PETRO KAMCHATKA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") for PetroKamchatka Plc ("PetroKamchatka", "the Corporation", "us" or "we"), prepared as at September 28, 2010, provides a review of the Corporation's financial results for the fiscal year ended May 31, 2010. The MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Corporation for the fiscal year ended May 31, 2010 and the audited consolidated financial statements of PetroKamchatka Resources Ltd. ("PKR") for the year ended May 31, 2009. The Corporation followed the continuity of interest basis of accounting whereby the Corporation is considered a continuation of PKR, which was acquired by the Corporation on November 23, 2009 pursuant to a takeover offer. The audited consolidated financial statements, and all figures in this MD&A, are presented in United States dollars, unless otherwise indicated, and are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The financial statements referred to above and other information with respect to the Corporation are available on PetroKamchatka's website (www.petrokamchatka.com) and in public filings available through SEDAR (www.sedar.com).

CORPORATE OVERVIEW

PetroKamchatka is an international junior oil exploration company, incorporated in the Bailiwick of Jersey, with indirect interests in core properties located in the Kamchatka Peninsula of Russia. The Corporation's strategy for achieving growth is to source and operate onshore exploration projects having the potential for large, low-cost reserves.

PetroKamchatka, indirectly, had secured seven onshore exploration licenses representing an aggregate 3,281,755 net hectares, a very significant land position in this potentially prolific hydrocarbon basin. The seven licenses were: Tigil, Icha, Urginskaya, Pustaretskaya, Palanskaya, Ichinskaya and Vorovksaya.

In the fiscal year ended May 31, 2010, PetroKamchatka drilled two unsuccessful wells on its Tigil Block in Kamchatka. These were the first two wells the Corporation has drilled in Russia. In June 2010, as part of its capital monitoring process, the Corporation relinquished three of its seven exploration licenses back to the Russian Federal Ministry of Natural Resources ("MNFR") by payment of the current land tax payments in the aggregate amount of US $21,085 (Russian Ruble 632,550). The Corporation continues to hold interests in four onshore exploration licenses in Kamchatka, Russia representing an aggregate 1,284,395 net hectares.

The exploration licenses on the Tigil Block (327,400 gross hectares) and the Icha Block (377,700 gross hectares) are held by Russian joint interest entities. The Corporation's wholly-owned Cyprus subsidiary owns 90% of its Russian subsidiary company which in turn owns 50% of the shares of the joint interest entities. KNOC Kamchatka Petroleum Limited ("KKPL"), a company owned 55% by Korea National Oil Corporation, owns the other 50% of the joint interest entities. This effectively provides the Corporation with an indirect, net 45% interest in the Tigil and Icha Blocks. The other 10% of the Russian subsidiary company is owned by the Koryakia Property Fund, an investment agency of the Koryakia Okrug Administration, Kamchatka. That entity's indirect beneficial interest in the Tigil and Icha Blocks is thus 5%, being 10% of 50%. The Corporation and KKPL split the cost to carry the 5% interest of the Koryakia Okrug Administration. This means that the Corporation pays 47.5% of costs and KKPL pays 52.5%. On August 11, 2009, the Corporation increased its percentage ownership in the Russian subsidiary from 85% to 90%. This increased the Corporation's share of costs from 46.25% prior to August 2009 to 47.5% after July 2009.

The other exploration licenses, held by two Russian exploration entities which are owned 100% by the Corporation's wholly-owned Cyprus subsidiary, are on the Ichinskaya Block (567,200 gross hectares) and on the Vorovskaya Block (399,900 gross hectares).

By drilling two wells on the Tigil Block, the Corporation completed its work commitments under its Tigil exploration license. This license will expire on December 31, 2010. CJSC Tigil Exploration, one of the joint interest entities, will continue to own a mobile drilling rig and other equipment used to support drilling and seismic operations.

The work commitments of the Icha exploration license require that one well be drilled on the Icha block before December 30, 2011.

The Corporation's Cyprus subsidiary is the Operator under the terms of joint venture and other agreements with KKPL.

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements"). In particular, this MD&A contains forward-looking statements pertaining to the following:

- Business strategies;
- Drilling plans, including in particular the timing of drilling additional wells in Russia;
- Exploration and development plans;
- Ability to secure adequate financing;
- Use of proceeds from recent financings;
- Dealings with the HighKelly drilling rig; and
- Other expectations, beliefs, plans, goals, objectives, assumptions or statements about future events or performance.

The preparation of financial statements in accordance with Canadian GAAP requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. These judgments and estimates may change, having either a negative or positive effect as further information becomes available, and as the economic environment changes.

Forward-looking statements are based on PetroKamchatka's current beliefs as well as assumptions made by, and information currently available to, PetroKamchatka concerning business prospects, strategies, regulatory developments, the ability to obtain equipment in a timely manner to carry out development activities, and the ability to obtain financing on acceptable terms. Although management considers these assumptions to be reasonable based on information currently available, such assumptions and the information may prove to be incorrect.

Undue reliance should not be placed on forward-looking statements, which are inherently uncertain, are based on estimates and assumptions, and are subject to known and unknown risks and uncertainties (both general and specific) that contribute to the possibility that the future events or circumstances contemplated by the forward-looking statements will not occur. There can be no assurance that the plans, intentions or expectations upon which forward-looking statements are based will in fact be realized. Actual results will differ, and the difference may be material and adverse to PetroKamchatka and its shareholders. These factors include, but are not limited to risks associated with oil and natural gas exploration, financial risks, the history of losses, substantial capital requirements, political and government risks, government regulation, limitations on foreign investments in Russia, environmental risks, prices, dependence on key personnel, availability of drilling equipment and access to Kamchatka, risks that may not be insurable, licenses, resource estimates, and variations in exchange rates. Readers are cautioned the foregoing list of factors that may affect future results is not exhaustive.

The fiscal year for the Corporation is the 12-month period ended May 31. The terms “Fiscal 2010”, “current year” and “the year” are used throughout the MD&A and in all cases refer to the period from June 1, 2009 to May 31, 2010. The terms “prior year” and “Fiscal 2009” are used throughout the MD&A for comparative purposes and refers to the period from June 1, 2008 to May 31, 2009.

FISCAL YEAR UPDATE

During the fiscal year ended May 31, 2010, the principal activities of the Corporation included:

The issue of 228,505,044 common shares of its subsidiary to raise gross cash proceeds of $11,477,980; the issue of 17,600,000 common shares of its subsidiary to settle $880,000 of debts; the issue of 5,200,000 common shares of its subsidiary to increase its holdings in its Russian subsidiary from 85% to 90%; the issue of 8,766,666 common shares and 1,851,715 common shares to officers and others for services rendered prior to the completion of an internal corporate reorganization. The internal corporate reorganization was undertaken to achieve changes in the jurisdictions of the parent and Cyprus companies; to exchange Corporation shares for shares of the Cyprus company; to complete a Plan of Arrangement with a TSX Venture Exchange (“TSXV”)-listed capital pool company to achieve a public listing of the Corporation’s outstanding shares; and raising additional equity financing.

This reorganization began in the previous fiscal year, on December 23, 2008 when directors and officers of PetroKamchatka Resources Ltd. (“PKR”) incorporated “*PetroKamchatka Plc*” under the *Companies (Jersey) Law 1991*. The Corporation was established solely for the purpose of having it acquire all of the shares of PKR once PKR was re-domiciled from Canada to Cyprus.

PKR was incorporated as CEP International Petroleum Ltd. (“CEP”) on November 23, 1998 under the *Business Corporations Act (Yukon, Canada)* and is the owner of 90% of its Russian subsidiary. As indicated earlier, the Russian subsidiary owns 50% of the outstanding shares of two Russian joint interest companies which hold exploration licenses in Tigil and Icha. PKR owns other Russian subsidiaries directly and has also paid for a 46.25% interest in a new drilling rig (the “HighKelly drilling rig”).

PKR was re-domiciled to Cyprus on August 25, 2009 as the next step in the reorganization plan. On November 23, 2009, the Corporation completed its acquisition of all of the securities of PKR pursuant to its Offer.

It then completed an Arrangement, under *the Business Corporations Act (Alberta)* Canada, involving the Corporation, PKR, Bluerock Acquisition Corp. (“Bluerock”) and the holders of common shares of Bluerock whereby the Corporation acquired all the shares of Bluerock, a capital pool company listed on the TSX Venture Exchange with no material assets or operations, by issuing 6,621,501 common shares and 187,348 warrants to acquire common shares of the Corporation to the holders of common shares and warrants of Bluerock. The warrants subsequently expired unexercised. This Arrangement effectively achieved a public listing of the common shares of the Corporation.

These steps preceded the completion of a brokered private placement financing of 61,828,486 subscription receipts of 1490697 Alberta Ltd., a wholly-owned subsidiary of the Corporation established solely for the purpose of completing this financing at a time near to the completion of the Arrangement with Bluerock. Under the financing, subscription receipts were issued at a price of US $0.15 for gross proceeds of $9,274,273. The subscription receipts were converted into common shares of the Corporation concurrent with the closing of the Arrangement. The Corporation became a reporting issuer in Canada in the provinces of Alberta, British Columbia and Ontario upon completion of the Arrangement and on December 11, 2009, its common shares began trading in CAD$ on the TSXV under the symbol "PKP".

