraine), which is responsible for matters including energy strategy and regulation, and the Ministry of Ecology and Natural Resources of Ukraine (the former Ministry of Environmental Protection of Ukraine) and the State Geological Service, the latter of which is responsible for the issuance of exploration and development special permits and production special permits, which are referred to elsewhere in this AIF as exploration and development licences and production licences.

As a general rule, special permits for subsoil use are granted to eligible applicants on an auction basis. This is generally a three or more month process. After permit issuance, the licencee and the State Geological Service also enter into a special permit agreement – which is deemed an integral part of the special permit. Exploration and development special permit agreements contain minimum work programme obligations in respect of matters such as: (i) undertaking seismic surveys; (ii) exploration drilling; (iii) well workovers; (iv) reserves estimation and other studies; and (v) environmental impact assessments. The State Geological Service may insert additional special conditions, such as minimum production requirements.

Special permits for exploration (including pilot production) of onshore deposits are generally granted for a period of five years. A subsoil user is also provided with a 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 and can explain why additional time is needed to complete the exploration (i.e., to confirm reserves on the field). This right may be exercised no more than two times, each for five years. Hence, the total term of an exploration licence (with two extensions) may extend for up to 15 years.

Pilot production for an exploration licence is statutorily capped at 10% of previously estimated reserves, with limited exceptions.

Special permits for commercial production are issued for 20-year terms. The permits may be extended, although the legislation does not state how many times. The holder of a special permit allowing exploration at a particular field has the pre-emptive right to apply for a production special permit without the need for an auction, assuming that the holder is compliant with the terms of its exploration special permit.

The issuance of a special permit for exploration (including pilot production) or 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 Ecology and Natural Resources of Ukraine. The commencement of oil and gas commercial production is also subject to: (i) the State Committee of Ukraine in 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 Energy and Coal Industry of Ukraine; and (iii) putting the subsoil plot into production.

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 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 commercial 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 Energy and Coal Industry of Ukraine for further commercial production of the deposit; and (iii) commence commercial production at the deposit.

In order to construct gas pipelines from its producing wells on the Ukraine Licences to the Ukraine gas transportation infrastructure, the Company must comply with the land use registration system in Ukraine. Recent developments relating to the land use registration system in Ukraine may result in delays or may increase the costs for the Company's plans to connect additional producing wells to the Ukraine gas transportation infrastructure, or may result in the Company having to suspend production of gas from certain of its producing wells on the Ukraine Licences until certain pipelines are constructed. For further information please see "*Risk Factors – Compliance with Foreign Regulatory Regimes"*.

KUB-Gas Assets

The KUB-Gas Assets consist of 100% working interests in the Ukraine Licences, being five licence areas, Vergunskoye, Olgovskoye, Makeevskoye, North Makeevskoye and Krutogorovskoye, all of which are located in the Lugansk region of eastern Ukraine, and certain other related assets described in further detail below. The Ukraine Licences 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. Information relating to each of the five Ukraine Licences held by KUB-Gas is summarized below.

Field Name	**Licence**		**Oblast**	**Approximate Area (km^2)**	**Restrictions**	**Date of**	
	Type	**#**				**Grant**	**Expiry**
Olgovskoye	Production Special Permit	5480	Luganska Kharkivska	79.72	None	06/02/06	06/02/32
Makeevskoye	Production Special Permit	5506	Luganska Donetska	72.44	None	09/04/12	09/04/32
Vergunskoye	Production Special Permit	4037	Luganska	17.00	Note 1	27/09/06	27/09/26

Krutogorovskoye	Exploration Special Permit	3596	Luganska	10.93	None	11/08/09	11/08/14
North Makeevskoye	Exploration Special Permit	3915	Luganska	190.2	None	29/12/10	29/12/15

Note:

(1) The Vergunskoye licence is restricted to depths not deeper than 1,000 metres.

Four of the five licence 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 2012 fiscal year. The Krutogorovskoye special permit is technically classed as an exploration special permit under which production of up to 10% of the in-place volume is allowed for 'testing' purposes. This exploration special permit was re-issued incorporating new licence areas on August 11, 2009 and has a five-year term, after which it can be extended for a further five years. KUB-Gas has priority options to convert the 'exploration' special permit to full 20-year production special permit 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. The Olgovskoye special permit was converted to a 20-year production special permit in February 2012, and the Makeevskoye special permit was converted to a 20-year production special permit in April 2012. Management has applied for regulatory approval to, and expects that the Company will be able to, convert the remaining Krutogorovskoye exploration special permit into a 20-year production special permit.

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

KUB-Gas owns 100% of four gas processing facilities, each of which are located on areas governed by the Ukraine Licences, with a total capacity of 98.1 MMcfd 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 "**KUB-Gas Assets**").

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

General Geology of the KUB-Gas Assets

The majority of Ukrainian hydrocarbon reserves occur in the Dnieper-Donets Basin, an area of approximately 31,000 km^2 that accounts for 90% of the natural gas production of Ukraine. The northwest part of the basin is oil productive and the southeast part, where the KUB-Gas Assets are located, is predominantly natural gas productive. 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 sandstones of Early to Middle Carboniferous age, but there are also pools in subordinate limestones.

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.

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 licences 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 well was subsequently put on production in July 2011 at a rate of more than 5 MMcfd (3.5 MMcfd 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 the successful M-21 gas well on the Makeevskoye licence in the first quarter of 2012. In August 2012, a well at Makeevskoye 20 (“**M-20**”) was drilled to a total depth of 2,000 metres to further develop the Makeevskoye R8 pool which was originally discovered by the M-19 well in late 2010 and further developed by the M-21 well. A further 225 km^2 3D seismic survey was completed in June 2012 on the North Makeevskoye licence, which identified five additional structural gas prospects. The first of the additional structural prospects was evaluated by the drilling of the NM-2 well, which is located in the southern part of the North Makeevskoye licence area, four kilometres north of the Makeevskoye gas production facility. The NM-2 well was abandoned in February 2013 after being drilled to depth of 3,150 metres after wireline logs and other information obtained during the drilling operation did not indicate any prospective zones.

Exploration / Development Activity

Since the KUB-Gas Acquisition in June 2010, nine wells have been drilled, including five wells in 2011, five in 2012, with one well drilling as of December 31, 2012, Seven wells are planned during the 2013 calendar year. The initial focus of KOV’s drilling programme has been on the Olgovskoye and Makeevskoye licence areas which accounted for an aggregate of 94% of total production as of December 31, 2012. The 2012 drilling programme was accelerated through the contracting of a larger, more powerful drilling rig for the well at Makeevskoye 16 (“**M-16**”), a deeper well which was drilled in the Makeevskoye licence area.

To aid in the exploitation of the Olgovskoye and Makeevskoye licence areas, KUB-Gas conducted a 3D seismic survey of the Olgovskoye and Makeevskoye licence areas in the first half of 2011. The subsequent processing and interpretation of data was completed during the third quarter of 2011 and identified a number of potential locations for further development in both licence areas. Most notably, it identified a potential area of approximately six km^2 for the new gas zone discovered by the drilling of the M-19 well and defined two locations for drilling of new wells, namely at Makeevskoye 21 (“**M-21**”), to further develop the gas zone discovered by the M-19 well, and the M-16 well to further develop gas production from elsewhere within the Makeevskoye licence area.

The M-21 well spud in February 2012 and was cased to a total depth of 2,210 metres in March 2012. The well was production tested for production from the R8 formation in June 2012 for a duration of one hour at an average rate of 3 MMcf/d with a flowing tubing head pressure (“**FTHP**”) of 9,185 kPa To the time of shut-in, M-21 had produced approximately 0.5 MMcf of gas, 100 litres of condensate and no water. The final measured buildup pressure of 13,116 kPaa is considered to be representative of the static reservoir pressure at the time of Test. The final measured Gas rate was 3 MMcf/d or 84.8 E3M3/d at a bottom hole flowing pressure of 10964 kPaa. Based on the tests, the stabilized sandface and wellhead absolute open flow (“**AOF**”) rates are calculated to be 8.91 MMcf.d and 7.56 MMcf/d respectively. The foregoing test results are not necessarily indicative of long-term performance or of the ultimate recovery from the M-21 well. The M-21 well began commercial production in August.As of

December 31, 2012, the M-21 well was producing approximately 400 Mcf/d with its production being restricted by the flow from M-19 and M-20, each of which were producing in excess of 6 MMcf/d.

The NM-1 well was spud in May 2012 and cased to its total depth of 2,500 metres in mid-June in anticipation of further testing. The well is currently suspended. A second well on the North Makeevskoye Licence, the NM-2 well, was spud in December and abandoned in mid-February after being drilled to a total depth of 3,150 metres.

The M-20 well was spud in July 2012 and cased to its total depth of 2,000 metres in August. The M-20 well was completed and tied-in for commercial production during the fourth quarter and as of December 31, 2012 was producing in excess of 6 MMcf/d.

A third party rig was contracted for the drilling of M-16 to accelerate the 2012 drilling program and to enable the drilling of the deepest well drilled to date by the Company in Ukraine. The well was spud in August and was cased to its total depth of 4,300 metres in December after encountering seven potential gas zones. Testing will occur in 2013.

The K-7 well was spud in September and cased to its total depth of 3,206 metres in November. Evaluation of wireline logs and drilling information indicated up to five potential gas well in this well. Testing will occur in 2013.

In October 2011, KUB-Gas initiated a reservoir stimulation programme using hydraulic fracturing technology. The first two fracture stimulations, on the O-6 and O-8 wells, proved positive. The O-6 well was tied in for commercial production in February 2012 and natural gas production from the O-6 well during that month averaged 1.5 MMcfd (1.1 MMcfd net to KOV). The O-8 well was tied in for commercial production in March 2012 and natural gas production from the O-8 well during that month averaged 1.0 MMcfd (0.7 MMcfd net to KOV).

The success of the 2011 programme demonstrates that natural gas can be produced from previously non-commercial deposits using modern stimulation techniques and KUB-Gas intends to conduct additional stimulation programmes in 2013.

In June 2012, KUB-Gas completed a second 3D seismic programme in the North Makeevskoye licence area under which 225 km^2 of 3D seismic survey data was acquired. Interpretation of the North Makeevskoye 3D seismic survey identified five additional structural prospects and the interpretation of potential stratigraphic prospects is ongoing. The first of the additional structural prospects was evaluated by the drilling of the NM-2 well in the North Makeevskoye-2 licence area. NM-2 is located in the southern part of the North Makeevskoye licence area, four kilometres north of the Makeevskoye gas production facility. The NM-2 well was abandoned in February 2013 after being drilled to a depth of 3,150 metres after wireline logs and other information obtained during the drilling operation did not indicate any prospective zones.

KUB-Gas is actively investigating ways to optimize facilities and enhance production. While these efforts are primarily focused on the Olgovskoye and Makeevskoye licence areas, one example of a successful optimization initiative is in the Vergunskoye licence area. In September 2010, portable compressors were installed on two wells in the Vergunskoye licence area (V-200 and V-201, both of which were drilled prior to the KUB-Gas Acquisition) resulting in production increases of almost 100%. The compressors increased the flowing pressure of the wells to enable production to flow into the pipeline throughout the entire year. KOV is currently assisting KUB-Gas in evaluating the deployment and use of additional compressors on its existing wells.

In January 2012, a snubbing unit, a specialized service rig that allows for the workover of wells while under pressure without stopping production from an existing producing zone, manufactured in Canada for KUB-Gas, was delivered to KUB-Gas in Ukraine. The snubbing unit provides KUB-Gas with the ability to perform dual completions on certain of its wells. Dual completion of a well allows for natural gas production concurrently from two separate zones. In the fourth quarter of 2012, the O-18 well in the Olgovskoye licence area and the M-21 well in the Makeevskoye licence area were dual completed.

The work program for 2013 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 Licences in 2013.

Infrastructure, Transportation and Marketing

Each of the four producing licence areas (Olgovskoye, Makeevskoye, Vergunskoye, Krutogorovskoye) has its own pipelines connecting each producing well to a central processing facility within that licence area where the gas is separated from the water and condensate and other impurities and treated. Gas is then transported from each central gas processing facility by pipeline and delivered to the national Ukraine pipeline infrastructure. The four gas processing plants have a total capacity of 98.1 MMcfd of natural gas and a network of flow lines totalling more than 40 kilometres. Additionally, KUB-Gas owns one service rig, two workover rigs, a snubbing unit, other ancillary equipment, an inventory of spare parts, support vehicles and buildings.

Recent developments relating to the land use registration system in Ukraine may result in delays and may increase the costs for the Company's plans to construct gas pipelines from its producing wells on the Ukraine Licences to gas transportation infrastructure, or may force the Company to suspend production of gas from certain producing wells on the Ukraine Licences until pipelines are constructed. See "*Risk Factors – Compliance with Foreign Regulatory Regimes*".

KUB-Gas is a party to various gas and condensate supply agreements with industrial users and utilities in Ukraine. According to these gas and condensate 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). For the month of February 2013, natural gas sales receipts were received throughout the month, and the Company has yet to determine whether this change is temporary, or is reflective of a more competitive gas sales market and will continue into the future.

Material Agreements

(a) Shareholders' Agreement ("**SHA**")

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 Licences 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 has been amended by a letter agreement dated November 11, 2011 (the "**Letter Agreement**") to exclude certain areas from the application of this requirement.

The SHA contains 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 are to be 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 the 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). As of the date of this AIF, KOV holds more than 51% of the issued equity in KUBGAS Holdings and as a result has appointed three of its nominees to the KUBGAS Holdings board (with one of the KOV Cyprus 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.

(b) Technical Services Agreements

KUB-Gas benefits from two back-to-back Technical Services Agreements (the "**TSAs**"). The purpose of the TSA's 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, and stated to be 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 TSA's are governed by English law.

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 by the *The World Factbook* as of February 5, 2013 at more than US $50,000 for 2012. Crude oil and LNG are the main exports of Brunei. The Company, through its indirect wholly-owned subsidiaries, Kulczyk Oil Brunei and AED SEA, holds a 90% working interest in the Brunei Block L PSA, as summarized below. As at December 31, 2011, the Company held a 36% interest in the other Brunei onshore exploration block, Brunei Block M. The Brunei Block M PSA expired in late August 2012 after the operator of Brunei Block M failed to drill the wells required under the Block M PSA in the time allotted. See "*Risk Factors – Reliance on Third Party Operators*".

Block L Overview

Brunei Block L is an area of approximately 1,123 km^2 covering onshore and offshore areas in northern Brunei. Brunei Block L was originally 2,200 km^2 in size, and was reduced by approximately 50% to its current size in 2011 as part of the mandatory Phase 1 relinquishment process under the terms of the Block L PSA.

The Company, through its indirect wholly-owned subsidiaries, Kulczyk Oil Brunei and AED SEA, holds a 90% working interest in the Brunei Block L PSA which gives them the right to explore for and, if certain conditions are satisfied, produce oil and natural gas from Brunei Block L. KOV's interest in Brunei Block L is held 40% by Kulczyk Oil Brunei and 50% by AED SEA. AED SEA was acquired by the Company in December 2011 from AED Oil Limited, the former parent company of AED SEA, which was in voluntary receivership. AED SEA is the operator of Brunei Block L.

The relationship between the Company and the other participant in Brunei Block L is governed by the Block L Operating Agreement. The other participant in the Brunei Block L PSA is QAF Brunei Sendirian Berhad ("**QAF**") (10%).

Kulczyk Oil Brunei and QAF entered in to the Block L PSA in August 2006 under which their respective interests at the time were 90% and 10%. Under a joint bidding agreement between KOV and QAF in relation to the application for the Block L PSA, it was agreed that KOV would fund 100% of the cash calls under the Block L Operating Agreement up to $25 million and that KOV and QAF would respectively fund 90% and 10% of such cash calls in excess of that amount.

In 2010, AED Oil Limited acquired a 50% operating interest in Brunei Block L by purchasing all the shares in AED SEA, which had previously farmed in for an interest in Brunei Block L from Kulczyk Oil Brunei. As part of the farm-out arrangements, AED SEA paid for 100% of the first $20.5 million of cash calls under the Block L Operating Agreement.

The Brunei Block L exploration period was originally six years from the date of the Block L PSA, August 28, 2006, and is divided into Phase 1 and Phase 2 which can run concurrently. In 2010, as a part of the Phase 1 work commitments, the Brunei Block L contracting parties drilled two wells in Brunei Block L at Lukut-1 and Lempuyang-1. Both wells encountered hydrocarbons but the contracting parties elected not to test the wells at that time. In August 2010, the Brunei Block L contracting parties elected to proceed with the Phase 2 exploration period.

The Brunei Block L contracting parties were successful in obtaining an extension of the Phase 2 exploration period to August 27, 2013 as well as revising the work commitments to correspond with the current work plan. The amended minimum work obligations for Phase 2 are to: (i) acquire and process 13 kilometres of onshore 2D seismic data; (ii) acquire and process not less than 130 km^2 of 3D seismic data; (iii) acquire and process 13.5 km^2 of onshore 3D swath data; (iv) acquire and process not less than 34.5 km^2 of onshore 3D seismic; and (v) drill at least two onshore exploration wells, each to a minimum depth of 2,000 metres. The Brunei Block L contracting parties are required to spend a minimum of $16.0 million during Phase 2 and the work commitments are required to be completed during the Phase 2 period. The contracting parties have satisfied their minimum expenditure obligation for Phase 2 and KOV expects to spud the first of two wells in the second quarter of 2013.

In accordance with the terms of the Block L PSA, Kulczyk Oil Brunei posted bank guarantees in favour of PetroleumBRUNEI in respect of the performance by Kulczyk Oil Brunei of certain obligations under Phase 1 and Phase 2. As at the date of this AIF, both Phase 1 and Phase 2 bank guarantees have been terminated and Kulczyk Oil Brunei has no remaining obligations in respect of such bank guarantees.

Drilling and Exploration Activities

In 2010, two exploratory wells, Lukut-1 and Lempuyang-1, were drilled and both encountered hydrocarbons in multiple horizons. There are ten zones of interest in Lukut-1 with an aggregate possible net pay of between 19 and 47 metres. Two main zones of interest, with an aggregate gross thickness of more than 56 metres, were encountered during the drilling of the Lempuyang-1 well. Testing of two zones at Lempuyang-1 commenced in the first quarter of 2011. Despite gas flowing to surface, continued mechanical issues resulted in the testing programme being curtailed in the second quarter of 2011 due to safety concerns associated with gas flow into the well, and the Lempuyang-1 well was suspended. The Lukut-1 well was cased to total depth and was suspended pending potential testing. No testing of this well has been undertaken as at the date of this AIF.

In 2010, the Brunei Block L joint venture parties conducted an airborne gravity and aeromagnetic survey over Brunei Block L covering about 3,000 square kilometres. Phase 1 is now complete and all of the minimum work and expenditure obligations for the Phase 1 exploration period under the Block L PSA have been satisfied.

The Brunei Block L contracting parties completed a seismic programme in early June 2012 under which they acquired a 191.8 km^2 3D seismic survey in West Jerudong and Updip Lukut, a 16.2 km^2 3D swath and an additional 14 kilometres of 2D seismic data in Brunei Block L. They have fulfilled all of the seismic commitments and related spending requirements required under the Phase 2 exploration programme set out in the Brunei Block L PSA. The programme started with the acquisition of the first 2D line in late December 2011 and the final portion of the 3D acquisition programme was completed on May 29, 2012. A total of 2.5 million man hours were logged on this project with an average crew size of approximately 1,000 persons.

The 3D seismic data has now been processed and interpreted. As a result, the Brunei Block L contracting parties intend to drill two further wells in Brunei Block L. KOV expects to spud the first of the two wells in April 2013.

Geographical and Geological Setting

Brunei Block L comprises both onshore and offshore areas. The offshore portion of Brunei Block L lies in relatively shallow waters, and includes a seven kilometre wide strip along the northwest coast and essentially all of Brunei Bay to the east. The Seria oil field lies approximately 12 kilometres to the southwest of Brunei Block L and a 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 Brunei Block L in the shallow offshore region. According to a technical paper produced by BSP in 2008, the Bubut-2 well, 400 to 500 metres from the Brunei Block L boundary, logged more than 190 metres of hydrocarbon pay in Miocene reservoir sands. Recent interpretations of seismic information by KOV suggest that between three to six km^2 (700 to 1,400 acres) of the Bubut structure may extend into Brunei

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 Brunei Block L boundary, will be developed contemporaneously by 2012 to supply natural gas which would be converted to LNG for export.

Potential Re-acquisition of Relinquished Areas

The Brunei Block L contracting parties are applying to PetroleumBRUNEI to re-acquire certain areas of Brunei Block L which were relinquished upon the completion of Phase 1, in accordance with the terms of the Block L PSA. In addition, the Company is considering its options with respect to Brunei Block M, including through discussions with PetroleumBRUNEI. KOV's interest in Brunei Block M expired on August 27, 2012. As at the date of this AIF, no decision has been made or agreement reached in relation to either of these matters.

Oil and Gas Potential

Brunei, which is underlain 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:

(i) 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;

(ii) medium to high risk exploration for oil and/or natural gas in the structural features updip from the Lukut-1 well where they may be trapped by a mobile shale unit;

(iii) 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

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

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.

Activity and Future Plans

Seismic Programs

A 350 km^2 3D seismic acquisition program was completed in the Tutong area of Block L on May 8, 2009. A further acquisition program involving 191.8 km^2 of 3D seismic, a 16.2 km^2 3D swath and 14 kilometres of 2D seismic was completed in June 2012. The new seismic has been tied into the 2009 3D seismic survey providing broad insight into the subsurface complexities of Block L. The primary purpose of the 2011 and 2012 seismic programs is 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.

Drilling & Testing

Two wells were drilled in 2010 on locations defined by the Tutong seismic program. 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 C1 to C5 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.

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 and ultimately abandoned.

Two wells are planned to be drilled in Block L by August 2013 with the first well, updip from the Lukut-1 well, expected to spud in April 2013. This will be followed by the drilling of the Luba location, to the southwest of Lempuyang-1. On February 13, 2013, the Company announced it had signed a contract with PT Energi Tata Persada, a drilling company based in Jakarta, Indonesia, for the use of a drilling rig for use on Block L.

Future Potential Transportation Arrangements and Markets

If KOV determines that an oil and gas discovery in Brunei Block L can be commercially produced from Brunei Block L, KOV and its partners will be required to notify PetroleumBRUNEI of the discovery and to apply to PetroleumBRUNEI for approval of an appraisal plan, gas marketing plan and a development plan. Subject to such plans being approved by PetroleumBRUNEI, the partners intend to drill development wells and connect them by pipelines located within the area of the producing field to a central processing facility where the oil, gas, water and other impurities will be separated and treated.

If there is an oil field development, the partners intend to initially transport the oil by truck to a refinery or oil export facilities at Seria, located on the coast of Brunei. The distance from the oil field to Seria will depend on the location of the oil field on Brunei Block L but would most likely be between 20 and 40 kilometres. If there is a gas field development, the partners intend to construct a gas pipeline from the central processing facility to either an existing power plant located in the Gadong area of northern Brunei Block L or an existing methanol plant or LNG facility, both located at Lumut, on the coast of Brunei near to the boundary of Brunei Block L. The French oil and gas company Total, the only producer of oil and gas in Brunei other than Shell, pays a processing fee to Shell in order to process its oil and gas at Shell-owned facilities at Seria and Lumut.

Material Agreements

(a) Brunei Block L PSA

Kulczyk Oil Brunei and 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 AED SEA, 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 Block 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 Block L Back-In Right after expiry of the exploration period, it must pay its *pro rata* share of expenses.

In January 2012, the terms of the Brunei Block L PSA were extended, delaying the requirement to complete the existing minimum work obligations from August 27, 2012 to August 27, 2013. The Company is planning to drill two wells on Block L in the first half of 2013.

(b) Brunei Block L 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 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 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 AED SEA, 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) 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 defined in the Block L PSA). Pursuant to the Settlement Agreement, all disputes were 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 at 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.

Syria (under *force majeure*)

The Company commenced its first exploration well on Syria Block 9 at Itheria-1 in July 2011 and suspended the well at a depth of 2,072 metres in October 2011. In July 2012, the Company, in its capacity as operator of Syria Block 9, declared *force majeure* under the terms of the Syria Block 9 PSC, due to difficult local operating conditions and the inability due to sanctions to fund local operations, which have rendered the performance of its obligations under the Syria Block 9 PSC impossible. As at the date of this AIF, the Company's operations on the Syrian Assets remained suspended. KOV is continuing to monitor operating conditions in Syria to assess if, and when, a recommencement of its Syrian operations is possible. If the *force majeure* event continues for a period of more than one year, the contracting parties are entitled to terminate their obligations under the Syria Block 9 PSC on 90 days' notice without further liability.

KOV, through its indirect wholly-owned subsidiary, Loon Latakia, holds a 50% participating interest in the Syria Block 9 PSC, which gives it, and the other Syria Block 9 participants, the right to explore for and, if certain conditions are satisfied, produce oil and natural gas from Syria Block 9, an area of approximately 10,039 km^2, located south of the City of Aleppo and immediately to the east of the City of Latakia in Syria.

On September 20, 2007, the Government of the Syrian Arab Republic, the SPC and KOV entered into the Syria Block 9 PSC, pursuant to which the Government of the Syrian Arab Republic granted KOV the right to explore for and produce oil and natural gas from Syria Block 9. The Syria Block 9 PSC became effective on November 29, 2007. On April 28, 2008, KOV assigned its entire interest in the Syria Block 9 PSC to its wholly-owned subsidiary, Loon Latakia. By a farm-out agreement (the "**MENA Agreement**") dated September 1, 2010, and approved by the Syrian authorities in March 2011, Loon Latakia then assigned a 30% ownership in Syria Block 9 to MENA Syria, which became effective on June 17, 2010. As consideration for such assignment, MENA Syria agreed to pay: (i) 30% of historical costs incurred by Loon Latakia to the date of the agreement with MENA, being $3.1 million; (ii) 30% of the value of the bank guarantee outstanding at June 17, 2010, being $2.0 million; and (iii) 60% of the authorized drilling costs of the first exploratory well. All amounts due by MENA Syria in respect of the MENA Agreement have now been paid. 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. In July 2011, the Syrian authorities gave formal approval to the assignment by Loon Latakia of a further 20% participating interest in the Syria Block 9 PSC to Ninox.

Ansco, an unrelated third party, has a right to acquire a 5% interest in Syria Block 9 from Loon Latakia subject to the consent of the Ministry of Petroleum and Mineral Resources and the GPC. As such, Loon Latakia has an economic interest of 45% in Syria Block 9. Loon Latakia initially posted a guarantee in the amount of $7.5 million, an amount which represents the minimum exploration expenditure level for Phase 1 specified in the Syria Block 9 PSC. As at June 30, 2012, approximately $5.0 million was outstanding under the guarantee. The full amount remaining on this guarantee was returned to KOV on July 6, 2012.

Syria Block 9 is operated as an unincorporated joint venture between Loon Latakia, MENA (30%) and Ninox (20%) under the Block 9 JOA. Loon Latakia is the operator of Syria Block 9.

The Syria Block 9 PSC provides for an exploration period of nine years, commencing on November 29, 2007 comprised of three phases of four, three and two years respectively. The initial four-year exploration period of the Syria Block 9 PSC was extended in November 2011 by eleven months to terminate on October 27, 2012. The exploration period may be further extended in the event of *force majeure*. The extension was expressed to be subject to the renewal of the bank guarantee provided in respect of the contractor parties' obligations under the Syria Block 9 PSC. Loon Latakia has not renewed the guarantee and is unable to do so as a result of strict sanctions imposed by certain governments against Syria. Therefore, there is a risk that this extension may not be enforceable notwithstanding the declaration of *force majeure* by Loon Latakia under the terms of the Syria Block 9 PSC. See "*Risk Factors – Political Instability in Syria and Syria Sanctions"*.

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.

Syria Block 9 Overview

Syria Block 9 is located in northwest Syria south of the City of Aleppo and immediately to the east of the City of Latakia, on the north western flank of the hydrocarbon-producing Palmyrides Basin and is prospective for crude oil, natural gas and condensate. Major gas and oil pipelines lie in close proximity to the initial exploration focus area in the southeast part of Syria Block 9.

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.

Oil and Gas Potential

The Palmyrides 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**"), which is an independent source of information from the Company, estimates that as of the year 2000 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. INA Industrija Nafte, d.d. ("**INA**") reported in their 2011 annual report that testing of the Beer As Sib-1 well, drilled in the Mudawara area, approximately 25 kilometres south of Block 9, indicated a commercial oil saturated reservoir. To the southeast, east and northeast of Block 9, hydrocarbons have been discovered in the Harbaja, Habari, Tel Alied and Safayeh-Wahab complexes respectively. The Company has not confirmed that the USGS is a qualified reserves evaluator or auditor in accordance with the COGE Handbook.

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. Several 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 boe/d 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 Palmyrides 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 Mudawara oil and gas field approximately 20 kilometres to the south of the Block 9 focus area. According to INA, in a well history report dated 1992, a source of information independent from the Company, the discovery well at Mudawara tested 136 boe/d of 28° to 31° API oil from Triassic/Jurassic carbonates and 8 MMcfd 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. According to an SPC well history report dated 2004, which is a source of information independent from the Company, the discovery well and the appraisal well at Harbaja tested 44 boe/d from the Permo-Carboniferous Amanous Sandstones and 113 boe/d 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. According to SPC in a well history report dated 1976, which is a source of information independent from the Company Habari-2 tested 25 boe/d of 20° API oil from sandstone reservoirs of Cretaceous age. The Company has not confirmed that any of the sources of such information are qualified reserves evaluators or auditors in accordance with the COGE Handbook.

The primary targets for the first drilling campaign were potential hydrocarbon accumulations in the Ordovician 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.

Activity and Future Plans

Operations in Syria were suspended in October 2011 and effective July 16, 2012, the Company, in its capacity as operator of Syria Block 9, declared a *force majeure* event under the Syria Block 9 PSC due to difficult local operating conditions, and the inability due to sanctions to fund local operations which have rendered the performance of its obligations under the Syria Block 9 PSC impossible. As at the date of this AIF, the Company's operations on the Syrian Assets remain suspended. KOV is continuing to monitor operating conditions in Syria to assess if, and when, a recommencement of its Syrian operations is possible. If the *force majeure* event continues for a period of more than one year, the contracting parties are entitled to terminate their obligations under the Syria Block 9 PSC on 90 days' notice without further liability.

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 Ordovician 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. The initial four-year exploration period of the Syria Block 9 PSC was extended in November 2011 by eleven months to terminate on October 27, 2012. The exploration period may be further extended in the event of *force majeure*. The extension was expressed to be subject to the renewal of the bank guarantee provided in respect of the contractor parties' obligations under the Syria Block 9 PSC. Loon Latakia has not renewed the guarantee and is unable to do so as a result of strict sanctions imposed by certain governments against Syria. Therefore, there is a risk that this extension may not be enforceable notwithstanding the declaration of *force majeure* by Loon Latakia under the terms of the Syria Block 9 PSC. See "*Risk Factors – Political Instability in Syria and Syria Sanctions"*.

Pursuant to the terms of the Syria Block 9 PSC, the period of any non-performance or delay which is caused by the *force majeure*, together with such period as may be necessary for the restoration of any damage done during such delay, will be added to the term of the Syria Block 9 PSC.

At December 31, 2011, KOV 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, KOV has fully impaired the value of the exploration assets in Syria as well as the financial investment in Ninox Energy Pte Ltd, which holds a 20% interest in the Syria Block 9 PSC through its subsidiary, 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 as at December 31, 2011.

Future Potential Transportation Arrangements and Markets

Major gas and oil pipelines lie in close proximity to the southeast part of Syria Block 9, which is the focus of the Company's initial exploration activities. If the Company determines that an oil or gas discovery in Syria Block 9 can be commercially produced, additional development wells will be drilled which will be connected by pipelines within the area of the producing field to a central processing facility where the oil, gas, water and other impurities will be separated and treated. If there is a gas field development, a pipeline will be constructed from the central processing facility to an existing gas pipeline which is within 10 kilometres from the area where the Company has drilled the first exploration well. If there is an oil field development, oil will be transported by truck either to a refinery or to a nearby oil gathering facility.

Material Agreements

(a) Syria Block 9 PSC

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 the SPC on September 20, 2007 with an effective date of 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 the 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 Syria Block 9 PSC, the Company's interests were assigned to Loon Latakia. The first exploration phase of the Syria Block 9 PSC was extended by eleven months to October 28, 2012 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. See "*Principal Oil and Gas Assets – Syria (under force majeure) – Activity and Future Plans*".

(b) 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.

(c) Block 9 JOA

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 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.

(d) Syria Block 9 Guarantee

In accordance with the terms of the Syria Block 9 PSC, the Company posted a bank guarantee in respect of its work commitment in the initial amount of $7.5 million. The guarantee amount was reduced to $3.185 million at December 31, 2011, due to the completion of work commitments and a farm-out agreement with MENA Syria pursuant to which MENA Syria agreed to fund 30% of the bank guarantee. As at December 31, 2012, the guarantee amount has effectively been reduced to zero since all of the cash posted by the Company as security for the guarantee was returned to the Company when it was determined that the guarantee could not be renewed because of various sanctions.

Syria Block 9 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%.

STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

Reserves

In accordance with the requirements of NI 51-101, RPS, an independent qualified reserves evaluator and auditor, prepared a report called "*Evaluation of Natural Gas Reserves and Resources in Ukraine as of 31st December, 201*2" dated March 20, 2013 (the "**RPS Ukraine Report**").

In addition to the RPS Ukraine Report, KOV also previously engaged RPS to prepare the RPS Brunei Block L Report and the RPS Syria Block 9 Report which evaluated the resource potential of Brunei Block L and Syria Block 9 (collectively with the RPS Ukraine Report, the "**RPS Reports**"). All factual data supplied to RPS by the Company in connection with the preparation of the RPS Reports was accepted as presented. The RPS Reports were prepared in accordance with the definitions and guidelines set out in the COGE Handbook and in compliance with the requirements of NI 51-101. Among other things, NI 51-101 establishes a regime of continuous disclosure for all oil and gas companies and standardizes reporting and disclosure requirements for upstream oil and gas companies that are reporting issuers. NI 51-101 requires reporting issuers to comply with the COGE Handbook, as may be amended from time to time.

The RPS Ukraine Report evaluates, effective as at December 31, 2012, 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, 2012.

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.

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".

Resources

The RPS Reports contain the following information relating to the Company's petroleum resources:

- The RPS Ukraine Report evaluates the contingent natural gas resources and prospective natural gas resources located within the area relating to the Ukraine Licences. The RPS Ukraine Report is dated March 20, 2013 and incorporates information prepared on or before December 31, 2012 for resource estimates and revenue projections effective as at December 31, 2012.

- The RPS Syria Block 9 Report evaluates the prospective oil and gas resources located within Syria Block 9. The RPS Syria Block 9 Report is dated March 29, 2012 and incorporates information prepared on or before December 31, 2011 for resource estimates effective as at December 31, 2011.

- The RPS Brunei Block L Report evaluates the contingent and prospective oil and gas resources located within Brunei Block L. The Brunei Block L Report is dated March 29, 2012 and incorporates information prepared on or before December 31, 2011 for resource estimates effective as at December 31, 2011.

Attached as Appendix "D" hereto is a summary of the petroleum resources of the Company.