On March 15, 2010, PetroKamchatka received the approval of more than 75% of investor warrant holders to amend the existing term of 13,350,808 outstanding warrants. The warrants will now expire on December 10, 2011, two years after the Corporation's listing on the TSXV. This makes the term of these legacy warrants, issued between August 2005 and February 2006, compliant with the rules of the TSXV. All other terms and conditions of these warrants remain unchanged, including exercise prices of £0.525 for 5,760,809 warrants and C$1.25 for 7,589,999 warrants.

On April 20, 2010, the Corporation issued 565,469 common shares at CAD $0.115 per share to directors for services provided from October 1, 2009 to March 31, 2010. On July 7, 2010, the Corporation issued 676,130 common shares at CAD $0.05 per share to directors for services provided from April 1, 2010 to June 30, 2010. In both instances, the issuance of the shares represents one-half of the remuneration owed to these individuals for the period.

OPERATIONS UPDATE

PetroKamchatka completed the drilling of its first two exploration wells on the Tigil Block in the Kamchatka Peninsula. Unfortunately, both wells were unsuccessful. The first exploration well, Oyarskaya 1P, was drilled to a total depth of 3,236 meters in January 2010. The well did not reach the target tertiary reservoir sandstones as the overlying formations were much thicker than predicted. Although the Oyarskaya 1P was initially suspended, it was abandoned after the completion of the second exploration well. The second exploration well, the Chernorechenskaya 1P, was located approximately twenty kilometers from the first well. This well reached a total depth of 2,596 meters in basement rocks on the structure without encountering the target Snatol sandstone formation and was abandoned.

Both of these wells were drilled using the mobile drilling rig and related equipment that is owned in the joint interest entity, CJSC Tigil Exploration and which was purchased in previous fiscal years. The first well was drilled on schedule and the second was drilled ahead of schedule and under budget. There were no major operational, environmental or safety problems encountered.

After drilling the second well at Tigil, the Chernorechenskaya 1P well, the drilling rig and equipment was moved to the southern shore of the Tigil River where it will be stored until moved to the next drilling location. The Corporation and its joint venture partner are reviewing future drilling plans.

SELECTED FINANCIAL INFORMATION

The audited financial information for PetroKamchatka includes the Corporation and its subsidiaries as well as its proportionate share of the accounts of its joint interest corporations.

The Corporation followed the continuity of interest basis of accounting whereby the Corporation is considered a continuation of PKR, which was acquired by the Corporation on November 23, 2009 pursuant to a takeover offer. All financial information provided is stated in United States dollars, unless otherwise stated.

For the fiscal year ended		May 31, 2010		May 31, 2009		May 31, 2008
Interest income	$	88,364	$	37,980	$	76,631
Expenses, including property and equipment write downs of $31,948,499, $2,482,417 and $124,617	$	38,542,110	$	7,850,539	$	6,351,590
Net loss and comprehensive loss	$	(38,453,746)	$	(7,812,559)	$	(6,274,959)
Net loss per share – basic and diluted	$	(0.09)	$	(0.05)	$	(0.09)
Cash (used in) operations	$	(4,620,819)	$	(4,483,084)	$	(4,917,775)
Cash (used in) investing	$	(8,814,802)	$	(17,541,125)	$	(16,888,305)
Cash (used in) provided by financing	$	19,417,213	$	18,772,702	$	26,838,335
Foreign exchange gain (loss) on cash held in foreign currencies	$	(174,999)	$	65,009	$	144,157
Increase (decrease) in cash and cash equivalents	$	5,806,593	$	(3,186,498)	$	5,176,412

As at		May 31, 2010		May 31, 2009		May 31, 2008
Total assets	$	38,076,803	$	57,627,689	$	61,533,002
Total liabilities	$	3,249,580	$	6,957,104	$	15,878,662
Shareholders' equity	$	34,827,223	$	50,670,585	$	45,654,340
Number of common shares outstanding		489,063,510		158,119,627		131,107,734
Number of warrants outstanding		20,882,774		19,516,940		21,866,217
Number of options outstanding		21,625,000		6,225,000		5,400,000

RESULTS OF OPERATIONS

General and administrative expenses		Fiscal 2010		Fiscal 2009		Fiscal 2008
Employee salaries and benefits	$	1,264,487	$	821,046	$	2,253,946
Professional fees	$	2,084,207	$	1,530,245	$	1,526,212
Directors fees and expenses	$	410,980	$	393,339	$	339,932
Office administration and other	$	765,589	$	861,574	$	710,663
General and administrative expenses	**$**	**4,525,263**	**$**	**3,606,204**	**$**	**4,830,753**

The net increase in general and administrative expenses for the fiscal year ended May 31, 2010 of $919,059 represents a 25% increase over the comparable amounts for the fiscal year ended May 31 2009, primarily due to a milestone bonus of $1,155,000 paid by PetroKamchatka to officers, employees and consultants. No bonuses were paid during the fiscal year ended May 31, 2009. The bonus was comprised of cash of $278,333 and shares of the Corporation in the amount of $876,667.

The $443,441 increase in employee salary and benefits in Fiscal 2010 represents a 54% increase over Fiscal 2009 amounts as the result of allocating $485,000 of the milestone bonus to employee salaries and benefits expense.

The $553,962 increase in professional fees in Fiscal 2010 represents a 36% increase over Fiscal 2009 amounts, partially as the result of allocating $304,000 of the milestone bonus to professional fees expense relating to consultants. The remainder of the increase relates to the increased use of consultants during the Corporation’s Reorganization and public listing process and legal fees incurred to achieve the re-domiciliation from Canada to Cyprus. The Corporation also utilizes consultants in foreign jurisdictions.

The decline in office administration and other expense in Fiscal 2010 compared to Fiscal 2009 was the result of lower foreign bank charges, travel costs and other expenses which were offset by business development expenses included in this category of $296,000 and public company costs of $168,000 incurred by the Corporation as a reporting issuer. The business development expense related to costs incurred during a due diligence and stake holders’ relationship effort in Russia at the time of spudding the Corporation’s first well.

The average monthly general and administrative expense in Fiscal 2010 amounted to approximately $377,000 as compared to an average of approximately $300,000 per month in fiscal 2009. After eliminating the impact of the milestone bonus, the average monthly general and administrative expense in Fiscal 2010 was approximately $320,000. The average monthly general and administrative expense in Fiscal 2008 was approximately $403,000.

Reorganization and Listing Costs

Reorganization and listing costs of $1,173,750 were incurred in the fiscal year ended May 31, 2010 ($ nil for the fiscal year ended May 31, 2009). These costs relate to expenses incurred specifically to complete the Reorganization and listing of the Corporation’s common shares on the TSXV and consist primarily of legal fees, advisory costs, transfer agent costs and TSXV listing fees.

Financing and Other Costs

The recovery of financing and other costs of $425,303 in the fiscal year ended May 31, 2010 includes a recovery of $432,388 to adjust previous estimates of interest on Russian VAT to actual amounts. The Fiscal 2009 expense of $271,486 is comprised of $100,891 relating to the settlement of a claim plus $297,426 of amounts incurred seeking a proposed AIM listing of shares which was not completed, partially offset by an earlier reduction of previous estimates of interest on Russian VAT of $126,831.

Foreign Exchange (Gain) Loss

The Corporation had a foreign exchange gain of $94,071 in the fiscal year ended May 31, 2010 compared to a foreign exchange loss of $870,978 in the fiscal year ended May 31, 2009. The fiscal 2010 gain was net of a foreign exchange loss in the three months ended May 31, 2010 of $43,995. The gain in the fiscal year ended May 31, 2010 relates primarily to the overall strengthening of the US dollar against the Russian Ruble. The gains against Russian Ruble denominated expenditures are partially offset by the effects of translating cash and cash equivalents held in Russian Rubles. PetroKamchatka is exposed to foreign currency fluctuations as it holds cash and incurs expenditures for property and equipment in Russian Rubles, Euros, Pounds Sterling and Canadian Dollars and is exposed to fluctuations in exchange rates of these currencies relative to the U.S. dollar. There were no forward foreign exchange rate contracts in place during the fiscal years ended May 31, 2010 or 2009.

Depreciation and Amortization

Depreciation for the fiscal year ended May 31, 2010 of $734,972 was materially higher than depreciation in fiscal 2009 of $44,824 as the result of depreciation recorded on the drilling rig and related equipment. The Corporation commenced depreciation of the drilling rig and equipment upon the spud of the first well on the Tigil Block in October 2009. Depreciation in the three months ended May 31, 2010 was $241,172.

Write Down of Property and Equipment

In the fiscal year ended May 31, 2010, the Corporation reported a write down of property and equipment of $31,948,499 compared to a write down in the fiscal year ended May 31, 2009 of $2,482,417. Of the fiscal year 2010 write down, $30,965,917 was recorded at fiscal year end.