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 of the Company, 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 481,756,729 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 on a monthly basis for each month of the Company's most recently completed financial year end and for each month or portion thereof to the date of this AIF:

	Closing Price (PLN)		Closing Price (CAD)		Daily Trading Volume		
	High	Low	High	Low	Maximum	Minimum	Monthly Average
2013							
March	1.44	1.29	0.47	0.41	1,635,476	252,606	652,072
February	1.47	1.36	0.48	0.44	3,637,833	207,920	1,110,415
January	1.39	1.31	0.44	0.42	4,774,995	161,978	1,196,891
2012							
December	1.34	1.22	0.42	0.39	2,544,264	287,177	1,087,754
November	1.32	1.22	0.41	0.38	4,361,857	204,111	965,784
October	1.42	1.27	0.44	0.40	4.609,193	200,831	1,385,024
September	1.36	1.28	0.42	0.39	2,295,071	295,958	978,242
August	1.52	1.23	0.46	0.37	7,741,391	444,398	1,901,445

July	1.43	1.19	0.43	0.35	6,364,851	620,216	2,483,167
June	1.27	1.08	0.38	0.32	7,820,068	610,316	2,351,839
May	1.54	1.19	0.46	0.36	4,115,150	774,319	1,629,389
April	1.66	1.28	0.52	0.40	7,306,747	1,039,420	2,871,824
March	1.89	1.49	0.60	0.47	22,925,960	478,318	4,548,087
February	1.62	1.39	0.51	0.44	19,164,763	723,115	3,375,015
January	1.43	1.22	0.43	0.37	7,455,573	760,715	2,664,047

PRIOR SALES

The following table sets forth information regarding the issuance of Common Shares by the Company during the financial year ended December 31, 2012 and to the date of this AIF:

	Number of Common Shares	Stated Value (000's)	Per Share	Date of Issuance
Balance, December 31, 2011	420,804,367	$ 205,445		
Exercise of stock options	453,333	277	$ 0.40	March 27, 2012
Issued upon conversion of the KI/ Radwan Debentures	60,499,029	25,794	$ 0.43	August 11, 2012
Balance, December 31, 2012	481,756,729	$ 231,516		

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 41,294,000 Common Shares issuable upon the exercise of outstanding options of the Company at prices ranging from $0.38 per Common Share to $0.69 per Common Share.

During the financial year ended December 31, 2012, the Company granted 5,190,000 Common Share purchase options exercisable into 5,190,000 Common Shares, the particulars of which are set out in the following table:

Date of Grant	Number and Type of Securities Issued	Exercise Price ($)
January 16, 2012	930,000 options	$0.38
January 20, 2012	250,000 options	$0.40
March 12, 2012	120,000 options	$0.51
May 7, 2012	710,000 options	$0.49
August 1, 2012	900,000 options	$0.41
August 13, 2012	2,100,000 options	$0.43
September 17, 2012	60,000 options	$0.42
November 18, 2012	120,000 options	$0.40
Total:	**5,190,000 options**	

Each Common Share purchase 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 18, 2012 relating to the annual meeting of shareholders of the Company held on May 16, 2012.

On August 11, 2012, the Company received notices of conversion relating to the KI/Radwan Debentures, which were unsecured convertible debenture agreements that the Company had entered into in August 2011 with KI and Radwan. The total amount available under the KI/Radwan Debentures was $23.5 million, bearing interest at a rate of 8.0% per annum, payable annually. The KI/Radwan Debentures also included a provision for an implied additional 12.0% in interest to be paid in KOV shares upon conversion. In August 2012, the $23.5 million principal and all accrued interest outstanding under the KI/Radwan Debentures were converted into 60,499,029 Common Shares.

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)
Dariusz Mioduski	St. Moritz, Switzerland	Chairman of the Board of Directors	Chairman of the Board of Directors since May 16, 2012; Director since 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).
Timothy M. Elliott	Dubai, United Arab Emirates	President and Chief Executive Officer; Director	President and Chief Executive Officer since February 10, 2006;	Mr. Elliott has been President and Chief Executive Officer of the Company since February 2006.

Name	Province / Country of Residence	Position with the Company	Date of Appointment	Principal Occupation(s)
			Director since April 10, 2001	
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. Since his retirement in 2010 Mr. Langanger has served as a director of various companies.
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 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.
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

Name	Province / Country of Residence	Position with the Company	Date of Appointment	Principal Occupation(s)
				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 Relations & Managing Director CEE	May 25, 2010	Prior to joining KOV in January 2010 as Proxy & Investor Relations Officer, Mr. Korczak was the CFO and a board member at Bank Pocztowy (2009-2010) and prior to that head of strategy and IR officer at BRE Bank (2005-2009).
Dr. Trent A. Rehill	Calgary, Alberta, Canada	Vice President, Geosciences	May 25, 2010	Prior to joining the Company in March 2009 Dr. Rehill was a Senior Staff Geologist for Artumas Group Inc. 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, when taken together with the shareholding of KI, beneficially own, or control or direct, directly or indirectly, an aggregate of 252,427,461 Common Shares, representing approximately 52.4% 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

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:

(d) 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

(e) 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 49.99% of the Company's issued and outstanding Common Shares, and two directors of the Company (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. There is, therefore, 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, 2012, the fees totalled $712,224 (December 31, 2011: $624,780). At December 31, 2012, $25,538 was owing to Nemmoco (December 31, 2011 - $52,065).

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 oversight 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 practised 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 PriceWaterhouseCoopers) 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 relied 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	**2012**	**2011**
Audit Fees[(1)]	$425,837	$294,039
Tax Fees[(2)]	$98,694	$185,177
All Other Fees[(3)]	$763,920	$379,670

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) Tax fees include amounts paid for income and other tax planning and compliance services.
(3) All other fees include amounts paid for potential listings of the Common Shares on the AIM exchange in London, United Kingdom, 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 Operations of the Company", "Risks Relating to the Company's Market Environment", and "Risks Relating 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, Brunei and Syria. As of the date of this AIF, no proven or probable reserves have been assigned in connection with the Company's assets in Brunei or Syria given the early stage of development of these assets. There is no assurance that reserves of oil and natural gas will be discovered on those assets or, if reserves are discovered, that the Company will be able to realise those reserves as intended. The Company presently has the right in Brunei and Syria to explore for and, upon fulfillment of certain conditions, produce oil and natural gas that may be discovered. It is possible that the

Company may be unable to reach an agreement with the government authorities or the national oil company concerning a development plan in Brunei and Syria, which is a prerequisite for the commencement of production in such countries.

The regulation of hydrocarbons in Ukraine is administered by a number of governmental bodies including the Ministry of Energy and Coal Industry of Ukraine (former Ministry of Fuel and Energy of Ukraine), which is responsible for matters including energy strategy and regulation, and the Ministry of Ecology and Natural Resources of Ukraine (the former Ministry of Environmental Protection of Ukraine) and the State Geological Service, the latter of which is responsible for the issuance of exploration and development special permits and production special permits, which are referred to elsewhere in this AIF as exploration and development licences and production licences.

Specific rights and obligations of the Company are defined under the terms of the Ukraine Licences, the Brunei Block L PSA and the Syria Block 9 PSC. The work carried out by the Company under the Licences 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, development and production of oil and natural gas reserves are speculative and involve a significant degree of risk. The long-term commercial success of the Company will depend on its ability to find, acquire, develop and commercially produce oil and natural gas reserves through its assets in Ukraine, Brunei and Syria and other countries in which it may acquire assets.

The Company will need continually to locate and develop or acquire new reserves to replace its existing reserves that are being depleted by production. Future increases in the Company's reserves will depend not only on its ability to explore and develop its existing assets in Ukraine, Brunei and Syria, but also on its ability to select and acquire new assets. There are many reasons why the Company may not be able to find or acquire oil and gas reserves or develop them for commercially viable production. For example, the Company may be unable to negotiate commercially reasonable terms for the acquisition, exploration, development or production of assets. Factors such as adverse weather conditions, natural disasters, equipment or services shortages, procurement delays or difficulties arising from the political, environmental and other conditions in the areas where the reserves are located or through which the Company's products are transported may increase costs and make it uneconomical to develop potential reserves. Without successful further development, exploration and acquisition activities, the Company's reserves, production and revenues will not increase and any existing reserves of the Company will decline over time as the reserves are depleted as a result of production activities. There is no assurance that the Company will discover, acquire or develop further commercial quantities of oil and gas.

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.

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 assets in Ukraine include gas and condensate producing properties. These production operations are subject to all the risks typically associated with such gas and condensate 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 maximising 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. Furthermore, the Company may be required to slow or halt production at one or more of its gas producing properties due to capacity limitations in transportation or storage facilities which may also adversely affect revenue and cash flow levels. 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.

Dry Well Risk

Many of the areas being explored by the Company have a number of prospects for the discovery of oil and gas. Should the Company undertake drilling in a particular geographic area but discover no oil and gas (a "dry well"), this may lead to a downgrading of the potential value of the licence or PSC concerned and perhaps to other licences or PSCs within the same geological basin, and the Company may conclude that the other prospects within that geographic area would as a result be less likely to yield exploration success, potentially decreasing the value of the Company's assets. If this is the case, once the minimum work obligations under the relevant licence or PSC have been satisfied, the Company may relinquish its interests in that licence or PSC, in which case it would have no further exploration rights, even though it may have identified a number of additional prospects.

Dry wells may also result in the Company requiring substantially more funds if it chooses to continue exploration work and drill further wells beyond the Company's existing minimum work commitments. Such funding may be unavailable or may have to be obtained on unfavourable terms, leading to a potential deterioration in the Company's financial position. Drilling a dry well would also mean that the Company may not be able to recover the costs incurred in drilling that well or make a return on its investment resulting in significant exploration expenditure being written off. Any of these circumstances may have a material adverse effect on the business, prospects, financial position and results of operations of the Company.

Additional Funding Requirements

The Company's business is at an early stage of operations. The Company's properties in Brunei and Syria do not have any established reserves and no revenue has been derived from these prospects as of the date of this AIF. Consistent with similar companies at the same stage of development operating in the upstream oil and gas sector, the Company has undertaken significant capital investment, and funds raised are invested in the exploration, appraisal, development and maintenance of oil and gas assets. The Company has consolidated working capital of $1,217 million as at December 31, 2012 (December 31, 2011 - $0.533 million) including cash and cash equivalents in the amount of $35.553 million (December 31, 2011 - $12.962 million). The Company believes that its cash resources at December 31, 2012 will be sufficient to finance operations and planned capital spending anticipated for the next twelve months. 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 Company's continuing activities are contingent on the availability of financing to fund the Company's capital expenditures and other activities.

The Company has funded its capital expenditures, including exploration and development activities, primarily through equity, debt, and by farm-out arrangements with its joint venture partners, who pay for all or a portion of the Company's expenditures in return for a portion of the Company's ownership interest in the relevant asset. The Company's business requires significant capital expenditures for the foreseeable future with respect to 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 and intends to fund these planned capital expenditures from its existing borrowings, from farm-out agreements and from operating cash flow and, in the longer term, from new debt and/or equity. The Company has a relatively short operating history on which to assess its future expected performance, resulting in uncertainty as to the success of its ongoing activities. Notwithstanding the strong growth in the Company's positive cash flows, there can be no assurance that, in the longer term, the Company will sustain profitability or positive cash flow from its operating activities.

There can also be no assurance that new debt or equity financing will be available or sufficient in amounts to meet the Company's longer term capital expenditure requirements or, if debt or equity financing is available, that it will be on commercial terms that may be acceptable to the Company. The Company's ability to arrange future financing, and the cost of financing generally, depends on many factors, including, economic and capital markets conditions generally, investor confidence in the oil and gas industry in general and in particular in the countries in which the Company operates, the business performance of the Company and regulatory and political developments. In addition, 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 and may subject the Company to more restrictive financial covenants.

If additional funds are raised by issuing Common Shares or securities which are convertible or exchangeable for Common Shares, then existing holders of Common Shares may be diluted. Whilst KOV's largest shareholder, KI, has historically provided various sources of finance to the Company, including through the acquisition of convertible debt (subsequently converted into Common Shares), the subscription for Common Shares and the provision of loans, KI is under no obligation to provide any further financing and there can therefore be no guarantee that KI will provide any financing in the future. Should KI provide further financing in the form of equity or instruments convertible or exchangeable for equity, this would result in KI increasing its shareholding in the Company.

The failure by the Company to farm-down its interest in an asset may result in the Company retaining a greater exploration and development (and therefore financial) risk in that asset that it would otherwise have had, and may prevent the Company from pursuing other exploration and development opportunities. Whilst the Company and senior management of the Company are experienced in the farming-out of interests, there can be no assurances that the Company will be successful in farming-out interests in the future, including a portion of the Company's interest in Brunei Block L.

Expenditures will be incurred to satisfy contractual obligations arising from work commitments specified in the Brunei Block L PSA and the Syria Block 9 PSC, 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. 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 Brunei and Syria 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 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 on a timely basis or at all could have a material adverse effect on the Company's financial condition, results of operations or potential for future asset growth, cause the Company to delay the exploration, appraisal and development of assets that may otherwise be capable of producing revenue, forfeit its interest in properties, miss acquisition opportunities, become over-exposed to certain assets, and reduce or cease its operations.

Health, Safety and Environmental Risks

Developing oil and gas resources and reserves into commercial production involves a high degree of risk. The Company's drilling, exploration, production and related operations are subject to all the risks common in its industry. These hazards and risks include encountering unusual or unexpected rock formations or geological pressures, geological uncertainties, seismic shifts, blowouts, oil spills, uncontrollable flows of oil, natural gas or well fluids, explosions, fires, improper installation or operation of equipment and equipment damage or failure.

If any of these events were to occur, they could result in environmental damage, injury to persons and loss of life and a failure to produce oil or gas in commercial quantities. They could also result in significant delays to drilling programmes, a partial or total shutdown of operations, significant damage to the Company's equipment and equipment owned by third parties and personal injury or wrongful death claims being brought against the Company. These events can also put at risk some or all of the Company's licences or production sharing contracts which enable it to explore, and could result in the Company incurring significant civil liability claims, significant fines or penalties as well as criminal sanctions potentially being enforced against the Company and/or its officers. The Company may also be required to curtail or cancel any operations on the occurrence of such events.

While the Company maintains insurance coverage that addresses many of these risks, the occurrence of any of the events described above could materially and adversely affect the Company's business, prospects, financial condition and results of operations.

Political, Social and Economic Risk

The Company's current exploration and development activities are located in Ukraine, Brunei and Syria. As a result, it is exposed to a wide range of political, social, economic, regulatory and tax environments that are subject to significant and sometimes rapid change that may have a materially adverse effect on the Company's business, results of operations and financial condition. These countries are subject to greater political, social, fiscal, legal and economic risks than more developed markets. Accordingly, investors should exercise particular care in evaluating the risks involved in an investment in the Company and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging and developing markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved.

The Company does business in locations where it is exposed to a greater-than-average risk of adverse sovereign action, including overt or effective expropriation or nationalisation of property, including in countries where the government has previously expropriated assets of other companies held within the jurisdiction or where members of the government have publicly proposed that such action be taken. Relatively high commodity prices and other factors in recent years have resulted in increased resource nationalisation in some countries, with governments repudiating or renegotiating contracts with, and expropriating assets from, companies that are producing in such countries. Oil and gas are considered strategic resources for particular countries. Governments in these countries may decide not to recognize previous arrangements if they regard them as no longer being in the national interest. Governments may also implement export controls on commodities regarded by them as strategic (such as oil or gas) or place restrictions on foreign ownership or operation of strategic assets. Expropriation of assets, renegotiation or nullification of existing agreements, leases or permits by the governments of counties in which the Company operates, particularly in Ukraine, could all have a material adverse effect on the Company's business, results of operations and financial condition.

Effective July 16, 2012, the Company, in its capacity as operator of Syria Block 9, declared a *force majeure* event due to the insurrection, riots, labour disturbances and other causes rendering the performance of its obligations under the Syria Block 9 PSC impossible. The Company continues to monitor operating conditions in Syria to asses when a recommencement of its Syrian operations is possible. See "*Risk Factors – Political Instability in Syria and Syria Sanctions"*.

The consequences of risks related to political and social instability, among other things, include:

- the risks of war, actions by terrorist or insurgent groups, community disturbances, guerrilla activities, military repression, civil disorder and crime;
- high levels of governmental and business corruption and other criminal activity;
- workforce instability;
- change in government policy or regulations;
- death or incapacitation of political leaders or change in the ruling party;
- unenforceability of contractual rights;
- import and export restrictions;
- freezing of funds and economic resources; and
- adverse changes to laws (whether of general application or otherwise) or the interpretation thereof.

The economies of Ukraine, Brunei and Syria may not compare favourably with those of more developed countries with respect to such issues as growth of gross national product, reinvestment of capital, inflation, resources and balance of payment position. These economies may rely heavily on particular industries, such as the exploration and production of oil and gas, 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. Any of these actions could severely affect security or 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. The Company may also be affected by economic and fiscal instability related to the countries in which it operates. Economic and financial unreliability may expose the Company to the following risks:

- economic or other sanctions imposed by other countries or international bodies;
- changing taxation policies, rulings or interpretations (including new or increased taxes or royalty rates or implementation of a windfall tax);
- extreme fluctuations in currency exchange rates or high inflation;
- foreign exchange restrictions or currency controls;

- prohibition or substantial restrictions on foreign investment in capital markets or in certain industries;

- local currency devaluation; and

- 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.

The Company plans its exploration and development activities and commitments based on an assessment of the regulatory environment in a particular country 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 geopolitical, social and economic risks associated with operating in the regions and countries in which the Company operates, if realized, could affect the Company's ability to manage or retain interests in its assets and could have a material adverse impact on the profitability, ability to finance or, in extreme cases, viability of one or more of its assets. Some of these risks are discussed in greater detail below. Although the Company's assets are geographically diversified across three countries, only its operations in Ukraine are currently producing oil and gas and generating revenues. Accordingly, any of these or similar factors could have a material adverse effect on the Company's business, results of operations or financial condition, particularly if they significantly impair or impede its ability to produce oil and gas in Ukraine.

Strategic Partners and Joint Ventures

The Company has and will in the future benefit from partnerships or joint ventures with local and international companies through which exploration, development and operating activities for particular assets are conducted. Benefits include the ability to source and secure new opportunities, capitalising on the local partner's market knowledge and relationships (in particular in countries or regions where the Company has no or limited prior operations), mitigation of some of the financial risk inherent in the exploration and development of oil and gas assets through farm-out and similar arrangements, and the alignment of interests. A deterioration in relationships or disagreements with existing partners or a failure to identify suitable partners may have an adverse impact on its existing operations or affect its ability to grow its business.

Reserve and Resource Estimates

The resource and reserve data in respect of the Company's assets set forth in the RPS Reports and elsewhere in this AIF represent RPS's best professional judgment as to such resources and reserves. Estimations of resources and reserves are inherently inexact and the accuracy of any estimate is a function of the quality of available data, engineering and geological interpretation, judgment, production projections, maintenance and development capital, and other uncertainties inherent in estimating quantities of recoverable oil and gas. Thus, there can be no guarantee that estimates of quantities and quality of oil and gas disclosed in the RPS Reports and elsewhere in this AIF will be produced.

The reported hydrocarbon volumes are estimates based on professional judgment and are subject to further revision, upward or downward, because of future operations or as additional information becomes available. The RPS Reports have been prepared by RPS, a third-party engineering firm that specializes in the estimation of oil and gas assets. The RPS Reports have been compiled by RPS using the definitions and guidelines set out by the COGE Handbook for reserves. The COGE Handbook recognizes that contingent resources, although discovered, are by their nature uncertain in respect of the inferred volume range and prospective resources are speculative in respect of their inferred presence (i.e. they are undiscovered) and uncertain in respect of their inferred volume range.

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 may be able to begin producing gas and oil from these 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 reserves and resources estimates, may vary from such estimates. In addition, any estimates of future net revenues contained within the RPS Reports and elsewhere in this AIF 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.

Compliance with Foreign Regulatory Regimes

In most countries, including Ukraine, Brunei and Syria, where the Company presently carries on business, all phases of oil and gas exploration, development and production are regulated by the respective 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, marketing, pricing, transportation and storage of oil and gas, environmental protection and health and safety. Regulations applicable to the Company are derived both from national and local laws and from the production sharing or concession agreements governing the Company's interests. As a result, the Company may have limited control over the nature and timing of exploration and development of oil and gas fields in which the Company has or seeks interests. There can be no assurance that the Company will not in the future incur decommissioning charges since local or national governments may require decommissioning to be carried out in circumstances where there is no express obligation to do so, particularly in case of future licence renewals.

In the countries in which the Company carries on business, including Ukraine, Brunei and Syria, 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 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 may require licences or permits from various governmental authorities to carry out its planned exploration, development and production activities. There can be no assurance that the licences and permits held by the Company will not expire or be revoked if the Company fails to comply with the terms of such licences or permits, or in the event of any change of relevant laws or their interpretation. The termination of any of the Company's contracts or licences granting rights in respect of the properties would have a material adverse effect on the Company, including the Company's financial condition.

For example, in August 2012, the Brunei Block M PSA with PetroleumBRUNEI relating to Brunei Block M expired after efforts by the joint venture partners to obtain an extension to the terms of the Brunei Block M PSA were unsuccessful. As a result of the expiration of the Brunei Block M PSA, the Company recorded an impairment in respect of the Brunei Block M exploration and evaluation assets in the third quarter 2012, in an amount of $85.1 million, which includes the Company's share of the penalty payable on expiry of the Brunei Block M PSA of $6.0 million relating to work commitments.

There can also be no assurance that the Company will be able to obtain all necessary licences and permits when required. In particular, recent developments relating to the land use registration system in Ukraine may result in delays and may increase the costs for the Company's plans to construct gas pipelines from its producing wells on the Ukraine Licences to gas transportation infrastructure, or may force the Company to suspend production of gas from certain producing wells on the Ukraine Licences until pipelines are constructed. Ukraine has made a series of changes to its land use registration system as it implements and develops a system of private land ownership and seeks to balance traditional state-owned land ownership with the rights of private land owners. In 2012, a new land use registration system was implemented with the objectives of making the Ukraine real estate framework more integrated, coherent and efficient. Effective January 1, 2013, land use agreements or other contractual arrangements among commercial developers of gas and gas condensate fields and the holder of privately owned land, such as a land servitude agreement to construct a gas pipeline across privately owned land, must be registered under the newly implemented land use registration system operated by state authorities.

However, in order for such land use agreements to be registered with the new Ukraine land use registration system, the land plots subject to the land use agreement must also be registered with the land use registration system. Recent changes to legislation in Ukraine have heightened the administrative procedures and disclosure requirements necessary to register land plots. In some cases, the information required to register a land plot, or the regulations stipulating the format of the files required to be submitted for registration, are simply unavailable or have not yet been adopted or developed. In other cases, the owner of the land plot must undertake at their own expense a number of administrative actions, such as obtaining technical documentation for the renewal of land plot boundaries and satisfying various registration and filing requirements that have not been clearly established by the state authorities operating the land use registration system.

The foregoing issues with the Ukraine land use registration system may result in delays and may increase the costs for the Company's plans to construct gas pipelines from its producing wells on the Ukraine Licences to the Ukraine gas transportation infrastructure, or may force the Company to suspend production of gas from certain producing wells on the Ukraine Licences until additional pipelines are constructed. KUB-Gas is actively engaged with various governmental agencies in Ukraine regarding the developments described above to seek clarification and resolution of the potential delays and cost increases associated with these developments.

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 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.

Foreign Exchange Risks and Commodity Hedging

The nature of the Company's activities results in exposure to fluctuations in foreign currency exchange rates. World oil and natural gas prices are quoted in US 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 US dollar against other currencies in which business of the Company is transacted. Variations in exchange rates have the effect of impacting the stated value of oil and natural gas reserves and/or production revenue. The Company is exposed to risks arising from fluctuations in currency exchange rates between the Canadian dollar ("**CAD**"), Polish zloty, Ukraine hryvnia ("**UAH**"), Syrian pound, Brunei dollar and the US dollar.

The following table summarizes the Company's foreign currency exchange risk for each of the currencies indicated:

	December 31, 2012		December 31, 2011	
(Thousands)	CAD	UAH	CAD	UAH
Cash and cash equivalents	124	127,488	249	71,655
Accounts receivable	267	11,759	424	3,579
Prepaid expenses	248	2,796	16	5,837
Accounts payable and accrued liabilities	(422)	(92,943)	(435)	(26,867)

	December 31, 2012		December 31, 2011	
Net foreign exchange exposure	217	49,100	254	54,204
US $ equivalent at period-end exchange rate	$218	$6,143	$249	$6,683

For the year ended December 31, 2012, based on the net foreign exchange exposure at the end of the period, if the Canadian dollar had strengthened or weakened by 10% compared to the U.S. dollar and all other variables were held constant, the after tax net loss would have decreased or increased by approximately $10,000 (2011 - $25,000). Earnings are not impacted by fluctuations in the Ukraine hryvnia as translation gains and losses are included in accumulated other comprehensive income (loss).

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 $0.343 million for the year ended December 31, 2012 (2011 - $0.354 million loss).

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

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.

The Company's accounts receivable consist of receivables from other joint venture partners that are anticipated to be applied against future capital expenditures, receivables for revenue in Ukraine, commodity taxes recoverable from the federal government of Canada and 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.

In Ukraine, credit evaluations are performed on customers requiring credit over a certain amount. The Company does not require collateral in respect of financial assets. Management believes that the Company's exposure to the Ukrainian credit risk is not significant, as the gas sold under contract is based on monthly nominations, and traditionally was paid for at the beginning of each month and therefore prior to the gas being delivered to the customer. This practice of pre-paying for natural gas sales appears to be changing in 2013 with an increasingly competitive gas sales market; KUB-Gas management is presently evaluating what additional credit assessment measures, if any, should be implemented. The Company's credit risk arising from possible defaults on gas sales contracts will, at worst, be limited to one month's sales.

Management has no formal credit policy in place for customers outside 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.

Relinquishment Obligations under Applicable Legislation and Key Agreements

Consistent with international practice, the production sharing agreements to which the Company is a party contain, and production sharing agreements to which the Company may become a party in the future may 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 depends in large measure on certain key personnel, which include the Executive Officers and certain other senior personnel. The contributions of these individuals to the immediate operations of the Company are likely to be of central importance. The Company's ability to maintain its competitive position and to implement its business strategy is dependent, to a large degree, on the services of its senior management team and its technical personnel. Competition in the oil and gas industry for senior management and technical personnel with relevant expertise and exposure to international best practices is intense due to the small number of qualified individuals, which may affect its ability to retain its existing senior management and technical personnel and to attract additional qualified personnel. Losses of or an inability to attract and retain additional senior management or technical personnel could have a material adverse effect on its business, financial condition, results of operations and prospects. 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.

Uncertainty Regarding Interpretation and Application of Foreign Laws and Regulations

The Company's exploration and development activities are located in countries with differing 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. 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:

- 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;

- a higher degree of discretion on the part of governmental authorities;

- uncertainty regarding the constitutionality, validity or enforceability of laws and regulations, particularly where those rules and regulations are the result of recent legislative changes or have been recently adopted;

- 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;

- provisions in laws and regulations that are ambiguously worded or lack specificity and thereby create difficulties when implemented or interpreted;

- inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions;

- courts being used to further political aims;

- relative inexperience of the judiciary and courts in such matters or an overly formalistic judiciary; and

- corruption within the judiciary.

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 these laws by the relevant local authority. These local authorities may adopt an interpretation of an aspect of local law which differs from the advice that has been given to the Company. The Company's contracts, joint ventures, licence, licence applications or other legal arrangements may 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.

In general, 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.

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. More recently, developments have occurred with respect to the land use registration system in Ukraine which may result in delays and may increase the costs for the Company's plans, or may force the Company to suspend production of gas from certain producing wells on the Ukraine Licences until pipelines are constructed.

For further information on such developments, please see "*Risk Factors – Compliance with Foreign Regulatory Regimes"*.

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.

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.

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.

In general, whether in Ukraine, Brunei, Syria, 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.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

The Company has made, and intends to make, acquisitions and possibly dispositions of businesses and assets in the ordinary course of business. 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 or dispositions 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. The integration of an 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.

Competition for the acquisition of prospective properties is intense, which may increase the cost of any potential acquisition. The Company's exploration and development activities have principally been based in Ukraine, Brunei and Syria. The Company's limited presence in other regions may limit its ability to identify and complete acquisitions in other geographic areas.

See also "*Risk Factors – KUB-Gas May Fail to Fully Realize its Anticipated Benefits*".

Decommissioning Liabilities

The Company, through its licence interests and production sharing contract interests, has assumed certain obligations in respect of the decommissioning of its fields and related infrastructure and is expected to assume additional decommissioning liabilities in respect of its future operations. These liabilities are derived from legislative and regulatory requirements concerning the decommissioning of wells and production facilities and require the Company to make provision for and/or underwrite the liabilities relating to such decommissioning. Any significant increase in the actual or estimated decommissioning costs that the Company incurs may adversely affect its results of operations and financial condition.

Title to Properties

Notwithstanding any due diligence which may be undertaken by the Company, there may be title defects which affect production sharing contracts, licence agreements or other legal documents (such as special permits for subsurface use, as applicable in Ukraine) which relate to the Company's properties on which the production activities are performed, 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.

Crime and Governmental or Business Corruption

The Company conducts business in countries or regions which have experienced high levels of governmental and business corruption and other criminal activity.

The Company is required to comply with applicable anti-bribery laws, including the Canadian Corruption of Foreign Public Officials Act and the U.S. Foreign Corrupt Practices Act, as well as local laws in all countries in which the corporation does business. Ukraine, in particular, has a number of pieces of anti-money laundering and anti-corruption legislation. These, among other things, include laws in respect of the monitoring of financial transactions and provide a framework for the prevention and prosecution of corruption offences, including various restrictions and safeguards. However, there can be no guarantee that these laws will be effective in identifying and preventing money laundering and corruption.

The failure of the governments of the countries in which the Company operates to continue to fight corruption or the perceived risk of corruption could have a material adverse effect on the local economies. Any allegations of corruption in these countries or evidence of money laundering could adversely affect their ability to attract foreign investment and thus have an adverse effect on their economies which in turn could have a material adverse effect on the Company's business, results of operations, financial condition and prospects.

The Company has a Code of Business Conduct and Ethics in place with which directors, officers and employees must comply. Moreover, findings against the Company, the Directors, the Executive Officers or the employees of the Company, or their involvement in corruption or other illegal activity could result in criminal or civil penalties, including substantial monetary fines, against the Company, the Directors, the Executive Officers or the employees of the Company. Any government investigations or other allegations against the Company, the Directors, the Executive Officers or the employees of the Company, 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 licences or 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 licences or 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 has experienced significant growth in a relatively short period of time, in particular through its acquisition of assets in Ukraine. The Company does not have a long history of operating in its current form, including in terms of size and geographic reach, and its ability to manage its existing business and its future growth depend upon a number of factors, including its ability:

- to effectively increase the scope of its management, operational and financial systems and controls to handle the increased complexity, expanded breadth and geographical area of its operations;

- to recruit, train and retain qualified staff to manage and operate its growing business;

- to accurately identify and evaluate the contractual, financial, regulatory, environmental and other obligations and liabilities associated with its international acquisitions and investments;

- to implement financial oversight and internal financial risk, and other controls, over its acquisitions and investments, and to ensure the timely preparation of financial statements that are in conformity with the Company's accounting and control policies;

- to accurately judge market dynamics, demographics, growth potential and competitive environments;
- to effectively determine, evaluate and manage the risks and uncertainties in entering new markets and acquiring new businesses through its due diligence and other processes, particularly given the heightened risks in emerging markets; and
- to maintain and obtain necessary permits, licences, spectrum allocation and approvals from governmental and regulatory authorities and agencies.

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.

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 typically responsible for implementing the field work, including 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, decisions regarding the timing and amount of capital expenditure, the selection of technology and risk management and compliance policies. In addition, an operator is usually responsible for providing the other partners with operational, financial and other information relating to the asset.

To the extent the Company or one of its subsidiaries is not the operator of any of its assets, the Company will be dependent on the competence, expertise, judgement and financial resources of the operator, with the operator complying with the terms of the relevant contractual arrangements, and, subject to the terms of such arrangements, may have limited ability to exercise influence over the operations of these assets or their associated costs, or to control the quality of the information it receives in respect of such assets, which could adversely affect the Company's business, prospectus and financial performance. In addition, participants in a partnership may proportionately share liability for any claims and liabilities which may arise as a result of the operator's activities carried out for the benefit of participants (as the case may be). Should the operator become subject to any liabilities, the Company may be proportionally responsible for some of such liability. Actions or decisions taken by an operator, failure to act or non performance by an operator, or the incurring of liabilities by an operator could adversely affect the Company's business, prospects and financial performance and, ultimately, potentially result in the loss of an asset.

In August 2012, the Brunei Block M PSA with PetroleumBRUNEI relating to Brunei Block M expired after efforts by the joint venture partners to obtain an extension to the terms of the Brunei Block M PSA were unsuccessful. As a result of the expiration of the Brunei Block M PSA, the Company recorded an impairment in respect of the Brunei Block M exploration and evaluation assets in the third quarter 2012, in an amount of $85.1 million, which includes the Company's share of the penalty payable on expiry of the Brunei Block M PSA of $6.0 million relating to work commitments.

Financial Covenants Relating to Ukrainian Assets

On May 20, 2011, KUB-Gas entered into the EBRD Loan Facility for up to US$40 million from EBRD. The EBRD Loan Facility contains a comprehensive set of representations and covenants provided by KUB-Gas, including financial covenants relating to debt service, leverage and current assets/liabilities. Compliance with these covenants limits the extent to which KUB-Gas is able to distribute funds which KOV could otherwise utilize to fund other aspects of its business.

In particular, KUB-Gas may not distribute cash to the extent that any such distributions breach the financial covenants. As customers of KUB-Gas pay for gas and oil in advance, the Company tends to maintain a low or negative working capital balance, and as such, the current assets/liability financial ratio, which is currently required to be 1:1, restricts the amount of cash that KUB-Gas is able to distribute as dividends. This, in turn, restricts the Company's ability to use cash from its Ukrainian production activities to fund its development and exploration activities elsewhere.

Although as of the date hereof KUB-Gas is in compliance with the covenants in the EBRD Loan Facility, or has received waivers in those instances where the covenants have been, or will be breached, including the financial covenants, there can be no assurance that circumstances will not change, and any such changes could cause KUB-Gas to breach such covenants in the future, which may result in the acceleration of its debt. KUB-Gas may not have sufficient cash or assets to fulfil its payment obligations upon any acceleration of its debt and, even if it were able to refinance indebtedness upon a default, the terms of any new debt agreements may be less favourable to KUB-Gas. Moreover, a default could cause the Company to lose key assets and/or shares of KUB-Gas that are pledged as security for such indebtedness.

Any of the foregoing developments could have a material adverse effect on the Company's financial condition and results of operations.

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

KUB-Gas holds licences for conducting geological survey and further pilot production of natural gas, condensate and oil in the licenced areas. According to these licences, 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 licenced areas. A default under any of these requirements may result in voiding a licence 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.