The write down is comprised of three components:

1) a write down of $29,759,649 against amounts previously capitalized in Russia's full cost pool of petroleum and natural gas properties. This amount represents the net difference between capitalized costs relating to the Tigil, (excluding the mobile drilling rig and related equipment), Urgenskaya, Palanskaya and Pustaretskaya exploration licenses and the estimated net present value of the future net benefits expected to be derived from those licenses of '$ nil'. In other words, this represents a complete write down of the carrying costs of these exploration licenses. This write down was recorded after an impairment test was conducted, effective at the fiscal year end, which test considered a number of key impairment indicators including: the drilling of two unsuccessful wells on the Tigil Block in the 2010 fiscal year; the recognition that the Tigil exploration license will expire at the end of calendar 2010 and no further exploration activity will be conducted before the expiry; and the surrender of the other three exploration licenses back to the Russian Federal Ministry of Natural Resources as a cost monitoring measure.

2) an additional write down of $2,023,000 to adjust the carrying value of the Corporation's net interest in the HighKelly drilling rig to its more recently appraised fair market value as at August 1, 2010 of approximately $4.1 million. The write down against this drilling rig in Fiscal 2009 was $2,407,000 bringing the cumulative write down of the drilling rig to $4.43 million as at May 31, 2010.

In Fiscal 2008, the Corporation and KKPL determined that the HighKelly drilling rig was not suited for the planned Russian drilling program. The Corporation would prefer to realize its net share of the HighKelly drilling rig through a sale but a dispute between KKPL and the rig manufacturer regarding title, specification and documentation issues at delivery, together with the current weak market conditions for drilling rigs generally, are affecting the selling efforts.

3) an additional write down of $165,850 relating to accrued annual lease rental amounts and other costs relating to oil and gas leases in British Columbia, Canada. In Fiscal 2009, there was a write down of similar amounts of $75,417. The Corporation is not active in Canada and these properties are completely written off.

Stock Based Compensation

Stock based compensation expense for the fiscal year ended May 31, 2010 was $679,000, compared to $574,630 for the fiscal year ended May 31, 2009. The increase is mainly the result of increases recognized in respect of the grant of 15,100,000 options in October 2009.

Net Loss and Cash Used in Operations

The net loss and comprehensive loss for the fiscal year ended May 31, 2010 of $38,453,746 is materially greater than the net loss and comprehensive loss for the fiscal year ended May 31, 2009 of $7,812,559. This resulted from an increase of $29,466,082 in the write down of property and equipment in Fiscal 2010 compared to Fiscal 2009; an increase of $919,059 in general and administrative expenses in Fiscal 2010 over Fiscal 2009; reorganization and listing costs incurred in Fiscal 2010 of $1,173,750 ($ nil in the prior fiscal year); an increase of $104,370 in stock based compensation expense above that of the prior year; an increase in depreciation expense from the prior year of $690,148; a recovery of financing and other costs in Fiscal 2010 of $425,303, representing a $696,789 positive change from the comparable statistic of the prior year. The current fiscal year results also include a positive shift of $965,049 in foreign exchange amounts from the foreign exchange loss recorded in Fiscal 2009 of $870,978.

Cash used in operations in the fiscal year ended May 31, 2010 of $4,620,819 was $137,735, or approximately 3%, higher than the equivalent figure for year ended May 31, 2009 of $4,483,084.

The net loss and comprehensive loss in Fiscal 2010 included material non-cash amounts including: write downs of property and equipment and depreciation expense detailed above; and other non-cash charges including expenses settled in shares in the amount of $718,107; unrealized foreign exchange translation losses of $169.463 and stock based compensation amounts of $679,000.

SUMMARY OF QUARTERLY RESULTS

	For the Three Month Periods Ended – Note 1					
	February 28, 2009	**May 31, 2009**	**August 31, 2009**	**November 30, 2009**	**February 28, 2010**	**May 31, 2010**
Interest income	$ 984	$ 1,748	$ 18,931	$ 366	$ 64	$ 69,003
Write down of property and equipment	$ -	$ 2,407,000	$ -	$ 982,582	$ -	$ 30,965,917
Other expenses	$ 1,171,193	$ 1,285,358	$ 1,065,093	$ 3,346,439	$ 993,747	$ 1,188,332
Total expenses	$ 1,171,193	$ 3,692,358	$ 1,065,093	$ 4,329,021	$ 993,747	$ 32,154,249
Net loss	$ (1,170,209)	$ (3,690,610)	$ (1,046,162)	$ (4,328,655)	$ (993,683)	$ (32,085,246)
Net loss per share – basic and diluted	$ (.01)	$ (.02)	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.08)
Cash (used in) operations	$ 326,121	$ (1,738,593)	$ (2,186,031)	$ (1,607,682)	$ 43,992	$ (871,098)
Cash (used in) investing	$ (953,177)	$ 2,233,133	$ (2,763,213)	$ (444,713)	$ (3,347,284)	$ (2,259,592)
Cash (used in) provided by financing	$ 148,150	$ 298,556	$ 11,024,213	$ 8,621,793	$ (228,795)	$ 2
Foreign exchange gain (loss) on cash held in foreign currencies	$ 411,879	$ (96,555)	$ (108,722)	$ 487,245	$ (130,348)	$ (423,174)
Increase (decrease) in cash and cash equivalents in the fiscal period ended	$ (67,027)	$ 99,429	$ 11,038,630	$ 1,984,260	$ (3,662,436)	$ (3,553,861)

Note 1 – PetroKamchatka became a reporting issuer on November 26, 2009 pursuant to the completion of an arrangement. Prior to that time, PKR did not prepare interim financial statements on a basis consistent with the interim financial statements of PetroKamchatka. As a result, a summary of quarterly results in periods prior to February 28, 2009 are not available.

In the three month period ended May 31, 2010, an impairment test of the Russian full cost pool resulted in material increases in the write downs of property and equipment of $30,965,917. This write down and other expenses in the quarter ended May 31, 2010 of $1,188,332 resulted in a net loss in the three months period ended May 31, 2010 of $32,085,246.

SUMMARY OF GENERAL AND ADMINISTRATIVE EXPENSES BY QUARTER

	For the Three Month Periods Ended – Note 1					
	February 28, 2009	May 31, 2009	August 31, 2009	November 30, 2009	February 28, 2010	May 31, 2010
Employee salaries and benefits	$ 185,062	$ 210,156	$ 206,261	$ 726,952	$ 243,486	$ 87,788
Professional fees	$ 295,280	$ 503,599	$ 274,683	$ 565,803	$ 140,611	$ 1,103,110
Directors fees and expenses	$ 77,380	$ 63,750	$ 101,750	$ 118,696	$ 108,019	$ 82,515
Office administration and other	$ 85,832	$ 78,098	$ 227,458	$ 758,501	$ 241,955	$ (462,325)
General and administrative expenses	**$ 643,554**	**$ 855,603**	**$ $810,152**	**$ 2,169,952**	**$ 734,071**	**$ 811,088**

Note 1 – PetroKamchatka became a reporting issuer on November 26, 2009 pursuant to the completion of an arrangement. Prior to that time, PKR did not prepare interim financial statements on a basis consistent with the interim financial statements of PetroKamchatka. As a result, a summary of quarterly results in periods prior to February 28, 2009 are not available.

In the three months ended May 31, 2010, costs were reallocated between ‘employee salaries and benefits’; ‘professional fees’ and ‘office administration and other’ categories to be consistent with allocations at the end of Fiscal 2010.

LIQUIDITY AND CAPITAL RESOURCES

Overview

PetroKamchatka is engaged in the exploration for petroleum and natural gas in the Kamchatka Peninsula of Russia but does not yet have reserves, production or revenue from operations. PetroKamchatka has historically funded its operations through equity financings.

The consolidated financial statements were prepared on the basis of accounting principles applicable to a 'going concern' which assumes that the Corporation will realize its assets and discharge its liabilities in the normal course of business. If the going concern assumption was not appropriate for the consolidated financial statements, then adjustments would be necessary to adjust the carrying value of assets and liabilities, reported expenses and to revise the balance sheet classifications used.

As at May 31, 2010, PetroKamchatka had working capital of $7,451,857 and did not have any bank loans or other credit facilities. Working capital at May 31, 2010 was comprised of cash and cash equivalents of $7,915,415, accounts receivable of $2,758,064 and prepaid expenses of $27,958 less trade accounts payable and accrued liabilities of $3,249,580. During the fiscal year ended May 31, 2010, the Corporation increased its working capital by raising cash through two private placement financings. The first provided for net proceeds of $11,388,579 and closed at various times from June through August 2009. The second, completed in November 2009, provided for net proceeds of $8,423,682.

Capital management

A major risk issue is whether or not the Corporation has sufficient capital to sustain itself.