Political Instability in Syria and Syria Sanctions

Recent developments in the Middle East and North Africa (particularly instability in Syria, Libya and Bahrain) have impacted and may have longer term significant impact on the Company's commercial operations in Syria. Given the ongoing difficult operating environment in Syria, KOV's exploration activities in relation to Syria Block 9 are currently suspended and have been on hold since October 2011, and a *force majeure* was formally declared under the Syria Block 9 PSC in July 2012. If the *force majeure* event continues for a period of more than one year, the contracting parties are entitled to terminate their obligations under the Syria Block 9 PSC on 90 days' notice without further liability. KOV will continue to monitor operating conditions in Syria to assess when, and if, a recommencement of its Syrian operations is possible. However, there is no certainty as to if and when operations will be able to be recommenced. The Company's exploration assets in Syria have been fully impaired.

The continued suspension of the Company's operations in Syria, which may or may not result in the invalidation or termination of the Syria Block 9 PSC, is delaying the Company's exploration and development activities there, and could have material adverse effect on the Company's financial condition and/or results of operations. In the event that the Company is able to recommence its operations in Syria, there is no certainty that the new social, political and economic environment will not adversely affect the Company's operations or its ability to grow its business.

Canada imposed targeted sanctions against members of the Syrian Government in May 2011 pursuant to certain regulations passed under the authority of Canada's Special Economic Measures Act. The sanctions have been expanded numerous times through various amending regulations.

The consolidated regulations, as of the date of this AIF, impose an assets freeze and dealings prohibition on numerous listed individuals and entities associated with the Assad regime. The sanctions also prohibit a person in Canada and any Canadian outside Canada from providing or acquiring financial or other related services to, from or for the benefit of or on the direction or order of Syria or any person in Syria for the purpose of facilitating the importation, purchase, acquisition, carriage or shipment of any petroleum or petroleum products, excluding natural gas, from Syria. There are also broad prohibitions on making investments in Syria that deal with property held by or on behalf of Syria, a person in Syria or a national of Syria who does not ordinarily reside in Canada and on providing or acquiring financial or other related services to, from or for the benefit of or on the direction or order of Syria or any person 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. Similarly, services commonly provided in the oil and gas industry by firms or companies based in, or with significant activities in the United States may not be available in Syria.

The European Union implemented similarly wide measures against Syria in May 2011 which have been amended and replaced since that time in light of the deteriorating political and civil situation.

The effect of the Canadian, EU and US sanctions in reducing products, equipment, services and financial resources that would otherwise be available may cause such products, equipment, services and financial resources that are required by the Company to conduct its operations to be either not available at all, or to be available at a higher cost than would otherwise have been the case in the absence of such sanctions.

Shared Trademark and Trade Name

The Company shares the "KOV" trademark and trade name with KI and many of KI's affiliates. KI, the largest 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 licence agreement (the "**Licence Agreement**") under the terms of which, KI granted the Company a limited, non-exclusive, revocable and non-transferable licence 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 Licence Agreement, the Company currently identifies 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 licence 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 Loon Guarantee.

KUB-Gas May Fail to Fully 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 licences and special permits or failure to comply with the terms of its licences 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 Licences;

- expropriate any special permit, licence or any KUB-Gas shares;
- take measures tantamount to the expropriation of any Ukrainian Licences 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.

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. 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.

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.

Competition for exploration and production licences as well as other regional investment or acquisition opportunities may increase in the future. This may lead to increased costs in the carrying on of the Company's activities and reduced available growth opportunities. Any failure by the Company to compete effectively could adversely affect the Company's operating results and financial condition.

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 writedown 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.

During the year ended December 31, 2012, the Company recorded an impairment to reflect the expiration of the Brunei Block M PSA in August 2012. The Company fully impaired the value of the exploration asset in Syria as well as the financial investment in Ninox in 2011. Effective July 16, 2012, the Company, in its capacity as operator of Block 9 in Syria, declared a *force majeure* event due to difficult operating conditions and restrictions on the movement of funds both into and within the country, which together resulted in circumstances under which it was impossible for the Company to meet its obligations under the Syria Block 9 PSC. The Company continues to monitor operating conditions in Syria to asses when a recommencement of its Syrian operations is possible.

Moreover, 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 Company may become subject to further extensive laws, regulations and scrutiny or become subject to more stringent application of existing regulations on drilling, particularly in areas that are environmentally sensitive and/or have not yet been open to drilling.

In the long term, the Company's ability to carry out exploration may be affected by such increased regulation and the terms of licences or permissions may include more stringent environmental and/or health and safety requirements. The obtaining of exploration, development or production licences, production sharing agreements or production sharing contracts for oil and gas exploration, particularly for offshore drilling, may become more difficult or be the subject of delay due to governmental, regional or local consultation, approvals or other considerations or requirements.

In addition, the Company may be required to incur additional expenditure or could be required to hire or purchase additional equipment to comply with any new operational, environmental and/or health and safety regulations. The impact of any such regulations or requirements could be to impose a constraint on long-term oil and gas production of the Company and restrict the Company's control over the nature and timing of its exploration, appraisal, development, production and other activities or its ability to undertake these activities at all may be materially and adversely affected, including by substantial delays or material increases in costs. Such additional costs, interruptions or delays could have an adverse impact on the Company's business, prospects, financial condition and results of operations.

Failure by the Company to comply with the applicable legal requirements or recognized international standards may give rise to significant liabilities.

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 licenced 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. The rainy season, from September to January, is the principal weather factor in Brunei. In the Company's area of activity in Syria, sandstorms and both high and low temperatures can make operations more difficult and costly.

Prices, Markets and Marketing

The marketability and price of oil and natural gas that is or may be acquired or discovered by the Company is affected by numerous factors beyond its control. See "*Risk Factors - Compliance with Foreign Regulatory Regimes*" with respect to recent developments relating to the land use registration system in Ukraine which may result in delays and may increase the costs for the Company's plans to construct gas pipelines from its producing wells on the Ukraine Licences to gas transportation infrastructure. In Brunei and Syria, where the Company does not currently produce oil or gas, the Company's future ability to market any oil or gas it produces will depend upon its ability to acquire space on pipelines that deliver oil and natural gas to commercial markets. Availability of pipeline capacity to new customers 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:

- deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities;

- economic or other sanctions that prohibit, amongst other things, the export of crude oil or petroleum products that originate in countries in which the Company operates;

- operational problems with such pipelines and facilities; and

- 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.

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 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 the 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, including unconventional oil and natural gas accumulations. In Ukraine in particular, the Company is exposed to risks due to fluctuations in the price of natural gas influenced by the economic conditions in Ukraine, the recommendations of the International Monetary Fund and the availability of imported natural gas from Russia and the price set by exporters in Russia. 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 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 capitalised costs of certain oil and natural gas properties. 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.

Risks Related to Tax/Royalty Regime of Ukraine

The Company pays different types of tax in Ukraine, including general corporate tax, payroll taxes, VAT, royalty (rent) payments on the extraction of natural gas and oil, which are set at different rates for oil and gas products. The tax regime in Ukraine is subject to frequent changes. Tax risks in Ukraine are much greater than those typically found in countries with more developed tax systems, which significantly increases the risks with respect to the Company's operations and investment in Ukraine. Ukrainian tax legislation has been in force since January 1, 2011 and is being continually improved and changed. As a result, there is no stable practice as to its application and the case law is still very limited. Differing opinions regarding legal interpretation often exist both among and within governmental ministries and organisations, including the tax administration, creating uncertainties and areas of conflict. Although the new Ukraine tax code, which took effect from January 1, 2011, is viewed by the Government as a substantial progress in the implementation of the tax reform aimed at modernising and simplifying the Ukrainian tax system, the adoption of the Ukraine tax code may have an adverse effect on the Company's operations in Ukraine. In addition, enforcement of violations of the tax laws in Ukraine may involve penalties and fines, including criminal or administrative proceedings, substantially more significant than those typically found in countries with more developed tax systems. Moreover, the three-year statutory limitation period for re-assessment by the tax authorities may not be observed, or may be extended, in certain circumstances, and the fact that a period has been reviewed does not exempt this period, or any tax declaration/return applicable to that period, from further review.

Availability of Equipment and Services

Oil and natural gas exploration and development activities are dependent on the availability of specialized drilling and other equipment, and third-party service contractors to provide such 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 and/or cost of such equipment and services to the Company and may delay exploration and development activities or increase the costs of the Company's exploration, development and production activities.

Limited availability and increased prices may, in particular, result from any significant increase in regional exploration and development activities which in turn may be the consequence of increased or continued high prices for oil or gas. In the areas in which the Company operates, there can be a significant demand for drilling rigs and other equipment and services with such demand increasing and decreasing over time according to general levels of activity in the industry. Failure by the Company to secure necessary equipment and services in a timely manner could delay, restrict or lower the profitability and viability of the Company's activities and adversely affect the Company's business, results of operations or financial condition.

New Technology

The oil and gas industry is characterized by rapid and significant technological advancements and introductions of new products and services utilising new technologies. Other oil and gas companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies either before the Company does so or in circumstances where Company is not able to do so. There can be no assurance that the Company will be able to respond to such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. One or more of the technologies currently utilized by the Company or implemented in the future may become obsolete. If the Company is unable to utilize the most advanced commercially available technology, the Company's business, financial condition, results of operations and prospects could be materially adversely affected.

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 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.

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 obtains 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. For example, the Company does not maintain insurance against political violence, governmental expropriation or confiscation of assets, governmental frustration or repudiation of contracts, wrongful calling of guarantees or letters of credit, business interruption, inconvertibility of foreign currency or the inability to repatriate funds or other similar political risks in the locations in which the Company operates. 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.

Global Capital Markets

The disruptions experienced in the past several years in the international and domestic capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies with operations located in countries in the emerging markets may be particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs, which could result in them experiencing financial difficulty. In addition, the availability of credit to entities operating within the emerging and developing markets is significantly influenced by levels of investor confidence in such markets as a whole and as such any factors that impact market confidence (for example, a decrease in credit ratings, state or central bank intervention in one market or terrorist activity and conflict) could affect the price or availability of funding for entities within any of these markets.

Since the advent of the global economic crisis in 2008, certain emerging market economies have been, and may continue to be, adversely affected by market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems outside countries with emerging or developing economies, or an increase in the perceived risks associated with investing in such economies, could dampen foreign investment in and adversely affect the economies of these countries (including, for example, countries in which the Company operates). The links between economic activities in different markets and sectors are complex and depend not only on direct drivers such as the balance of trade and investment between countries, but also on domestic monetary, fiscal and other policy responses to address macroeconomic conditions.

In addition, ongoing terrorist activity and armed conflicts in the Middle East, North Africa, West Africa and elsewhere have also had a significant effect on international finance and commodity markets. Any future national or international acts of terrorism or armed conflicts could have an adverse effect on the financial and commodities markets in the countries in which the Company operates and the wider global economy. Any acts of terrorism or armed conflicts causing disruptions of oil and gas exports could adversely affect the Company's business, financial condition, results of operations or prospects.

Work Stoppages or Labour Disputes

The Company's contractors or service providers may be limited in their flexibility in dealing with their staff due to the presence of trade unions among their staff. If there is a material disagreement between contractors or service providers and their staff belonging to trade unions, the Company's operations could suffer an interruption or shutdown that could have a material adverse effect on its business, results of operations or financial condition.

The failure to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest. Labour and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralized authority, increased nationalism including calls for restrictions on foreign ownership of local businesses, and violence. Any of these events could restrict its operations and lead to the loss of revenue, thereby materially adversely affecting its ability to conduct its business effectively.

Unexpected Shutdowns

Mechanical problems, accidents, leaks or other events at the Company's pipelines or infrastructure may cause an unexpected production shutdown at its facilities. Political unrest may also lead to a shutdown in production. Any unplanned production shutdown of the Company's facilities or environmental damage caused by pollution from the Company's facilities could have a material adverse effect on the Company's business, production, financial condition and results of operations.

Litigation

The petroleum industry, as with all industries, may be subject to legal claims, both with and without merit, from time to time. Defence and settlement costs can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, there can be no assurance that the resolution of any particular legal proceeding will not have a material adverse effect on the Company's financial position, results or operations. The Company's business may be materially adversely affected if the Company and/or its employees or agents are found not to have met the appropriate standard of care or not exercised their discretion or authority in a prudent or appropriate manner in accordance with accepted standards. In addition, the adverse publicity surrounding such claims may have a material adverse effect on the Company's business.

Risks Relating to the 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, 240,807,193 Common Shares, representing approximately 49.99% of the issued and outstanding Common Shares in the capital of the Company are held by KI. Dr. Jan Kulczyk, formerly the 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.

According to the early warning report filed by KI on SEDAR on December 19, 2012, KI and Radwan collectively hold an aggregate of 267,435,553 Common Shares representing approximately 55.52% of the Common Shares. Radwan may, in certain circumstances, be considered to be a joint actor to KI for the purposes of Canadian securities law, as a result of an agreement in place between Radwan and KI dated September 15, 2010 which entitles Radwan to participate in a percentage of KI's investments and provides that Radwan will vote any securities it purchases pursuant to such agreement in accordance with the directions of KI. The combined shareholding of KI and Radwan 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 and Radwan have 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, 240,807,193 Common Shares, representing approximately 49.99% 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 Due to 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 41,294,000 Common Shares issuable upon the exercise of outstanding options of the Company at prices ranging from $0.38 per Common Share to $0.69 per Common Share. 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 Shares. If the share capital of the Company is increased and new Common Shares are issued for cash, existing shareholders of Common

Shares are not, under the Company's constitutional documents and applicable Canadian law, entitled to pre-emptive or similar rights in respect of those Common Shares to preserve their *pro rata* shareholdings in the Company. 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 for which disclosure is required in this section since the beginning of the financial year ending December 31, 2012.

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, 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. The KI Debenture was amended in November 2009 to increase the amount of the funding available to $11.0 million, and again in January 2010 to increase the amount of the funding available to $20.0 million, in each case with all other terms and conditions remaining 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 entered into the KI/Radwan Debentures with KI and Radwan. The total amount available under the KI/Radwan Debentures was $23.5 million, bearing interest at a rate of 8.0% per annum, payable annually. Notices of conversion were received prior to August 11, 2012, and shortly thereafter, the $23.5 million principal and all accrued interest were converted to 60,499,029

Common Shares. The KI/Radwan Debentures also included a provision for an implied additional 12.0% in interest to be paid in KOV shares upon conversion.

See "*General Development of the Business – Three-Year History of the Company – KI/Radwan Debentures*".

KI Loan

On June 22, 2012, the Company finalized an arrangement with KI for the provision of up to $12.0 million in funding to KOV to fund KOV's ongoing working capital requirements. KI agreed to provide funding by way of the KI Loan to KOV for the principal amount of up to $12.0 million with a term ending December 31, 2012. Interest is payable at a rate of 15.0% per annum, and KOV may at any time prepay the loan in whole or in part.

On December 11, 2012, the Company and KI entered into an amended and restated loan agreement to, among other things, extend the term of the KI Loan by one year from December 31, 2012 to December 31, 2013 and make amounts owing under the KI Loan convertible into Common Shares. As at December 31, 2012, the Company had drawn $10.0 million on the KI Loan.

See "*General Development of the Business – Three-Year History of the Company – KI Loan*".

KI Services

The Company had service agreements for ongoing corporate, acquisition and consulting services to be provided to the Company by both Kulczyk Holdings S.A. ("**KH**") and KI which expired in June 2011. During 2012, the Company paid $nil in monthly fees to KI for services provided (2011 - $210,000), and paid $nil in monthly fees to KH (2011 - $90,000) for services provided. 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. Other than as stated in the preceding sections regarding the KI/Radwan Debentures and the KI Loan, the Company owed no amounts to either KI or KH at December 31, 2012, 2011 or 2010.

KI Trade Name and Trade-Mark Licence Agreement

On November 6, 2008, KOV and KI entered into the Licence Agreement. Under the terms of the Licence Agreement, KI granted the Company a limited, non-exclusive, revocable and non-transferable licence 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 licence to use the Marks is at no cost to KOV, and will expire upon the termination of the Licence Agreement.

The Licence 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 licence 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 Licence Agreement by the Company. KOV may grant a sublicence to use the Marks to a subsidiary in limited circumstances.

The Licence 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 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 with a maturity date of August 12, 2011 (the "**TIG Convertible Debenture**") in exchange for the balance of the TIG Notes. The TIG Convertible Debenture was secured by a floating charge on all of the Company's present and after-acquired property and bore interest at a rate of 7.16% compounding semi-annually, payable annually. The Company had 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 was 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 the TIG Convertible Debenture 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 TIG Convertible Debenture 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 – Brunei - Material Agreements*".

- *Joint Bidding Agreement*
- *Block L Production Sharing Agreement (Block L PSA)*
- *Block L Operating Agreement*

- *Settlement Agreement*

- *Sale and Purchase Agreement (AED SEA)*

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

- *Syria Block 9 PSC*

- *Consulting Agreement*

Contracts Entered into Outside the Ordinary Course of Business

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

- *Shareholders' Agreement (SHA)*

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

- *Licence Agreement*

For further information on the following agreements, please see "*General Development of the Business – EBRD Loan Facility*" and "*– KI Loan*".

- *EBRD Loan Facility*

- *KI Loan Agreement*

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, 2012, 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 20, 2013, 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, the contingent and prospective resources of the Company in Brunei and prospective resources of the Company in Syria Block 9 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 18, 2012 relating to the annual meeting of shareholders held on May 16, 2012. Additional financial information is provided in the audited consolidated financial statements of the Company as at, and for the year ended, December 31, 2012 and management's discussion and analysis for the financial year ended December 31, 2012.

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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 20, 2013. The effective date of the information being provided in this statement is December 31, 2012 and the preparation date of such information is March 15, 2013.