The May 31, 2010 consolidated working capital of $7,451,857, including cash of $7,915,415, and the fact the Corporation has no debt are positive factors supporting a 'going-concern' status. The Corporation's financial position at May 31, 2010 is much stronger than it was at the previous fiscal year end. However, the Corporation's financial risk must be considered in more depth given the stage of its operations and funding limitations. Although management has undertaken significant cost reduction measures, the Corporation continues to incur ongoing technical costs and net general and administrative expenses. The Corporation has no cash inflow, nor is there any assurance that it can raise additional capital in 'weak' capital markets or sell its interest in the HighKelly drilling rig.

The Corporation does not have sufficient capital to meet all of its commitments under the terms of its exploration licenses and will likely need additional funding, possibly from the sale of the HighKelly drilling rig, to support the drilling of a third exploration well. It could lose part or all of its remaining interests in the Russian exploration licenses if it fails to obtain additional funding. The exploration of the Corporation's properties depends, therefore, on its ability to obtain equity financing, debt financing, strategic partnerships or other means. If the Corporation is unable to raise funds, when required in the future, it may be in breach of its funding obligations under its agreements with KKPL and the commitments included in its Russian exploration license agreements. Management of the Corporation will monitor the Corporation's capital spending on its projects in Russia and its general and administrative expenses and will make modifications to its current plans when necessary.

The drilling of two dry holes has negatively impacted the ability of the Corporation to raise additional capital. Whether or not the Corporation will realize its net interest in the HighKelly drilling rig is uncertain. In the May 31, 2010 fiscal year, the Corporation has written down its interest in the HighKelly drilling rig to its revised appraised value as at August 1, 2010 of approximately $4.1 million net.

The timing of drilling a third well and the actual costs that will be incurred to mobilize, drill and demobilize are important variables to consider when assessing the liquidity of the Corporation.

In addition, there is significant technical risk in the proposed drilling of a third exploration well. The balance of the Corporation's existing working capital is expected to be materially consumed if a third well is drilled. The success or lack of success of a possible third well will have a material impact on the future viability of the Corporation.

Capital expenditures

The following table reflects only the portion of capital expenditures and recoveries that represent the Corporation's share of these amounts.

	For the Three Month Periods Ended – Note 1					
	February 28, 2009	**May 31, 2009**	**August 31, 2009**	**November 30, 2009**	**February 28, 2010**	**May 31, 2010**
Russia petroleum and natural gas properties	$ 1,206,046	$ 1,719,557	$ 2,720,723	$ 2,050,028	$ 3,239,957	$ 2,827,912
Less VAT recoveries	$ (487,460)	$ (3,151,626)	$ (1,163,291)	$ (1,244,471)	$ (1,013,494)	$ (1,553,409)
	$ 718,586	$ (1,432,069)	$ 1,557,432	$ 805,557	$ 2,226,463	$ 1,274,503
Canada petroleum and natural gas properties	$ -	$ -	$ -	$ -	$ -	$ 165,850
Joint interest in drilling rig	$ 53,751	$ -	$ -	$ -	$ -	$ 198,296
Other equipment - Russia	$ -	$ (306,973)	$ 224,113	$ 61,904	$ -	$ (286,017)
Office furniture and equipment	$ 2,705	$ 1	$ 4,416	$ 4,733	$ 8,477	$ (44,488)
Total capital expenditures	**$ 775,042**	**$ (1,739,041)**	**$ 1,785,961**	**$ 872,194**	**$ 2,234,940**	**$ 1,308,143**

Note 1 – PetroKamchatka became a reporting issuer on November 26, 2009 pursuant to the completion of an arrangement. Prior to that time, PKR did not prepare interim financial statements on a basis consistent with the interim financial statements of PetroKamchatka for the period ended November 30, 2008. As a result, a summary of quarterly results in periods prior to February 28, 2009 are not available.

During the fiscal year ended May 31, 2010, PetroKamchatka incurred net capital expenditures on Russian oil and gas properties of $5,863,955 after netting VAT recoveries in the year of $4,974,665. The expenditures were incurred primarily on drilling the two exploratory wells on the Tigil license block. During the fiscal year ended May 31, 2009, the Corporation incurred net capital expenditures on the Russian oil and gas properties of $9,474,620 after netting VAT recoveries in the prior year of $3,377,076.

In the fiscal year ended May 31, 2009, the Corporation also incurred expenditures of $5,354,799 on equipment in Russia.

In the three month period ended May 31, 2010, the Corporation incurred net capital expenditures on Russia petroleum and natural gas properties of $1,274,503 after netting VAT recoveries in the quarter of $1,553,409.

PetroKamchatka's future capital requirements will focus on the resource evaluation of its Russian properties and meeting its work commitments under the Russian exploration licenses. PetroKamchatka completed the drilling of two wells on the Tigil Block in Fiscal 2010. The 2011 work program and budgets are subject to the approvals of KKPL and the Board and upon the ability of the Corporation to obtain adequate financing.

Equity

As at September 24, 2010, PetroKamchatka had 489,739,640 common shares, 20,882,774 warrants and 21,625,000 options outstanding.

CONTRACTUAL OBLIGATIONS

Under the terms and conditions of its Russian exploration licenses, the Corporation is committed to completion of seismic work programs and drilling of exploration wells by certain dates in order to retain its rights under the licenses.

Tigil

The Corporation has met its obligations under the original terms of the Tigil exploration license. The Tigil exploration license will expire on December 31, 2010.

Icha

The Icha exploration license requires the drilling and completion of one well before its expiry on December 30, 2011.

Other Russian Licenses

Subsequent to May 31, 2010, the Corporation surrendered the Urginskaya, the Pustaretkaya and the Palanskaya exploration licenses back to the MNFR but is required to pay aggregate current land tax payments in the amount of Russian Ruble 632,550 (US $21,085).

The Ichinskaya and Vorovksaya are valid until September 14, 2014 and each require minimum seismic, drilling and completion programs in the first two to three years of the license term.

Other

The Corporation is committed to making payments with respect to its office leases in Canada which expire on June 30, 2013 and October 13, 2013. The future net minimum lease payments for these leases for the fiscal years in the intervening period are:

Fiscal 2011	$	264,000
Fiscal 2012	$	264,000
Fiscal 2013	$	264,000
Fiscal 2014	$	55,000
Total	$	$847,000

RELATED PARTY TRANSACTIONS

At May 31, 2010, there were no amounts due from directors or officers.

At May 31, 2010, amounts were owed to directors and officers totaling $67,500 for services performed in their capacities as directors and officers in the normal course of operations.

In the fiscal year ended May 31, 2010, the Corporation repaid loans owing to a person who is a shareholder, officer and director in the aggregate amount of $390,000 plus interest of $5,051. The loans were made during the fiscal year ended May 31, 2009. The first loan in the amount of $90,000 was an unsecured demand loan bearing interest at a fixed rate of 12% per annum. The second loan in the amount of $300,000 was a demand loan bearing interest at LIBOR plus 3% per annum and was secured by a first priority assignment of the assets of the Corporation. The board of directors approved the terms and conditions of the loans.

OFF-BALANCE SHEET ARRANGEMENTS

As at May 31, 2010, the Corporation did not have any off-balance sheet arrangements, other than the Corporation's lease commitments as described previously.

FINANCIAL INSTRUMENTS

The fair value of the Corporation's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximated their carrying values as at May 31, 2010 and May 31, 2009.

The Corporation is exposed to various risks associated with its financial instruments. These risks are categorized as market risk, credit risk and liquidity risk.

Market risk is the risk that changes in market conditions, such as commodity prices, exchange rates and interest rates, will affect the Corporation's net earnings or the value of its financial instruments. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns.

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can also reduce the Corporation's ability to raise capital. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. In the future, the Corporation may attempt to mitigate commodity price risk through the use of financial derivatives. The Corporation does not have any oil or gas production and does not have any risk management contracts in place as at or during the fiscal years ended May 31, 2010 and 2009.

The Corporation is exposed to foreign currency fluctuations as it holds cash and incurs expenditures in property and equipment in foreign currencies. The Corporation incurs expenditures in Russian rubles, Pounds sterling, Euros and Canadian dollars and is exposed to fluctuations in exchange rates in these currencies. There are no forward foreign exchange rate contracts in place as at or during the fiscal years ended May 31, 2010 or 2009.

Financial instruments that potentially subject the Corporation to concentration of credit risk consist of accounts receivable.

There is low credit risk on accounts receivable. Accounts receivable consists of Russian VAT, amounts due from the Canadian Government and accounts receivable from the Corporation's joint ventures. All amounts due to the Corporation, except for $525,000 of Russian VAT, were received between May 31, 2010 and the date of this MD&A.

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. The Corporation's financial liabilities consist of accounts payable and accrued liabilities. Accounts payable consists primarily of invoices payable to trade suppliers or professionals for capital expenditures and services rendered.

RECENT CHANGES IN ACCOUNTING POLICIES

Effective June 1, 2008, the Corporation adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"):

- Section 1535 "Capital Disclosures";
- Section 3862 "Financial Instruments – Disclosures"; and
- Section 3863 "Financial Instruments – Presentation".

The new sections enhance disclosure requirements for financial instruments but leave the presentation requirements unchanged.