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, 2012, based on their report dated March 20, 2013 (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 indirectly owns a 70% interest in a subsidiary (KUBGas 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 the 100% full field interest of KUB-Gas 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, 2012. 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, 2012
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	29,476	19,857	184	112	4,596	3,422
Developed Non-Producing	7,797	5,848	37	22	1,336	997
Undeveloped	9,906	7,430	70	43	1,721	1,281
TOTAL PROVED	**44,180**	**33,135**	**291**	**177**	**7,654**	**5,700**
PROBABLE	31,975	23,981	410	250	5,739	4,247
TOTAL PROVED PLUS PROBABLE	**76,155**	**57,116**	**700**	**427**	**13,393**	**9,946**
POSSIBLE	62,376	46,782	994	606	11,390	8,403
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	**138,531**	**103,898**	**1,694**	**1,034**	**24,783**	**18,350**

Notes:
(1) See information related to BOE conversion ratio on page 30 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, 2012
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	18,533	13,900	129	78	3,281	2,395
Developed Non-Producing	5,458	4,094	26	16	935	698
Undeveloped	6,934	5,201	49	30	1,205	897
TOTAL PROVED	**30,926**	**23,194**	**203**	**124**	**5,358**	**3,990**
PROBABLE	22,383	16,787	287	175	4,017	2,973
TOTAL PROVED PLUS PROBABLE	**53,308**	**39,981**	**490**	**299**	**9,375**	**6,963**
POSSIBLE	43,663	32,748	696	425	7,973	5,882
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	**96,972**	**72,729**	**1,186**	**723**	**17,348**	**12,845**

Notes:
(1) See information related to BOE conversion ratio on page 30 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, 2012
100% Full Field Interest

	BEFORE INCOME TAXES DISCOUNTED AT (% / YEAR) [2]					AFTER INCOME TAXES DISCOUNTED AT (% / YEAR) [2]					UNIT VALUE BEFORE INCOME TAX DISCOUNTED AT 10% / YEAR [1][2][4]
	0	**5**	**10**	**15**	**20**	**0**	**5**	**10**	**15**	**20**	
RESERVES CATEGORY [3]	**MM$**	**MM$**	**MM$**	**MM$**	**MM$**	**MM$**	**MM$**	**MM$**	**MM$**	**MM$**	**($/McfGE)**
PROVED											
Developed Producing	203.0	175.4	154.3	137.9	124.9	174.3	150.2	131.8	117.4	105.9	7.52
Developed Non-Producing	60.0	52.9	47.1	42.3	38.3	50.1	44.0	39.0	35.0	31.6	7.87
Undeveloped	36.1	24.0	15.4	9.2	4.8	29.4	18.8	11.2	5.8	2.0	2.00
TOTAL PROVED	299.1	252.3	216.8	189.4	168.0	253.7	212.9	181.9	158.1	139.5	6.34
PROBABLE	315.1	210.2	151.1	115.0	91.6	264.8	176.6	126.8	96.4	76.7	5.93
TOTAL PROVED PLUS PROBABLE	614.2	462.5	367.9	304.5	259.6	518.6	389.5	308.7	254.6	216.2	6.16
POSSIBLE	681.2	409.0	272.6	197.0	151.3	572.7	343.4	228.6	165.0	126.6	5.41
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	1,295.4	871.6	640.4	501.4	410.8	1,091.3	733.0	537.3	419.6	342.8	5.82

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 30 of this document.

SUMMARY OF AGGREGATE NET PRESENT VALUES OF FUTURE NET REVENUE
BASED ON FORECAST PRICES AND COSTS
AS AT DECEMBER 31, 2012
70% KOV Working Interest

	BEFORE INCOME TAXES DISCOUNTED AT (% / YEAR) [2]					AFTER INCOME TAXES DISCOUNTED AT (% / YEAR) [2]					UNIT VALUE BEFORE INCOME TAX DISCOUNTED AT 10% / YEAR [1][2][4]
	0	5	10	15	20	0	5	10	15	20	
RESERVES CATEGORY [3]	**MM$**	**MM$**	**MM$**	**MM$**	**MM$**	**MM$**	**MM$**	**MM$**	**MM$**	**MM$**	**($/McfGE)**
PROVED											
Developed Producing	142.1	122.8	108.0	96.6	87.4	122.0	105.1	92.2	82.2	74.2	7.52
Developed Non-Producing	42.0	37.0	32.9	29.6	26.8	35.1	30.8	27.3	24.5	22.1	7.87
Undeveloped	25.3	16.8	10.8	6.4	3.4	20.6	13.1	7.8	4.1	1.4	2.00
TOTAL PROVED	209.4	176.6	151.7	132.6	117.6	177.6	149.0	127.4	110.7	97.7	**6.34**
PROBABLE	220.6	147.2	105.8	80.5	64.1	185.4	123.6	88.7	67.5	53.7	5.93
TOTAL PROVED PLUS PROBABLE	430.0	323.8	257.5	213.1	181.7	363.0	272.7	216.1	178.2	151.3	**6.16**
POSSIBLE	476.8	286.3	190.8	137.9	105.9	400.9	240.4	160.0	115.5	88.7	5.41
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	906.8	610.1	448.3	351.0	287.6	763.9	513.1	376.1	293.7	240.0	**5.82**

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 30 of this document.

TOTAL FUTURE NET REVENUE (UNDISCOUNTED)
AS AT DECEMBER 31, 2012
BASED 0N FORECAST PRICES AND COSTS
100% Full Field Interest

RESERVES CATEGORY (3)	REVENUE (MM$US)	ROYALTIES (MM$US)	OPERATING COSTS (2) (MM$US)	DEVELOP-MENT COSTS (MM$US)	ABANDON-MENT COSTS (MM$US)	FUTURE NET REVENUE BEFORE INCOME TAXES (MM$US)	INCOME TAXES (MM$US)	FUTURE NET REVENUE AFTER INCOME TAXES (MM$US)
PROVED								
Developed Producing	341.6	87.7	18.9	28.1	3.8	203.0	28.7	174.3
Developed Non-Producing	98.0	25.0	6.7	5.7	0.7	60.0	9.9	50.1
Undeveloped	134.1	34.4	14.3	43.6	5.7	36.1	6.7	29.4
TOTAL PROVED	573.8	147.1	39.9	77.4	10.2	299.1	45.4	253.7
PROBABLE	482.4	126.0	39.9	-	1.4	315.1	50.3	264.8
TOTAL PROVED PLUS PROBABLE	1,056.2	273.1	79.8	77.4	11.6	614.2	95.7	518.6
POSSIBLE	999.2	263.5	54.5	-	0.0	681.2	108.5	572.7
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	2,055.4	536.6	134.2	77.4	11.7	1,295.4	204.2	1,091.3

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, 2012
BASED ON FORECAST PRICES AND COSTS
70% KOV Working Interest

RESERVES CATEGORY (3)	REVENUE (MM$US)	ROYALTIES (MM$US)	OPERATING COSTS (2) (MM$US)	DEVELOP-MENT COSTS (MM$US)	ABANDON-MENT COSTS (MM$US)	FUTURE NET REVENUE BEFORE INCOME TAXES (MM$US)	INCOME TAXES (MM$US)	FUTURE NET REVENUE AFTER INCOME TAXES (MM$US)
PROVED								
Developed Producing	239.1	61.4	13.3	19.7	2.7	142.1	20.1	122.0
Developed Non-Producing	68.6	17.5	4.7	4.0	0.5	42.0	7.0	35.1
Undeveloped	93.9	24.1	10.0	30.5	4.0	25.3	4.7	20.6
TOTAL PROVED	401.6	103.0	27.9	54.2	7.2	209.4	31.8	177.6
PROBABLE	337.7	88.2	27.9	-	1.0	220.6	35.2	185.4
TOTAL PROVED PLUS PROBABLE	739.3	191.2	55.8	54.2	8.1	430.0	67.0	363.0
POSSIBLE	699.4	184.4	38.1	-	0.0	476.8	75.9	400.9
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	1,438.8	375.6	94.0	54.2	8.2	906.8	142.9	763.9

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, 2012

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) (2)
		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)	216.8	151.7	6.34
	Non-conventional oil and gas activities			
	Total	**216.8**	**151.7**	**6.34**
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)	367.9	257.5	6.16
	Non-conventional oil and gas activities			
	Total	**367.9**	**257.5**	**6.16**
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)	640.4	448.3	5.82
	Non-conventional oil and gas activities			
	Total	**640.4**	**448.3**	**5.82**

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 30 of this document.

OIL AND GAS RESERVES AND NET PRESENT VALUES BY PRODUCTION GROUP BASED ON FORECAST PRICES AND COSTS AS AT DECEMBER 31, 2012

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 equal or 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 the estimated 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 had reserves as at December 31, 2012, reflected in the reserves data disclosed above under “Part 2 – Disclosure of Reserves Data”. Forecast prices are provided by RPS, which is an independent qualified reserves evaluator and auditor. 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 RPS' previous experience in Ukraine and then inflated at 2% per year for each forecast year. Natural Gas liquids (Condensate) forecast prices are equal to 88.8% of the Real 2013 Brent price based on the actual differential experienced by the Company during 2012.

SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS AS AT DECEMBER 31, 2012
FORECAST PRICES AND COSTS

Year	Brent	Condensate (excl. VAT)	Gas (excl. VAT)	US$ Price Inflation Rate	US$ Cost Inflation Rate
	$ / bbl	$ / bbl	$ / Mcf	% / Year	% / Year
2013	108.00	95.91	11.64	2.0%	2.0%
2014	102.30	90.84	11.87	2.0%	2.0%
2015	98.20	87.20	12.11	2.0%	2.0%
2016	94.80	84.18	12.35	2.0%	2.0%
2017	97.42	86.51	12.60	2.0%	2.0%
2018	99.37	88.24	12.85	2.0%	2.0%
2019	101.35	90.00	13.11	2.0%	2.0%
2020	103.38	91.80	13.37	2.0%	2.0%
2021	105.45	93.64	13.64	2.0%	2.0%
2022	107.56	95.51	13.91	2.0%	2.0%
2023	109.71	97.42	14.19	2.0%	2.0%
2024	111.90	99.37	14.47	2.0%	2.0%
2025	114.14	101.36	14.76	2.0%	2.0%
2026	116.42	103.39	15.06	2.0%	2.0%
2027	118.75	105.45	15.36	2.0%	2.0%
2028	121.13	107.56	15.67	2.0%	2.0%
2029	123.55	109.72	15.98	2.0%	2.0%
2030	126.02	111.91	16.30	2.0%	2.0%
2031	128.54	114.15	16.62	2.0%	2.0%
2032	131.11	116.43	16.96	2.0%	2.0%
2033	133.74	118.76	17.30	2.0%	2.0%
2034	136.41	121.13	17.64	2.0%	2.0%
2035	139.14	123.56	18.00	2.0%	2.0%
2036	141.92	126.03	18.36	2.0%	2.0%

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, 2012 against such reserves as at December 31, 2011 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, 2012 [(1)]
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, 2011	256.4	180.0	436.4	37,379.76	15,507.06	52,886.83	6,486.39	2,764.53	9,250.91
Extensions	8.3	16.8	25.1	1,260	1,470	2,730	218	262	480
Infill Drilling	71.2	97.9	169.1	10,820	7,570	18,390	1,875	1,360	3,234
Technical Revisions	(3.1)	94.7	91.6	1,130	5,650	6,780	185	1,036	1,222
Discoveries	-	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-
Economic Factors	30.7	20.1	50.8	1,450	1,778	3,228	272	316	589
Production + Inventory changes	(72.8)	-	(72.8)	(7,860)	-	(7,860)	(1,383)	-	(1,383)
	-	-	-	-	-	-	-	-	-
December 31, 2012	290.6	409.6	700.2	44,180	31,975	76,155	7,654	5,739	13,393
	-	-	-						

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 30 of this document.

RECONCILIATION OF COMPANY GROSS RESERVES BY PRINCIPAL PRODUCT TYPE
BASED ON FORECAST PRICES AND COSTS AS AT DECEMBER 31, 2012 (1)
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, 2011	179.5	126.0	305.5	26,166	10,855	37,021	4,540	1,935	6,476
Extensions	5.8	11.8	17.6	882	1,029	1,911	153	183	336
Infill Drilling	49.8	68.5	118.4	7,574	5,299	12,873	1,312	952	2,264
Technical Revisions	(2.2)	66.3	64.1	791	3,955	4,746	130	725	855
Discoveries	-	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-
Economic Factors	21.5	14.1	35.6	1,015	1,245	2,260	191	222	412
Production + Inventory changes	(51.0)	-	(51.0)	(5,502)	-	(5,502)	(968)	-	(968)
	-	-	-	-	-	-	-	-	-
December 31, 2012	203.4	286.7	490.1	30,926	22,383	53,308	5,358	4,017	9,375

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 30 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, 2012 were 15.3 Bcf of natural gas and 56.4 Mbbls of natural gas liquids for a total of 2.609 MMboe 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 of 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 fracture stimulations, selective acidizing), dual completions, and further drilling.

Probable Undeveloped Reserves

The probable undeveloped net reserves of the Company as at December 31, 2012 were 13.0 Bcf of natural gas and 84 Mbbls of natural gas liquids for a total of 2.244 MMboe 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 of 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 of its reserves 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 have been 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 the estimates of its reserves 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 reserves 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; political, social, fiscal, legal and economic risks; the effects of regulations (including environmental regulation) and changes in regulatory regimes (including recent developments with respect to the land use registration system in Ukraine; 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, 2012 (the "**AIF**") which will be 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 primarily through internally-generated cash flow. However, the Company may consider debt and equity financing if deemed appropriate. All of the natural gas and condensate produced by the Company during 2012 was sold by the operator of the property to industrial users and utilities 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**
2013	25.57	17.9	25.57	17.9
2014	24.29	17.0	24.29	17.0
2015	9.57	6.7	9.57	6.7
2016	13.43	9.4	13.43	9.4
2017	4.00	2.8	4.00	2.8
Total for five years	76.86	53.8	76.86	53.8
Remainder	0	0	0	0
Total for all years	**76.86**	**53.8**	**76.86**	**53.8**

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 costs arising from the possible debt financing to fund future development activities will reflect rates for asset based lending prevailing in Ukraine, which are currently in the range of 15-19%. The effect of the costs of the Company's expected funding activities are anticipated to have a 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, 2012:

Table 6.1	**OIL**		**NATURAL GAS**	
	Gross	**Net**	**Gross**	**Net**
Ukraine (1)				
Producing	-	-	19	13.3
Non-producing	-	-	9	6.3
Brunei(2)				
Producing	-	-	-	-
Non-producing	-	-	4	3.6
Syria (2)				
Producing	-	-	-	-
Non-producing	-	-	-	-
TOTAL	**-**	**-**	**32**	**23.2**

Notes

(1) All of the wells in Ukraine are natural gas wells, substantially all of which also produce small amounts of condensate.
(2) No reserves are attributed to the properties of the Company in either Brunei.or Syria.

Property Summary / Relinquishments

Brunei Block L

Kulczyk Oil, through a wholly-owned subsidiary, and its partners (collectively, the "**Contractor**") are parties to the production sharing agreement for Brunei Block L (the "**Block L PSA**") with Brunei National Petroleum Company Sendirian Berhad ("**PetroleumBRUNEI**"). The Block L PSA grants the Contractor the right to explore for and produce oil and gas from Block L, which comprises approximately 1,134 square kilometres of both onshore and shallow offshore areas of northern Brunei. In 2011, as required under the terms of the Block L PSA, the Contractor relinquished approximately half of the 2,264 square kilometres initially granted in the PSA. The Block L PSA provides for an exploration period of six years from the date of the agreement, divided into two phases, Phase 1 and Phase 2. In 2010, AED Oil Limited ("**AED**") acquired a 50% operating interest in Block L by acquiring the interest of a company that had previously farmed in for an interest in the block. As part of their farm-in agreement, AED and its predecessor funded 100% of the first $21.7 million in Phase 1 costs incurred. The Company funded 50% of all expenditures between $21.7 million and $25.0 million and is funding its working interest share of all expenditures thereafter.

In 2010, two wells, Lukut-1 and Lempuyang-1, were drilled and both encountered hydrocarbon shows in multiple horizons. Two main zones of interest with an aggregate gross thickness of more than 56 metres were encountered during the drilling of the Lempuyang-1 well. During the first quarter of 2011, testing of two zones at Lempuyang-1 commenced. Despite gas flowing to surface, continued mechanical issues resulted in the testing programme being curtailed due to safety concerns associated with gas flow into the well, and the well was subsequently abandoned. The Lukut-1 well remains suspended.

In 2010, the joint venture partnership conducted an airborne gravity and aeromagnetic survey over Block L covering about 3,000 square kilometres. Phase 1 is complete and the Contractor has satisfied its obligations with respect to work commitments and minimum spend requirements.

In August 2010, the Contractor elected to proceed with the Phase 2 exploration period. The amended minimum work obligations for Phase 2 include (i) acquire and process 13 kilometres of onshore 2D seismic data, (ii) acquire and process not less than 130 square kilometres of 3D seismic data, (iii) acquire and process 13.5 square kilometres of onshore 3D swath data (iv) acquire and process not less than 34.5 square kilometres of onshore 3D seismic and drill at least two onshore exploration wells, each to a minimum depth of 2,000 metres. The Contractor is required to spend a minimum of $16 million during Phase 2 and the work commitments are required to be completed during the Phase 2 period. The Company has exceeded the minimum expenditure requirement as at December 31, 2012 in meeting the work commitments for Phase 2, which expires on August 27, 2013.

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

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

Brunei Block M

In 2009, the Company acquired a 36% interest in the production sharing agreement for Brunei Block M (the “**Block M PSA**”), through the acquisition of Triton Hydrocarbons Pty Ltd. Block M covers an onshore area of Brunei of approximately 1,505 square kilometres and is immediately south of the Company’s interest in Block L. In 2011, in accordance with the terms of the Block M PSA, the Company, along with the joint venture partners relinquished half of the 3,011 square kilometres initially granted in the Block M PSA.

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

Syria Block 9

Through its indirect wholly-owned subsidiary, Loon Latakia, Kulczyk Oil holds a participating interest in the contract for the exploration, development and production of petroleum from Syria Block 9 (the “**Block 9 PSC**”) between the Government of the Syrian Arab Republic, Syrian Petroleum Company (“**SPC**”) and the Company. The contract became effective on November 29, 2007. This agreement gives the Company the right to explore for and produce oil and gas from Block 9, a 10,032 square kilometre block in north-western Syria. Under the terms of the Block 9 PSC, the Company has a first phase exploration period of four years, which was subsequently extended for 11 months, during which it has committed to acquire 350 square kilometres of 3D seismic and drill two exploration wells. The Company has the ability to obtain licence extensions in phases by committing to performing additional work on an agreed basis.

At the date the Block 9 PSC became effective, the Company held a 100% participating interest. By a farm-out agreement dated September 1, 2010, and approved by the Syrian authorities in March 2011, the Company assigned a 30% ownership in Block 9 to MENA Hydrocarbons (Syria) Ltd. (“**MENA**”) effective June 17, 2010. As consideration, MENA agreed to pay: (i) 30% of historical costs incurred by the Company to the date of the agreement with MENA, being $3.1 million, (ii) 30% of the value of the bank guarantee outstanding at June 17, 2010, being $2.0 million and (iii) pay 60% of the authorized drilling costs of the first exploratory well. In July 2011, the Syrian authorities gave formal approval to the assignment of a 20% participating interest in the Block 9 PSC to Triton Petroleum Pte Limited, now Ninox Petroleum Pty Ltd.(“**Ninox**”)), an Australian company. An unrelated company also holds the right to be assigned a 5% interest in Block 9; as a result, the Company has an economic interest in Block 9 of 45%, but carries 50% of the costs of exploration.

The Company initially posted a guarantee in the amount of $7.5 million, an amount which represents the minimum exploration expenditure level for Phase 1 specified in the Block 9 PSC. Through the fulfillment of specified work commitments and the MENA farm-out, the Company’s share of the bank guarantee was reduced to $3.5 million by December 31, 2011. Because of the various sanctions imposed against Syria, the bank guarantees were unable to be renewed, and accordingly, the bank guarantee expired on May 28, 2012 and the cash posted as security therefor returned to the Company during the third quarter, 2012.

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

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

Effective July 16, 2012 the Company, in its capacity as Operator of Block 9 in Syria, gave notice to the Ministry of Petroleum and Mineral Resources of its declaration of *force majeure* under the terms of the Block 9 PSC due to difficult local operating conditions and the inability to fund operations in Syria due to sanctions, rendering performance of the Company's obligations under the Block 9 PSC impossible and with all of the circumstances being beyond the Company's reasonable control.

As at December 31, 2012, the Company's Syrian assets are fully impaired as the project remains suspended. The Company continues to monitor operating conditions in Syria to assess if, and when, a recommencement of its Syrian operations is possible, the situation, but no definite plans can be made with respect to the timing of a potential return to Syria to continue with the exploration of Block 9. If the *force majeure* event continues for a period of more than one year, the contracting parties are entitled to terminate their obligations under the Syria Block 9 PSC on 90 days notice without further liability. If the Company is able to resume activity after the conditions that led to force majeure have ended and then 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.

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	Yes
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 resolution of force majeure
			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 and Syria Block 9 – both 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 if, and when, a recommencement of its Syrian operations is possible. Effective July 16, 2012 the Company, in its capacity as Operator of Block 9 in Syria, gave notice to the Ministry of Petroleum and Mineral Resources of its declaration of *force majeure*. The circumstances leading to the force majeure included conditions arising from the current instability, including difficult operating conditions and the inability to move funds into the country, rendering performance of the Company's obligations under the contract impossible. See disclosure on page 20 of this document. In 2011, 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)
2013	-	-	-	-
2014	-	-	-	-
2015	-	-	-	-
Total for three years	-	-	-	-
Remainder	10.7	2.5	11.6	1.4
Total for all years	10.7	2.5	11.6	1.4

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)
2013	-	-	-	-
2014	-	-	-	-
2015	-	-	-	-
Total for three years	-	-	-	-
Remainder	7.5	1.8	8.1	1.0
Total for all years	7.5	1.8	8.1	1.0

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 year ended 31 December 2012, the Company incurred capital expenditures of $56.9 million on its oil and natural gas properties. The following table reflects the Company's capital expenditures by country and type (in thousands of US$'s):

Table 6.6

	Property Acquisition Costs		Exploration Costs	Development Costs
	Proved Properties	Unproved Properties		
Brunei	0	0	20,687	0
Syria	0	0	154	0
Ukraine	0	0	8,740	27,358
Total	0	0	**29,582**	**27,358**

Exploration and Development Activities

The following table summarizes the Company's drilling results in Ukraine during the year ended 31 December 2012. There was no drilling activity of the Company in any other jurisdiction in which the Company owns assets (Brunei or Syria) during this period. The Company expects to drill exploration wells in Brunei, and further exploration and development drilling is anticipated to occur in Ukraine in 2013. There were no service wells or stratigraphic test wells drilled during 2012.

Table 6.7	**Exploration**		**Development**		**Total**	
	Gross	Net	Gross	Net	Gross	Net
2012						
Ukraine gas/condensate wells	4.0	2.8	2.0	1.4	6.0	4.2
Brunei cased wells	-	-	-	-	-	-
Dry and abandoned	-	-	-	-	-	-
Total wells	4.0	2.8	2.0	1.4	6.0	4.2
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 2013, 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 2013 Production

100% Full Field Interest Reserve Category	Conventional Natural Gas (MMcf)	Natural Gas Liquids (Mbbl)	Oil Equivalent (MBOE) [1]
Gross proved reserves	**8,674.7**	**59.6**	**1,505.4**
Significant fields [2]			
- Olgovskoye field	3,419.6	34.6	604.5
- Makeevskoye field	4,465.7	24.6	768.9
Gross probable reserves	**1,203.4**	**26.3**	**226.9**
Significant fields [2]			
- Olgovskoye field	586.6	15.4	113.1
- Makeevskoye field	407.6	10.3	78.3

Notes:

(1) See information related to BOE conversion ratio on page 30 of this document.

(2) Significant fields include those which account for 20% or more of the Company's estimated production for 2013. All of the Company's significant producing fields are located in Ukraine.

Table 6.8 Estimated 2013 Production			
70% KOV Working Interest **Reserve Category**	**Conventional Natural Gas (MMcf)**	**Natural Gas Liquids (Mbbl)**	**Oil Equivalent (MBOE) (1)**
Gross proved reserves	**6,072.3**	**41.7**	**1,053.8**
Significant fields (2)			
- Olgovskoye field	2,393.7	24.2	423.2
- Makeevskoye field	3,126.0	17.2	538.2
Gross probable reserves	**842.4**	**18.4**	**158.8**
Significant fields (2)			
- Olgovskoye field	410.6	10.8	79.2
- Makeevskoye field	285.3	7.2	54.8

Notes:
(1) See information related to BOE conversion ratio on page 30 of this document.
(2) Significant fields include those which account for 20% or more of the Company's estimated production for 2013. All of the Company's significant producing fields are located in Ukraine.

Production History

The following tables set forth the Company'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	**2012**			
	Dec 31	**Sept 30**	**Jun 30**	**Mar 31**
Average Daily Production – 100% Full Field Interest				
Gas (Mcf/d)	24,045.34	22,282.36	21,313.31	18,596.90
NGL (bbl/d)	187.93	197.65	208.87	201.76
Combined (BOE/d)	4,195.49	3,911.38	3,761.09	3,301.24
Average Daily Production – 70% KOV Working Interest share				
Gas (Mcf/d)	16,831.74	15,597.65	14,919.32	13,017.83
NGL (bbl/d)	131.55	138.35	146.21	141.23
Combined (BOE/d)	2,936.84	2,737.96	2,632.76	2,310.87
Average Price Received				
Gas ($/Mcf)	$ 11.62	$ 11.71	$ 11.76	$ 11.76
NGL ($/bbl)	98.04	92.73	109.20	95.19
Combined ($BOE)	70.83	71.47	71.42	71.84
Royalties				
Gas ($/Mcf)	(2.14)	(2.13)	(2.13)	(2.09)
NGL ($/bbl)	(36.36)	(36.36)	(37.32)	(38.74)
Combined ($/BOE)	(13.90)	(13.98)	(13.99)	(14.41)
Production Expenses				
Combined ($/BOE)	(7.69)	(9.16)	(11.37)	(6.95)
Transportation	0.00	0.00	0.00	0.00
Netback Received				
Combined ($/BOE)	$ 49.24	$ 48.33	$ 46.06	$ 50.49

Note - See information related to BOE conversion ratio on page 30 of this document.

Production Volumes
For the Year ended December 31, 2012

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, 2012.

Table 6.9-2b	**Conventional Natural Gas (MCF)**	**Natural Gas Liquids (Bbls)**	**Oil Equivalent (BOE's)** (1)
Total production volume	5,525,784	50,989	971,952
Ukraine production volume	5,525,784	50,989	971,952
Important fields:			
- Olgovskoye (Ukraine)	2,872,507	34,558	514,199
- Makeevskoye (Ukraine)	2,301,288	15,361	398,909

Note - See information related to BOE conversion ratio on page 30 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

Appendix B

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March 14, 2013

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, 2012. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2012, 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, 2012, 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 Reports	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 Canada Ltd.	""Evaluation of Natural Gas Reserves: Vergunskoye, Olgovskoye, Makeevskoye and Krutogorovskoye License Interests, Ukraine based on Forecast Prices and Costs as at December 31, 2012, Kulczyk Oil Ventures Inc."	March 15, 2013	Ukraine	$ n/a-	$257.5	$ 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.

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.

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"). Terms to which a meaning is ascribed in NI 51-101 have the same meaning in this form.

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, 2012, the end of the most recently completed fiscal year, estimated using forecast prices and costs.

An independent qualified reserves evaluator has evaluated and reviewed the Company's reserves data. The report of the independent qualified reserves evaluator will be filed with the securities regulatory authorities concurrently with this report.

The Reserves Committee of the board of directors of the Company has:

(a) Reviewed the Company's procedures for providing information to the independent qualified reserves evaluator;

(b) Met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and

(c) Reviewed the reserves data with management and the independent qualified reserves evaluator.

The Reserves Committee of the board of directors of the Company 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 the reserves data; and
(c) the content and filing of this report.

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

(signed by: Timothy M. Elliott)	*(signed by: Norman W. Holton*
Timothy M. Elliott Director / 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 20, 2013

APPENDIX "D"

PETROLEUM RESOURCES

Capitalized terms used but not defined in this Appendix "D" shall have the meanings given to them in the annual information form of the Company for the year ended December 31, 2012 (the "**AIF**").

KOV engaged RPS, an independent qualified reserves evaluator and auditor, to prepare the RPS Reports. The RPS Reports contain the following information relating to the Company's petroleum resources:

- The RPS Ukraine Report evaluates the contingent natural gas resources and prospective gas resources located within the area relating to the Ukraine Licences. The RPS Ukraine Report is dated March 20, 2013 and incorporates information acquired on or before December 31, 2012 for resource estimates and revenue projections effective as at December 31, 2012.

- The RPS Brunei Block L Report evaluates the contingent and prospective oil and gas resources located within Brunei Block L. The Brunei Block L Report is dated September 1, 2012 and incorporates information acquired on or before July 31, 2012 for resource estimates effective as at July 31, 2012.

- The RPS Syria Block 9 Report evaluates the prospective oil and gas resources located within Syria Block 9. The RPS Syria Block 9 Report is dated September 1, 2012 and incorporates information acquired on or before July 31, 2012 for resource estimates effective as at July 31, 2012.

All factual data supplied to RPS by the Company in connection with the preparation of the RPS Reports was accepted as presented. The RPS Reports were prepared in accordance with the definitions and guidelines set out in the COGE Handbook and in compliance with the requirements of NI 51-101. Among other things, NI 51-101 establishes a regime of continuous disclosure for all oil and gas companies and standardizes reporting and disclosure requirements for upstream oil and gas companies that are reporting issuers. NI 51-101 requires reporting issuers to comply with the COGE Handbook, as may be amended from time to time.

As at the respective preparation date for each of the RPS Reports, neither the Company nor RPS are aware of any new information (other than commodity pricing assumptions, which may differ from those used in this analysis) that could materially impact the estimates set out in the tables below.

The tables below summarize the Company's contingent and prospective natural gas and oil resources and are presented in accordance with NI 51-101. The tables summarize certain data contained in the RPS Reports and, as a result, may contain slightly different numbers than the respective RPS Report due to the effects of rounding.

Contingent Resources

Information with respect to the Contingent Resources attributable to the interest of the Company in Ukraine and Brunei Block L as estimated by RPS in the RPS Reports is summarized in the table below.

Contingent Resources (Net Attributable)[1]									
	Natural Gas (Bcf)			Oil and Liquids (MMbbls)			Oil Equivalent (MMboe)[2]		
	1C	2C	3C	1C	2C	3C	1C	2C	3C
Ukraine	12.69	32.48	76.58	-	-	-	2.12	5.41	12.76
Brunei	-	-	-	0.023	0.041	0.088	0.023	0.041	0.088
Syria	-	-	-	-	-	-	-	-	-
Total	**12.69**	**32.48**	**76.58**	**0.023**	**0.041**	**0.088**	**2.144**	**5.451**	**12.848**

Notes:

(1) "Net Attributable Resources" means the total Contingent Resources, net of royalties, attributable to the Company's 70% interest in the Ukraine Licences and its 90% interest in the Brunei Assets. See the "*Principal Oil and Gas Assets – Ukraine*" and "*Principal Oil and Gas Assets – Brunei*" sections of the AIF for further information.

(2) Production information is commonly reported in units of barrel of oil equivalent ("boe" or "Mboe" or "MMboe"). A boe conversion ratio of 6 Mcf = 1 barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

"***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 currently considered to be commercially recoverable due to one or more contingencies.

Contingencies may include factors such as economic, legal, environmental, political and regulatory matters or lack of infrastructure or markets. It is also appropriate to classify as contingent resources the estimated discovered recoverable quantities associated with a project in the early evaluation stage. Contingent Resources are further classified by the Society of Petroleum Engineers into "1C", "2C" and "3C" according to the level of uncertainty associated with the estimates.

The following terminology, consistent with the COGE Handbook and guidance from Canadian securities regulatory authorities, was used to prepare the following disclosure relating to Contingent Resources.

> "**1C**" is considered to be a conservative estimate of the quantity of resources that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. Those resources at the low end of the estimate range have the highest degree of certainty - a 90 percent confidence level - that the actual quantities recovered will equal or exceed the estimate.
>
> "**2C**" is considered to be the best estimate of the quantity of resources that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. Those resources that fall within the best estimate have a 50 percent confidence level that the actual quantities recovered will equal or exceed the estimate.
>
> "**3C**" is considered to be an optimistic estimate of the quantity of resources that will actually be recovered. It is unlikely that the actual remaining quantities of resources recovered will meet or exceed the high estimate. Those resources at the high end of the estimate range have a lower degree of certainty - a 10 percent confidence level - that the actual quantities recovered will equal or exceed the estimate.

There is no certainty that all or any portion of the Company's Contingent Resources will be commercially viable to produce. Estimates of Contingent Resources have not been adjusted for risk based on the chance of development. There is no certainty as to the timing of such development.

RPS has used volumetric means to estimate volumes of Contingent Resources associated with gas bearing sands which have tested gas but no development plan has been put in place to recover these potential volumes. Additionally, gas bearing sands which are targeted by the development plan but have not previously demonstrated flow to surface have also been classified as Contingent Resources.

KOV has identified a large number of intervals in the Ukraine Assets that have in the past been tested or have produced gas that are currently not classified as Reserves. These intervals have been volumetrically assessed to determine a gas initially in place ("**GIIP**") for each. To estimate recoverable volumes a range of indicative recovery factors were applied to reflect a large uncertainty in gas recovery. The range recognised that the recovery is very dependent on the amount of drainage points a given layer has. With many of the sands intervals being thin many of them may only be produced as part of a co-mingle development where recoveries of individual sands may be low.

The specific contingencies relating to the Contingent Resources set out in the following tables, which are all anticipated to be recoverable using established technologies, are provided below.

Risks and Level of Uncertainty

The Contingent Resources presented in the table above, as is inherent with all oil and gas resources, have a certain level of risk associated with their recovery. According to the RPS Reports, the predominant risks in Ukraine relate to proving commercial flow rates from potential zones and putting them on production while the predominant risks in Brunei relate to development of a commercialization strategy and submission of a formal development plan**.** Significant aspects of uncertainty relating to the Contingent Resources presented in the table above are the development strategies which include fracture stimulation and co-mingling of various gas bearing layers in Ukraine and the characterization of an economic development plan in Brunei.

Positive and Negative Factors

The factors that may positively affect the Company's estimates of Contingent Resources include:

Ukraine

- Drilling wells in which the zones hosting the Contingent Resources appear to be gas bearing; and
- Proving commercial flow rates from the potential zones encountered in the wells through production testing.

Brunei

- A change in the fiscal terms under the Block L PSA and increase in hydrocarbon volumes within a defined pool; and
- The drilling of successful exploration and development wells.

The factors that may negatively affect the Company's estimates of Contingent Resources include:

Ukraine

- Failure to drill wells that indicate the potential presence of the Contingent Resource; or
- Negative production testing results from zones tested in wells which do appear to be gas bearing.

Brunei

- The drilling of dry holes; and
- Encountering an accumulation that is characterized as being uneconomic to develop.

Contingencies

The Contingent Resources associated with the Ukraine Licences and the Brunei Assets are not contingent due to economic factors. All of the Contingent Resources presented in the table above are considered to be economically recoverable based on the specific forecasts of commodity prices and costs assumed by RPS.