Section 1535 specifies the disclosure of information about an entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether the entity has complied with any externally imposed capital requirements; and if the entity has not complied, the consequences of non-compliance. Adoption of this standard has resulted in additional note disclosures in the Corporation's consolidated financial statements.

Section 3862 and Section 3863 specify the standards of presentation and enhanced disclosures on financial statements, particularly with respect to the nature and extent of risks arising from financial instruments and how the entity manages those risks. The standards have resulted in increased disclosures provided in the Corporation's consolidated financial statements (Note 11).

Effective June 1, 2008, the Corporation adopted the new accounting standard, Section 3064 "Goodwill and Intangible Assets", issued by the CICA, replacing Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. Adoption of these standards had no impact on the Corporation's consolidated financial statements for the years ended May 31, 2010 and 2009.

In January 2009, the CICA Accounting Standards Board ("AcSB") issued CICA Handbook Section 1582, "Business Combinations", which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. Section 1582 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier application permitted. The adoption of section 1582 will affect the accounting for business combinations, if any, by the Corporation on or after June 1, 2011.

In January 2009, the AcSB issued CICA Handbook Sections 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests", which replace existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Early adoption is permitted provided the new standards are adopted simultaneously with Section 1582 "Business Combinations". Section 1582 requires equity instruments issued as part of the purchase consideration to be measured at the fair value of the shares at the acquisition date. In addition, guidance generally requires all acquisition costs to be expensed whereas such amounts could be capitalized as part of the purchase price under the previous standard. The adoption of these recommendations may have a material impact on any future business combinations or future investments reported in the Corporation's consolidated financial statements. The Corporation is currently assessing the impact that the adoption of these Sections may have on its results of operations or financial position.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In February 2008, the CICA's Accounting Standards Board ("AcSB") confirmed that accounting standards in Canada will converge with IFRS. Foreign companies listed for trading in Canada which presently prepare financial statements under Canadian generally accepted accounting principles ("GAAP"), such as the

Corporation, will begin reporting under IFRS for interim and annual financial statements for fiscal years beginning on or after January 1, 2011, with appropriate comparative information for the prior year. As the year end of PetroKamchatka is May 31, it will begin reporting under IFRS in its fiscal year beginning June 1, 2011.

The Corporation has developed a changeover plan to complete the transition to IFRS by June 1, 2011 which is the date of transition for the Corporation. The conversion plan includes the following phases:

Phase I Diagnostic – designating resources to the project, raising awareness and performing high level diagnostic assessments to identify potential accounting and reporting differences between IFRS and Canadian GAAP;

Phase II Scope and Planning – establishment of project governance, processes, resources, budget and timeline;

Phase III Detailed Assessment – based on items identified in Phase I, performance of systematic and detailed analysis of gaps between the application of current accounting policies and IFRS and the consideration of transitional policy choices. Assessment of impacts on the Corporation's management reporting systems and business activities;

Phase IV Design and implementation – implementation of all changes approved in the assessment phase; preparation of IFRS financial statement disclosures; and

Phase IV Evaluation – review of processes and controls to make any required changes; and

Phase V Ongoing Compliance – with IFRS after implementation.

The Corporation has completed Phase I. It is proceeding through Phase II and the detailed analysis required in Phase III. It has not yet analyzed in sufficient detail all of the conversion implications to properly select from available accounting policy alternatives. At the date of this MD&A, it is apparent that the Corporation will require additional inputs from external consultants with IFRS conversion expertise to assist existing staff and consultants to achieve the Corporation's IFRS conversion. Management is not yet able to quantify the impact of adopting IFRS on its financial statements.

For Canadian GAAP purposes, the Corporation follows the full cost method of accounting as prescribed by Accounting Guideline 16 ("AcG16"). Significant differences in accounting for property, plant and equipment under IFRS include:

- Pre-exploration costs must be expensed. Under full cost accounting, these costs are included in the country cost centre;

- Exploration and evaluation costs ("E&E") are presented separately from producing assets. The Corporation may continue to capitalize E&E assets. Once technical feasibility and commercial viability of reserves is established for an area, the costs are transferred to PP&E. If technical feasibility and commercial viable reserves are not established for a new area, the costs must be expensed. Under full cost accounting, exploration and evaluation costs are currently disclosed as PP&E but withheld from depletion. Costs are transferred to depletable assets when proved reserves are assigned or when it is determined that the costs are impaired;

- Under full cost accounting, PP&E is depleted on a country cost centre basis. IFRS requires depletion of individual components, which may be at a level lower than a country cost centre.

- Impairment of PP&E will be tested at a cash generating level (the lowest level at which cash inflows can be separately identified). Under full cost accounting, impairment is tested at the country cost centre level.

IFRS-1, "First-Time Adoption of International Financial Reporting Standards" ("IFRS-1"), provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions to the general requirement for full retrospective application of IFRS. The potential relevant exemptions that are available to the Corporation and upon which the Corporation may rely include:

- An exemption from retroactively restating the value of property and equipment. An entity may elect to measure an item of property and equipment at the date of transition at its carrying value under its previous GAAP.

- The Corporation expects to rely upon an IFRS transition exemption for oil and gas companies following the full cost method of accounting for oil and gas operations under their previous GAAP. The transition exemption allows full cost companies to allocate their existing full cost PP&E balances using reserve values or volumes to IFRS compliant units of account without requiring retroactive adjustment, **subject to an initial impairment test**. After initial adoption, future impairment charges may be reversed.

- On transition to IFRS, the change in the asset retirement obligation ("ARO") liability on PP&E for which the full cost exemption is applied must be recorded in retained earnings. The Corporation expects to avail itself of the full cost exemption and the related exemption for decommissioning liabilities. For the change in ARO liability on other non-full cost PP&E, the change will be adjusted to PP&E in accordance with the general exemption for decommissioning liabilities included in IFRS 1.

- At this time, the Corporation does not have reserves or cash generating units. As the Corporation is a pure exploration play and has made no discoveries to date, it follows that it has no reserves, development, production or revenue at the date of this MD&A.

Other IFRS Changes That Could Impact the Corporation

Under Canadian GAAP, the Corporation uses the fair value method of accounting for all stock and other stock-based payments, which requires the use of the fair value method of valuing all stock options granted and other stock-based payments whether they be to employees, directors or non-employees. The fair value is recognized in earnings over the vesting period of the options as stock based compensation expense with a corresponding increase to contributed surplus. Stock based compensation for options granted to directors and employees is based on the estimated fair value at the time of grant. Stock based compensation for consultants is based on the estimated fair value at each balance sheet date until the related options are fully vested. Upon the exercise of the stock options, consideration paid together with the amount previously recognized as contributed surplus is recorded as an increase to share capital. Under IFRS, stock option plans with graded vesting require the fair value of each vesting trance to be determined at the grant date which may differ from using an average fair value for all tranches. In addition, forfeitures must be estimated in determining the fair value.

Although both Canadian GAAP and IFRS follow the liability method of accounting for income taxes, where tax liabilities and assets are recognized on temporary differences, there are some exceptions to the treatment of temporary differences under IFRS that could lead to an adjustment to an entity's future tax liability under IFRS. In addition, an entity's future tax liability will be impacted by the tax effects of changes to comply with IFRS for other changes in accounting treatments.

The Corporation is still evaluating the impact of the IFRS 1 exemption which allows it to reset the foreign currency translation adjustment to zero by transferring the Canadian GAAP balance to retained earnings on June 1, 2010 rather than retrospectively restating the balance.

With respect to business combinations entered into prior to June 1, 2010, entities are allowed to adopt an IFRS 1 election to not restate business combinations. Under Canadian GAAP, the Corporation, for purposes of its internal Reorganization accounted for the exchange of its shares to acquire PKR using the 'continuity of interest basis of accounting'. In addition, it accounted for its Arrangement with Bluerock as a capital transaction. The Corporation is still evaluating the impact of adopting the IFRS 1 exemption with respect to its acquisition of PKR or its Arrangement with Bluerock.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings (“NI 52-109”), venture issuers can file a Venture Issuer Basic Certificate (the “Basic Certificate”) as defined by NI 52-109. The Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures (“DC&P”) and internal control over financial reporting (“ICFR”), as defined in NI 52-109. For annual filings, the Basic Certificate requires that the venture issuer’s certifying officers certify that:

- They have reviewed the annual consolidated financial statements (the “annual filings”) of the company;

- Based on their knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the annual filings; and

- Based on their knowledge, having exercised reasonable diligence, the annual consolidated financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the years presented in the annual filings.

PetroKamchatka is currently listed on the TSXV, and the Corporation’s CEO and CFO file the Basic Certificate. They do not make any representations relating to the establishment and maintenance of:

- Controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

- A process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

Investors should be aware that, due to the limited resources and number of staff of the Corporation, and the fact that the Corporation’s activities are carried out in Jersey, Cyprus, Canada and Russia, inherent limitations exist relative to the Corporation’s ability to design and implement, on a cost effective basis, DC&P and ICFR as defined in NI 52-109. Also, the Corporation does not have in-house expertise sufficient to deal with all of the complex and diverse taxation, legal and regulatory matters in all of these jurisdictions, without the assistance of external firms and consultants to assist and to advise on the reporting implications related to such matters. These circumstances may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

The CEO and CFO are however responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in the Basic Certificate. They employ advisors and consultants and review financial materials and processes to mitigate the risk of material misstatements in financial reporting.