The contingencies which currently prevent the classification of the foregoing Contingent Resources to reserves in the future are that a firm development plan is required and commercial rates of production need to be proven for those zones considered to contain Contingent Resources in Ukraine and that there is no commercialization plan in place to develop the Contingent Resources in Brunei. The nature of the development plan will determine the expected hydrocarbon recovery. Generally, the timing for economic assessments of Contingent Resources will be determined by the Company's long-term resource development plan and its forecast for economic conditions. Management uses integrated plans to forecast future development of resources. These plans align current and planned production, current and forecasted market conditions, processing and pipeline capacities, capital spending commitments and related future development plans.

See the "*Principal Oil and Gas Assets – Ukraine*" and "*Principal Oil and Gas Assets – Brunei*" sections of the AIF for further information.

Prospective Resources

Information with respect to the Prospective Resources attributable to the interest of the Company in Ukraine, Brunei Block L and Syria Block 9, as estimated by RPS in the RPS Reports, is summarized in the table below.

Un-risked Prospective Resources (Net Attributable)[1]									
	Natural Gas (Bcf)			**Oil and Liquids (MMbbls)**			**Oil Equivalent (MMboe)[2]**		
	Low Estimate	**Best Estimate**	**High Estimate**	**Low Estimate**	**Best Estimate**	**High Estimate**	**Low Estimate**	**Best Estimate**	**High Estimate**
Ukraine	17.70	73.19	177.99	-	-	-	2.95	12.20	29.67
Brunei	568.0	693.0	932.0	102.0	128.0	179.0	196.67	243.50	334.33
Syria[3,4]	23.0	57.0	151.0	27.0	72.0	175.0	30.83	81.50	200.17
Total	**608.70**	**823.19**	**1260.99**	**129.00**	**200.00**	**354.00**	**230.45**	**337.20**	**564.17**

Notes:

(1) "Net Attributable Resources" means the total Prospective Resources, net of royalties, attributable to the Company's 70% interest in the Ukraine Licences, its 90% interest in the Brunei Assets and its 45% interest in the Syria Assets.. See the "*Principal Oil and Gas Assets – Ukraine*", "*Principal Oil and Gas Assets – Brunei*" and "*Principal Oil and Gas Assets – Syria*" sections of the AIF for further information.

(2) Production information is commonly reported in units of barrel of oil equivalent ("boe" or "Mboe" or "MMboe"). A boe conversion ratio of 6 Mcf = 1 barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

(3) Assumes the oil case with associated gas.

(4) In the case of Syria the terms of the Syria Block 9 PSC were not modelled by RPS and the attributable volumes are likely to be slightly overstated.

"***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.

The Prospective Resources estimated in the RPS Reports indicate exploration opportunities and quantify the development potential in the event a commercial discovery is made and should not be construed as Reserves or Contingent Resources. The Prospective Resources set out in the tables below are those undiscovered, highly speculative resources estimated beyond reserves or Contingent Resources where geological and geophysical data suggest the potential for discovery of petroleum but where the level of proof is insufficient for classification as reserves or Contingent Resources. The un-risked Prospective Resources are the range of volumes that RPS estimates could reasonably be expected to be recovered in the event of discovery and development of these resources.

The following terminology, consistent with the COGE Handbook and guidance from Canadian securities regulatory authorities, was used to prepare the following disclosure relating to Prospective Resources.

> "**Best Estimate**" (Best) is considered to be the best estimate of the quantity of resources that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. Those resources that fall within the best estimate have a 50 percent confidence level that the actual quantities recovered will equal or exceed the estimate.
>
> "**Low Estimate**" (Low) is considered to be a conservative estimate of the quantity of resources that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. Those resources at the low end of the estimate range have the highest degree of certainty - a 90 percent confidence level - that the actual quantities recovered will equal or exceed the estimate.
>
> "**High Estimate**" (High) is considered to be an optimistic estimate of the quantity of resources that will actually be recovered. It is unlikely that the actual remaining quantities of resources recovered will meet or exceed the high estimate. Those resources at the high end of the estimate range have a lower degree of certainty - a 10 percent confidence level - that the actual quantities recovered will equal or exceed the estimate.

There is no certainty that all or any portion of the Company's Prospective Resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce. Estimates of Prospective Resources have not been adjusted for risk based on the chance of development. There is no certainty as to the timing of such development.

The Prospective Resources shown in the RPS Reports have been estimated using probabilistic methods and are dependent on a petroleum discovery being made. If a discovery is made, and development is undertaken, the probability that the recoverable volumes will equal or exceed the un-risked estimated amounts is 90% for the low estimate, 50% for the best estimate and 10% for the high estimate. The low, best and high estimate Prospective Resources have been aggregated beyond the prospect level by arithmetic summation, resulting in totals that may not reflect the portfolio effect that might occur from statistical aggregation. Statistical principles indicate that the arithmetic sums of multiple estimates may be misleading as to the volumes that may actually be recovered. Calculations of Prospective Resources are based on any hydrocarbons discovered having a 50% chance of being oil or natural gas and on a boe ratio of six Mcf of gas being equal to one barrel of oil.

If a petroleum discovery is made, the timing for development of Prospective Resources will be determined by the Company's long-term resource development plan and its forecast for economic conditions.

<u>Risks and Level of Uncertainty</u>

The Prospective Resources presented in the table above, as is inherent with all oil and gas resources, have a certain level of risk associated with their recovery. According to the RPS Reports, the predominate risks in Ukraine, Brunei and Syria relate to the presence of a hydrocarbon trap for the accumulation of hydrocarbons. Significant aspects of uncertainty relating to the Prospective Resources presented in the table above exist as the presence of a valid hydrocarbon trap has not been proven.

<u>Positive and Negative Factors</u>

The significant factors that may positively affect the Company's estimates of Prospective Resources include, in the case of each of Ukraine, Brunei and Syria, a better definition of a hydrocarbon trap with the application of 3D seismic technology.

The significant factors that may negatively affect the Company's estimates of Prospective Resources include, in the case of each of Ukraine, Brunei and Syria, that tests of defined hydrocarbon traps may result in no hydrocarbons being identified.

Appendix E

AUDIT COMMITTEE

TERMS OF REFERENCE

Adopted by the Board of Directors on December 21, 2006
and amended April 27, 2007 and November 12, 2009

PURPOSE

The Audit Committee (the "**Committee**") of Kulczyk Oil Ventures Inc. (the "**Corporation**") is established to fulfil applicable public company obligations respecting audit committees and to assist the Board of Directors of the Corporation (the "**Board**") in fulfilling its oversight responsibilities with respect to financial reporting, including, but not limited to, the responsibility to:

- oversee the accuracy, completeness and integrity of the Corporation's financial statements and financial reporting process;
- oversee, review and evaluate the audit process and the Corporation's disclosure controls and procedures, internal controls over financial reporting, financial reporting systems, and procedures and compliance with related legal and regulatory requirements;
- oversee the qualifications and independence of the Corporation's external auditors;
- oversee the work of the Corporation's financial management, internal auditors and external auditors;
- communicate directly with the Corporation's internal and external auditors, as well as provide an open avenue of communication between the internal auditors, the external auditors, the Board and management of the Corporation;
- develop the Corporation's risk management strategy; and
- any additional duties set out in these terms of reference or otherwise delegated to the Committee by the Board.

COMPOSITION, PROCEDURES AND ORGANIZATION

1. The Committee shall consist of not less than three members of the Board, each of whom must be "independent" (as such term is defined from time to time under the requirements or

guidelines for audit committee service under applicable securities laws, including National Instrument 52-110 *Audit Committees* ("**NI 52-110**")) and "financially literate" (as determined under NI 52-110). The composition of the Committee shall also comply with any other requirements as may be prescribed from time to time by applicable securities regulatory authorities, including those contained in NI 52-110.

2. If a Committee member serves on the audit committee of more than three public corporations, including the Corporation, the Board must determine that such service would not impair the ability of the member to effectively serve on the Committee.

3. The Board, at its organizational meeting held in conjunction with each annual general meeting of 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.

CHAIR

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

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 the 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) ensure that the Committee meets at least four times annually and as many additional times as is necessary to carry out its duties effectively;

(g) establish the agenda for each Committee meeting;

(h) chair all meetings of the Committee; provided, however, that if the Chair is not present at a meeting of the Committee, the Committee members present will choose a Committee member to chair the meeting;

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

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

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

(l) ensure that the Committee meets in separate, regularly scheduled, non-management, closed sessions with the internal auditors and the external auditors;

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

(n) following each meeting of the Committee, report to the Board on the activities, findings 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) have an effective working relationship with members of management;

(r) 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;

(s) ensure that resources and expertise are available to the Committee so that it may conduct its work effectively and efficiently;

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

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

MEETINGS OF THE COMMITTEE

7. 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.

8. 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 and to hear each other.

9. The Committee shall have access to such officers and employees of the Corporation and to the Corporation's external auditors, and to such information respecting the Corporation as it considers to be necessary or advisable in order to perform its duties and responsibilities.

10. Meetings of the Committee shall be conducted as follows:

(a) The Committee shall meet at least four times annually, at such times and at such locations as may be requested by the Chair. The external auditors or any member of the Committee may call a meeting of the Committee at any time.

(b) 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.

(c) The following management representatives shall be invited to attend all meetings, except executive sessions and private sessions with the external auditors:

Chief Executive Officer
Chief Financial Officer

Other management representatives shall be invited to attend as necessary.

11. The internal auditors, if any, and the external auditors of the Corporation shall have a direct line of communication to the Committee through the Chair. The Committee, through the Chair, may contact directly any employee in the Corporation as it deems necessary, and any employee may bring before the Committee any matter involving questionable, illegal or improper financial practices or transactions.

DUTIES AND RESPONSIBILITIES

12. The overall duties and responsibilities of the Committee shall be to:

(a) assist the Board in the discharge of its responsibilities relating to the Corporation's accounting principles, reporting practices and internal controls (including the Corporation's disclosure controls and procedures and internal controls over financial reporting);

(b) oversee the work of the external auditors engaged for the purpose of preparing or issuing an auditors' report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditors regarding financial reporting;

(c) pre-approve, in accordance with applicable law, all non-audit services to be provided by the external auditors to the Corporation or its subsidiary entities;

(d) review the Corporation's annual and interim consolidated financial statements, the external auditor's report on the annual financial statements the external auditor's review of the interim financial statements, MD&A, annual and interim earnings press releases and information contained therein or derived therefrom before approval by the Board and public disclosure or filing of such information;

(e) establish and maintain a direct line of communication with the Corporation's external auditors and assess their performance;

(f) be satisfied that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than the public disclosure referred to in paragraph (d) above, and develop a method and procedure of being able to assess, and assess, on a reasonably frequent basis, the adequacy of those procedures;

(g) establish procedures for:

(i) the receipt, retention and treatment of (including reasonable attempts to resolve) complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and

(ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;

(h) review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the current external auditors and former external auditors of the Corporation; and

(i) report regularly to the Board on the fulfilment of its duties and responsibilities.

13. The duties and responsibilities of the Committee as they relate to the external auditors shall be to:

(a) recommend to the Board:

(i) the external auditors to be nominated for the purpose of preparing or issuing an auditors' report or performing other audit, review or attest services for the Corporation; and

(ii) the compensation of the external auditors;

(b) engage the external auditors to review all interim financial statements and review the results of the auditors' review of the interim financial statements and the auditors' review of the related MD&A independent, and without the presence, of management;

(c) review any other matters related to the external audit that are to be communicated to the Committee under generally accepted auditing standards or that relate to the external auditors;

(d) review with management and the external auditors any correspondence with regulators or governmental agencies, employee complaints or published reports that raise material issues regarding the Corporation's financial statements or accounting policies;

(e) review the audit plan and scope, extent and schedule of the audit of the external auditors prior to the commencement of the audit;

(f) review, independently of management, with the external auditors, upon completion of their audit:

(i) results of the audit;

(ii) contents of their report;

(iii) scope and quality of the audit work performed;

(iv) adequacy of the Corporation's financial and auditing personnel;

(v) co-operation received from the Corporation's personnel during the audit;

(vi) internal resources used;

(vii) significant transactions outside of the normal business of the Corporation;

(viii) significant proposed adjustments and recommendations for improving internal accounting controls, accounting principles or management systems;

(ix) non-audit services provided by the external auditors; and

(x) the quality (not just the acceptability) of accounting principles used, any alternative treatments of financial information that have been discussed with management, the ramifications of their use and the auditors' preferred treatment, and any other material communications with management; and

(g) review and discuss with the external auditors the Corporation's critical accounting policies and the quality of accounting judgments and estimates made by management;

(h) be involved with any change of the Corporation's external auditors, including the disclosure requirements with respect thereto;

(i) review all other material written communications between the external auditors and management, including the post-audit management letter containing the recommendations of the external auditors, management's response thereto and, subsequently, follow-up identified weaknesses;

(j) at least annually, and before the external auditors issue its report on the annual financial statements, review the qualifications, work product and reputation of the external auditors, and review and confirm the independence of the external auditors through discussions with the auditors on its relationship with the Corporation, including details of all non-audit services provided;

(k) meet with the external auditors independently from management and without management present at least annually to discuss and review specific issues, and as appropriate with respect to any significant matters that the auditors may wish to bring to the Committee for its consideration;

(l) discuss with the external auditors any significant changes required in the approach or scope of their audit plan, management's handling of any proposed adjustments identified by the external auditors, and any actions or inactions by management that limited or restricted the scope of their work; and

(m) ensure that the external auditors report directly to the Committee, and ensure that same is provided for under the terms of the external auditors' audit engagement.

14. The duties and responsibilities of the Committee as they relate to the Corporation's internal auditors are to:

(a) monitor the qualifications and performance of the internal auditors and periodically review the internal audit function with respect to the organization, staffing and effectiveness of the internal audit department;

(b) oversee, review and approve the internal audit plan;

(c) review significant internal audit findings and recommendations, and management's response thereto; and

(d) establish a direct line of communication with the internal auditors.

15. The duties and responsibilities of the Committee as they relate to the internal control procedures of the Corporation are to:

(a) oversee, review and assess the adequacy, effectiveness, quality and integrity of the Corporation's disclosure controls and procedures, internal controls over financial reporting and management information systems through discussions with management and the internal and external auditors;

(b) oversee management's reporting on internal controls and disclosure controls and procedures;

(c) review and assess the appropriateness and effectiveness of the Corporation's policies and business practices that may impact the financial integrity of the Corporation, including those relating to internal auditing, insurance, accounting, information services and systems and financial controls (including disclosure controls and procedures and internal controls over financial reporting), management reporting and risk management;

(d) review compliance under the Corporation's code of business conduct and ethics policy and to periodically review such policy and recommend to the Board changes that the Committee considers appropriate;

(e) review any unresolved issues between management and the external auditors that could affect the financial reporting or internal controls of the Corporation; and

(f) periodically review the Corporation's financial and auditing procedures and the extent to which recommendations made by the internal audit staff or by the external auditors have been implemented.

16. The Committee is also charged with the responsibility to:

(a) review the Corporation's quarterly statements of earnings, including the impact of unusual items and changes in accounting principles and estimates and report to the Board with respect thereto;

(b) review and approve the financial sections of, and the disclosure pertaining to the Committee required to be disclosed by applicable law included in:

(i) the annual report to shareholders of the Corporation;

(ii) the annual information form and management information circular of the Corporation, as applicable;

(iii) prospectuses of the Corporation; and

(iv) any other reports requiring approval by the Board,

and report to the Board with respect thereto;

(c) review regulatory filings and decisions as they relate to the Corporation's consolidated financial statements;

(d) review the appropriateness of the policies and procedures used in the preparation of the Corporation's consolidated financial statements and other required disclosure documents, and consider recommendations for any material change to such policies;

(e) review the minutes of any audit committee meeting of subsidiary companies of the Corporation;

(f) review with management, the external auditors and, if necessary, with legal counsel, any actual or anticipated litigation, claim or other contingency or other events, including tax assessments that could have a material current or future effect on the financial position or operating results of the Corporation and the manner in which such matters have been disclosed in the consolidated financial statements;

(g) review with management and the external auditors significant accounting practices employed by the Corporation and disclosure issues, including complex or unusual transactions, judgmental areas such as reserves or estimates, significant changes to accounting principles, and alternative treatments under Canadian GAAP for material transactions;

(h) confirm through discussions with management that Canadian GAAP and all applicable laws or regulations related to financial reporting and disclosure have been complied with;

(i) discuss with management the effect of any off-balance sheet transactions, arrangements, obligations and other relationships with unconsolidated entities or other persons that may have a material effect on the Corporation's financial condition, results of operations, liquidity, capital expenditures, capital resources, or revenues and expenses;

(j) oversee investigations of alleged fraud and illegality relating to the Corporation's finances and any resulting actions;

(k) review and assess the adequacy of the Corporation's risk management policies, including hedging policies, and procedures with respect to the Corporation's principal business risks;

(l) review and assess the adequacy of the implementation of appropriate systems to mitigate and manage the Corporation's risks, and report regularly to the Board;

(m) review the Corporation's insurance program;

(n) review with management the Corporation's relationship with regulators and the timeliness and accuracy of the Corporation's filings with applicable regulatory authorities;

(o) review with management all related party transactions and the development of policies and procedures related to those transactions;

(p) review and assess the adequacy of these terms of reference annually and submit to the Board such amendments as the Committee considers appropriate;

(q) report regularly to the Board on Committee activities, issues and related recommendations; and

(r) develop a calendar of activities to be undertaken by the Committee for each ensuing year and to submit the calendar in the appropriate format to the Board following each annual general meeting of shareholders of the Corporation.

AUTHORITY OF THE COMMITTEE

17. The Committee shall also have the authority to:

(a) engage, without the consent of the Corporation, independent counsel and other advisors as it determines necessary to carry out its duties;

(b) set and pay the compensation for any independent counsel or other advisors retained/engaged by the Committee; and

(c) communicate directly with the internal and external auditors.