BUSINESS CONDITIONS AND RISKS

An investment in PetroKamchatka should be considered highly speculative due to the early stage of development of PetroKamchatka's Russian properties. PetroKamchatka is in the exploration phase. It has no proven reserves or production or production revenues and has drilled two unsuccessful wells to date. There is no assurance that any future wells that may be drilled will be successful. There is no assurance that any discoveries that may occur will provide commercial quantities of oil or natural gas. The following information describes certain significant risks and uncertainties inherent in PetroKamchatka's business.

Prospective investors should take these risks into account in evaluating PetroKamchatka and in deciding whether to make an investment in PetroKamchatka. This section does not describe all risks applicable to the Company, its industry or its business, and it is intended only as a summary of certain material risks. Prospective investors should carefully consider such risks and uncertainties together with other information contained in this MD&A. If any of such risks or uncertainties actually occurs, the Company's business, financial condition or operating results could be harmed substantially and could differ materially from the plans and other forward-looking statements discussed elsewhere in this MD&A.

Risks Associated with Oil and Natural Gas Exploration

There can be no assurance that commercial quantities of hydrocarbons will be recovered by PetroKamchatka in the future. Petroleum and natural gas exploration involves a high degree of risk. There is no assurance that expenditures made on future exploration by PetroKamchatka will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of exploration drilling programs due to many inherent uncertainties including: drilling in unknown formations; drilling in unknown conditions; the impact of changing drilling plans and locations as results from wells drilled become known or additional seismic data and interpretations thereof become available; and the risk that potential hazards may result during drilling such as unusual or unexpected formations, pressures or other conditions which may affect the costs of drilling and operating wells. PetroKamchatka does not have sufficient historical costs to rely upon in making estimates of its future exploration and development expenditures.

PetroKamchatka currently has a number of identified exploration prospects and leads. Management will continue to evaluate prospects and leads on an ongoing basis in a manner consistent with industry standards and past practices. The long term commercial success of PetroKamchatka depends on its ability to find or acquire, develop and commercially produce, transport and market oil and natural gas reserves. No assurance can be given that PetroKamchatka will be able to achieve this.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells but possibly from wells that are productive but do not produce sufficient net revenues to provide a reasonable rate of return on capital invested, after drilling, operating and other costs are considered. PetroKamchatka is unable to predict whether any portion of the resources will be discovered or, if discovered, whether it will be commercially viable to produce any portion of the resources. 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 could greatly increase the risk and cost of operations and various field operating conditions may adversely affect the production from successful wells. In addition, delays in obtaining governmental approvals or consents, insufficient storage or transportation capacity or other geological and mechanical conditions may negatively impact PetroKamchatka's future success.

While close well supervision and effective maintenance can contribute to maximizing production rates, the risks of production delays or declines cannot be eliminated. These may have a negative impact on future net revenue and cash flows. In addition, commodity prices may decline in future periods. Oil and natural gas operations are subject to the many risks during the exploration, development and production phases of the oil and natural gas properties. These risks may include but are not necessarily limited to encountering unexpected formations or pressures; premature declines of reservoirs; blow-outs; cratering; sour gas releases; fires; and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition of PetroKamchatka.

The marketability of any oil and natural gas discovered or acquired will be affected by numerous factors beyond the control of PetroKamchatka. These factors include: market fluctuations; proximity and capacity of oil and natural gas pipelines and processing equipment; and government regulations including laws or regulations dealing with royalties, allowable production quantities, importing and exporting of oil and natural gas, and environmental protection.

Financial Risks

Additional financing will be required to fund the cost of PetroKamchatka's future exploration and development activities beyond the end of Fiscal 2010.

PetroKamchatka does not presently have sufficient cash to pay for its planned exploration and development programs in Fiscal 2011 and beyond. The exploration and development of PetroKamchatka's properties beyond 2010 depends, therefore, on PetroKamchatka's ability to obtain additional financing through equity financing or other means. Failure to obtain any financing necessary to fund PetroKamchatka's future capital expenditure plans may result in a delay in development or production from PetroKamchatka's properties. If PetroKamchatka fails to raise sufficient capital to pay its share of cash calls on the Icha Block, PetroKamchatka could materially breach its obligations under its Shareholder Agreements and related amendments with KKPL. In the extreme, this could lead to forfeiture of its shares in CJSC Icha Exploration.

In the latter half of 2008 and through 2009, the U.S. credit markets experienced serious disruption due to a deterioration in residential property values which resulted in unprecedented defaults and delinquencies in the residential mortgage market (particularly, subprime and non-prime mortgages) and a decline in credit quality of mortgage backed securities. These problems led to a slow-down in residential housing market transactions, declining housing prices, delinquencies in non-mortgage consumer credit and a general decline in consumer confidence. These conditions continued and worsened in 2008 and 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and economies. This resulted in the collapse of many major banks and government intervention in financial institutions and insurers. This created a climate of great volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions and volatile foreign exchange markets. Notwithstanding various actions by the U.S. and foreign governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially.

More recently, many of the world's major stock indices have shown signs of recovery in the latter part of 2009 and first half of 2010. Nevertheless, as a result of the weakened global economic situation, PetroKamchatka, along with all other oil and gas entities, may have restricted access to equity or debt capital. There may be increases in borrowing costs. Although PetroKamchatka's asset base may not have changed, the lending capacity of all financial institutions has diminished and risk premiums have increased. As future capital expenditures will be financed out of funds generated from operations, borrowings and possible future equity sales, PetroKamchatka's ability to raise capital is dependent on, among other factors, the overall state of capital markets and investor appetite for investments in the energy industry and PetroKamchatka's securities in particular.

There can be no assurance that PetroKamchatka will obtain necessary additional financing or that any joint venture partner will obtain financing under the terms of any joint venture agreement into which it enters with PetroKamchatka. The failure of PetroKamchatka to obtain additional financing on a timely basis or on terms favourable to PetroKamchatka could result in the loss or substantial dilution of PetroKamchatka's interests (as existing or as proposed to be acquired) in its properties. The failure of any joint venture partner to obtain required financing could adversely affect PetroKamchatka's ability to complete the exploration or development of any such joint venture project on a timely basis, if at all.

Should PetroKamchatka elect to satisfy its cash commitments through the issuance of securities, by way of either private placement or public offering, there can be no assurance that PetroKamchatka's efforts to raise such funding will be successful, or achieved on terms favourable to PetroKamchatka or its existing shareholders.

History of Losses

PetroKamchatka has incurred substantial losses in all of its fiscal years including the most recent fiscal year ended May 31, 2010. PetroKamchatka's total net loss and comprehensive loss during the year ended May 31, 2010 was approximately $38.5 million. Cash used in operating activities during the same fiscal year was approximately $4.6 million. As at May 31, 2010, PetroKamchatka had a deficit of approximately $69 million. PetroKamchatka has significant drilling and other work commitments that need to be funded if PetroKamchatka is to maintain its interest in its exploration licenses in Kamchatka. PetroKamchatka's ability to achieve drilling and production success will depend upon obtaining significant capital. To become profitable, PetroKamchatka must identify and establish reserves at its properties, and then either develop its properties or locate and enter into agreements with third party operators on favourable economic terms. PetroKamchatka may suffer significant additional losses in the future and may never be profitable. Even if PetroKamchatka does achieve profitability, it may not be able to sustain or increase profitability on a quarterly or annual basis. PetroKamchatka expects to incur losses unless and until such time as one or more of its properties enters into commercial production and generates sufficient net revenue to fund continuing operations.

Limited Operating History and No Record of Earnings

PetroKamchatka only recently commenced operations in Russia and has no earnings history. Accordingly, PetroKamchatka has no operating history in the oil and natural gas industry in Russia (or elsewhere) and has no meaningful, historical financial information or record of performance. Any future profitability from PetroKamchatka's business will be dependent upon the successful development of PetroKamchatka's lands, and there can be no assurance that PetroKamchatka will achieve profitability in the future. There are no known quantities of oil or natural gas reserves on PetroKamchatka's properties. Revenues, other than interest on unused funds, may not occur for some time, if at all. The timing and extent of these influences is variable and uncertain and accordingly PetroKamchatka is unable to predict when, if at all, profitability will be achieved. An investment in the PKK Shares is highly speculative and should only be made by persons who can afford a significant or total loss of their investment.

Substantial Capital Requirements

PetroKamchatka's business plan requires significant expenditures, particularly near-term capital expenditures, in its exploration and development phases, assuming there may be a development phase, which assumption is uncertain. PetroKamchatka may be unable to finance its needs on acceptable terms, or at all, which may have a material adverse effect on PetroKamchatka's operations. PetroKamchatka's future growth depends on its ability to make large capital expenditures for the exploration and development of natural gas and oil properties. Future cash flows and the availability of equity or debt financing will be subject to a number of variables including, but not necessarily limited to: (i) the success of PetroKamchatka's prospects in Kamchatka; (ii) success in finding and commercially producing reserves; and (iii) prices of oil and natural gas.

Debt financing, if any, could lead to: (i) a substantial portion of operating cash flow being dedicated to the payment of principal and interest; (ii) PetroKamchatka being more vulnerable to competitive pressures and economic downturns; and (iii) restrictions on PetroKamchatka's operations.

PetroKamchatka might not be able to obtain necessary financing on acceptable terms, or at all. If sufficient capital resources are not available, PetroKamchatka might be forced to curtail exploration and/or development drilling and other activities or may be forced to sell some or all of its assets on an untimely or unfavourable basis, which would have a material adverse effect on PetroKamchatka's business, financial condition and results of operations.

If PetroKamchatka's net revenues or resources decline, it may have limited ability to expend capital necessary to undertake or complete future drilling programs. There can be no assurance that equity or debt financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if equity or debt financing is available, that it will be on terms acceptable to PetroKamchatka.

The inability of PetroKamchatka to access sufficient capital for its operations could have a material adverse effect on PetroKamchatka's financial condition, results of operations or prospects.

Political and Government Risk

Beyond the risks inherent in the oil and natural gas industry, PetroKamchatka is subject to additional risks resulting from doing business in Russia. Russia has been undergoing a substantial political transformation from a centrally-controlled command economy under communist rule to a pluralist, market-oriented democracy. A significant number of changes have been undertaken during recent years, but there can be no assurance that the political and economic reforms necessary to complete such a transformation will continue. The Russian political system is vulnerable to the population's dissatisfaction with reforms, social and ethnical unrest and changes in governmental policies. PetroKamchatka is unable to foresee all the changes possible on the political scene of the Russian Federation that might impact upon the binding provisions of laws, the regulations and their interpretation or enforcement as well as the consequences of such changes upon PetroKamchatka's assets and operations.

These risks can involve matters arising out of evolving laws and policies of Russia, the imposition of special taxes or similar charges, oil export or pipeline restrictions, foreign exchange fluctuations and currency controls, the unenforceability of contractual rights or the taking of property without fair compensation, restrictions on the use of expatriates in operations and other matters.

There can be no assurance that the license agreements under the licenses granted by MNFR and others are enforceable or binding in accordance with PetroKamchatka's understanding of their terms; or that if breached, PetroKamchatka would be able to find a remedy. PetroKamchatka bears the risk that a change of government could occur and a new government may terminate or void the licenses, laws and regulations that PetroKamchatka is relying upon. Operations in Kamchatka, Russia are subject to risks due to the harsh climate, difficult topography and the potential for social, political, economic, legal and financial instability.

PetroKamchatka's current core focus for exploration is fully directed in the Kamchatka Peninsula of Russia with varying degrees of political or government risk including:

- the risk of changes in government, policy, regulation, or fiscal terms;
- the risk of changes in conditions under which exploration licenses are awarded, including related work commitments;
- the risks of required government approvals being delayed or withheld or cancelled;
- risks associated with the cost or access to government-owned pipeline systems or other such infrastructure needed to transport oil and natural gas to markets;
- risks associated with government policy that forces PetroKamchatka and its partners to cede an interest in the project to government-owned or controlled oil and natural gas companies.

Changes in any government policy or regulation are beyond PetroKamchatka's control and may significantly affect the viability or profitability of its operations, or its ability to obtain future licenses.

Government Regulation

The oil and natural gas industry (exploration, production, pricing, marketing and transportation) is subject to extensive controls and regulations imposed by various levels of government. The Russian Government may regulate or intervene with respect to price, taxes, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for natural gas and crude oil and increase PetroKamchatka's costs, any of which may have a material adverse effect on PetroKamchatka's intended business, financial condition and results of operations. PetroKamchatka's operations require licenses and permits from various governmental authorities. There can be no assurance that PetroKamchatka will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development on its properties. It is not expected that any of these controls or regulations will affect the operations of PetroKamchatka in a manner materially different than they would affect other oil and natural gas companies of similar size. All current legislation is a matter of public record and PetroKamchatka is unable to predict what additional legislation or amendments may be enacted.

Limitations on Foreign Investments

The Russian Law on Foreign Investments provides for control and restrictions regarding foreign investments in strategic industries of federal significance. Under the 2008 amendments to the Subsoil Law, subsoil plots containing recoverable oil reserves in excess of 70 million tons and gas reserves above 50 billion cubic metres (as evidenced by the Russian State Register of Reserves, as of January 1, 2006) are characterized as being of federal significance. Based on information available to PetroKamchatka as at this date, PetroKamchatka does not believe that any of its properties will be classified as significant based on the above criteria.

If in the process of a geological survey, a foreign investor, such as PetroKamchatka, discovers oil or gas reserves that are significant (as identified above), the Russian Government may refuse to grant the foreign investor the right for exploration and production in respect of such property. If the resources were discovered in the course of a geological survey, on the basis of a combined license (for geological survey, exploration and production), the Russian Government may decide to terminate the right to use this property. The Subsoil Law provides for compensation of expenditures related to prospecting and appraisal, and repayment of a one-time payment for the grant of rights. Moreover, such entities may be entitled to a premium payable by the Russian State. The legislation does not provide for clear terms of payment of the above compensation, and it may take a long time for the subsoil user to receive those funds from the Russian Government. The Russian Government may impose additional limitations on Russian legal entities with the participation of foreign investors on their participation in tenders and auctions for the right to use such significant properties.

Dependence on KKPL

KKPL is the strategic partner of PetroKamchatka in the Tigil and Icha Blocks. As such, PetroKamchatka is dependent upon KKPL. Amongst other terms, the Shareholder Agreements set forth: cost sharing arrangements between PetroKamchatka and KKPL; processes to develop work programs and methods of dealing with any property with a commercial discovery; and terms for an area of mutual interest covering the western portion of the Kamchatka Peninsula. Failure by PetroKamchatka or KKPL to comply with certain cost sharing arrangements could result in the loss of the defaulting party's interest in CJSC Tigil Exploration or CJSC Icha Exploration. On May 18, 2007, KKPL and KNOC filed for arbitration in The International Court of Arbitration against PetroKamchatka alleging it failed to perform its obligations pursuant to the Shareholder Agreements. On October 5, 2007, PetroKamchatka and KKPL, together with KNOC, signed the Settlement Agreement together with an amended and restated rig purchase contract, a rig loan agreement and a share pledge agreement and the Global Amendment Agreement. Management considers PetroKamchatka's obligations under the Settlement Agreement have been met. PetroKamchatka received a letter dated July 29, 2009 from The International Court of Arbitration confirming that KKPL and KNOC withdrew its claims under The International Court of Arbitration proceedings. More recently, PetroKamchatka received a release from KKPL of the pledge of the shares of CJSC Tigil Exploration and CJSC Icha Exploration which release was registered in Russia subsequent to May 31, 2010. The Corporation continues to seek from KKPL, the formal recognition of its 46.25% interest in the HighKelly rig in accordance with the provisions of Settlement Agreement, and a formal termination of the Settlement Agreement.

Legal and Regulatory Risks

Risks associated with the Russian legal system include, among others: (i) the untested nature of the independence of the judiciary and its immunity from economic and political influences; (ii) inconsistencies between laws, Presidential decrees, and government and ministerial orders and resolutions; (iii) the lack of judicial or administrative guidance on interpreting applicable laws; (iv) a high degree of discretion on the part of governmental authorities; (v) the relative inexperience of judges and courts in interpreting new legal norms; (vi) substantial gaps in many areas of Russian law; (vii) the unpredictability of enforcement of foreign judgments and uneven record of enforcement of foreign arbitral awards; (viii) relatively frequent changes to existing Russian law as currently in effect; and (ix) unclear authority of regulatory agencies or relevant officers to complete certain actions.

The recent nature of much Russian legislation, the lack of consensus about the scope, content and pace of economic and political reform, and the rapid evolution of the Russian legal system in ways that may not always coincide with market developments, may result in ambiguities, inconsistencies and anomalies, the enactment of laws and regulations without a clear constitutional or legislative basis, and ultimately in investment risks that do not exist in more developed legal systems. All of these weaknesses could affect PetroKamchatka's ability to enforce its rights or to defend itself against claims by others.

These uncertainties also extend to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalisation. However, it is possible that due to the lack of experience in enforcing these provisions and the possibility of potential political changes, these protections would not be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any substantial assets of PetroKamchatka, potentially without adequate compensation, would have a material adverse effect on PetroKamchatka.

Many Russian laws are structured in a way that provides for significant administrative discretion in interpretation, application and enforcement. Consequently, good relations with central and regional governmental authorities are essential to ensure that PetroKamchatka is able to run its business efficiently. Reliable texts of laws and regulations at the regional and local levels may not be available, and are not usually updated or catalogued. As a result, the applicable law is sometimes difficult to ascertain and apply, even after reasonable effort. In addition, the laws are subject to different and changing interpretations and administrative applications. As a result of these factors, even the best efforts of PetroKamchatka to comply with the laws may not always result in full compliance.

Russian laws often provide general statements of principles rather than a specific guide to implementation, and government officials may be delegated or exercise broad authority to determine matters of significance. Such authority may be exercised in an unpredictable way and effective appeal processes may not be available. In addition, breaches of Russian law may involve severe penalties and consequences that could be considered as disproportionate to the violation committed.

The independence of the judicial system and its immunity from economic and political influences in Russia remains largely untested. The court system is understaffed and under-funded. Judges and courts are generally inexperienced in the areas of business and corporate law. Russia is a civil law jurisdiction and judicial precedents generally have no binding effect on subsequent decisions. Not all Russian legislation and court decisions are readily available to the public or organised in a manner that facilitates understanding. The Russian judicial system can be slow. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used to further political aims, and court decisions are not always enforced or followed by law enforcement agencies. There is no guarantee that the proposed judicial reform aimed at balancing the rights of private parties and governmental authorities in courts and reducing grounds for re-litigation of decided cases will be implemented and succeed in building a reliable and independent judicial system.

Limited Duration of Licenses

The rights of the Corporation’s Russian subsidiaries and joint interest companies under Geological Licenses are limited in time as each license is issued for a five-year term. The term of an exploration license can be extended upon the license holder's request if necessary to finalise exploration provided that the license holder did not violate the terms of its license. In such case, no tender or auction is conducted. The Subsoil Law does not include detailed regulations on the procedure for extending a subsoil license. As a matter of practice, license holders often reach agreement with the authorities on such extension. However there is no guarantee that a license extension will be granted.

Termination, Suspension or Revocation of Exploration (Geological), Combined and Production Licenses

The licensing regime in Russia for the exploration, development and production of oil and natural gas is governed primarily by the Subsoil Law and regulations issued thereunder. Most licenses provide that they may be terminated if licensees fail to comply with license requirements; if licensees do not make timely payments of levies and taxes for the use of the subsoil, if licensees systematically fail to provide information; or if licensees fail to fulfil any capital expenditure and/or work commitments.

PetroKamchatka may not be able to, or may voluntarily decide not to, comply with license requirements for some or all of its license areas. If it fails to fulfil the specific terms of any of its licenses or if it operates in the license areas in a manner that violates Russian law, government regulators may impose fines on the Russian Companies or suspend or terminate their licenses. Any suspension or termination of one or more of the subsoil licenses could have a material adverse effect on PetroKamchatka's operations and the value of its assets.

The rights of any subsoil user may also be challenged on the basis of defects in the process of issuing its subsoil licenses. Vague and inconsistent requirements of the Subsoil Law and the regulations thereunder can make it difficult to conclude that any given subsoil license has been issued in full compliance with applicable law.

Environmental

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires 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, as well as suspension of the operations of the subsoil user. Environmental legislation is evolving 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 PetroKamchatka to incur costs to remedy such discharge. Although PetroKamchatka believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws 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 PetroKamchatka's financial condition, results of operations or prospects.

Prices, Markets and Marketing

The marketability and price of oil and natural gas will be affected by numerous factors beyond PetroKamchatka's control. The ability to market natural gas may depend upon PetroKamchatka's ability to acquire space on pipelines that deliver natural gas to commercial markets. PetroKamchatka may also be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities, and related to operational problems with such pipelines and facilities as well as 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.

PetroKamchatka's revenues, profitability and future growth and the carrying value of its properties are substantially dependent on prevailing prices of oil and natural gas. PetroKamchatka's ability to borrow and to obtain additional capital on attractive terms is also substantially dependent upon oil and natural 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 PetroKamchatka. These factors include economic conditions, the actions of the Organization of Petroleum Exporting Countries, governmental regulation, political stability 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. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on PetroKamchatka's carrying value of its resources or future proved reserves (if any), borrowing capacity, revenues, profitability and cash flows from operations. No assurance can be given that prices for oil or natural gas will be sustained at levels that will enable PetroKamchatka to operate profitably.

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

Third Party Risk

In the normal course of its business, PetroKamchatka enters into contractual arrangements with third parties which subject PetroKamchatka to the risk that such parties may default on their obligations. PetroKamchatka may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, suppliers and other parties. In the event such entities fail to meet their contractual obligations to PetroKamchatka, such failures could have a material adverse effect on PetroKamchatka and its future cash flow from operations.

Dependence on Key Personnel

The success of PetroKamchatka will be largely dependent upon the quality of its management and personnel, including in particular, Graeme Phipps, the Chief Executive Officer and a director, and PetroKamchatka's key Russian personnel. Loss of the services of such persons, or the inability to attract personnel of equal ability, could materially adversely affect PetroKamchatka's business operations and prospects. PetroKamchatka has not, as yet, purchased "key man" insurance on any of its directors, officers or key employees, and has no current plans to do so.

Availability of Drilling Equipment, Access and Infrastructure

Any development of the properties will require the construction of significant infrastructure, possibly including among other things roads, pipelines, power generation facilities and a coastal terminal and offshore loading system, and also the drilling of multiple wells. The cost of completing and operating such infrastructure and drilling such wells is very uncertain, and overruns in budgeted expenditures are common risks that can make a particular project uneconomical.

Factors that can delay or prevent drilling operations, include unexpected drilling conditions, pressure or irregularities in formations, equipment failures or accidents, shortages or delays in the availability of drilling rigs or the delivery of equipment, the inability to hire personnel or engage other third parties for drilling and completion services, compliance with government regulations, adverse weather, delays or increased costs in developing the necessary infrastructure required to support the drilling operations, the cost of diesel to power the operations and the remote location of the assets.

PetroKamchatka does not currently have contractual commitments that ensure it will have adequate supply of equipment or crews to achieve possible future development plans. In particular, the ability to implement any development plans is dependent upon the ability to recruit and train an appropriate labour force and there is no assurance that this will be possible. In addition, future development plans could require the deployment of significant amounts of equipment. Constraints in the availability of, or higher than anticipated costs for drilling rigs, equipment, supplies or personnel could delay or adversely affect PetroKamchatka's future exploration and development of its properties. This could have a material adverse effect on the financial condition and results of operations. If PetroKamchatka cannot complete the planned developments on time or on budget, the financial performance may be adversely affected, which could have a material adverse effect on the value of an investment in PetroKamchatka.

Access to Kamchatka Properties

Unlike most Russian oil production, which is delivered to markets by pipelines from landlocked oil fields or oil production such as from Sakhalin Island, which is pumped to the mainland by pipeline in Winter months when Sakhalin Island becomes inaccessible to shipping vessels due to ice, the exploration license areas in Kamchatka are normally accessible to pack ice breaking vessels even in the harshest of winter months. PetroKamchatka expects that, with investment in suitable infrastructure, any commercially recoverable oil that may be found in the exploration license areas in Kamchatka and subsequently produced pursuant to production licenses will be capable of direct export to world markets.

Risks May Not be Insurable

PetroKamchatka's operations are subject to the risks normally experienced in the operation and development of oil and natural gas properties and the drilling of oil and natural gas wells, including encountering unexpected formations or pressures, blow-outs and fires, all of which could result in personal injuries, loss of life and damage to property of PetroKamchatka and others. In accordance with customary industry practice, PetroKamchatka may not be fully insured against all of these risks, nor are all such risks insurable. Environmental regulation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. PetroKamchatka expects it will be able to fully comply with all regulatory requirements in this regard.

Management of Growth

PetroKamchatka may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of PetroKamchatka to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of PetroKamchatka to deal with this growth could have a material adverse impact on its business, operations and prospects.

Licenses, Permits, Approvals or Agreements

There are numerous permits, approvals, and agreements with third parties, which will be necessary in order to enable PetroKamchatka to proceed with PetroKamchatka's development plans and otherwise accomplish PetroKamchatka's objectives. The Russian Government has discretion in interpreting various laws, regulations, and policies governing operations under the licenses. The state authorities have broad discretion to interpret requirements for the issuance of various licenses and permits necessary for the subsoil use operations. PetroKamchatka's inability to meet any such requirements could have a material adverse effect on PetroKamchatka's exploration or development activities, and may even result in the termination of the subsoil use licenses.

PetroKamchatka's properties are held indirectly in the form of licenses and ownership working interests in Russian project companies holding the licenses. If PetroKamchatka or the holder of the license fails to meet the specific requirement of a license, the license may terminate or expire. There can be no assurance that any of the obligations required to retain each license will be met. The termination or expiration of PetroKamchatka's licenses or the beneficial interests relating to a license may have a material adverse effect on PetroKamchatka's results of operation and business. Extensions have been granted in the past in respect of both the Tigil and Icha Blocks. Where an extension may be required but is not granted, PetroKamchatka will be in default of its obligations under the terms of the exploration license and the exploration license will be forfeited.

HighKelly Rig

PetroKamchatka together with KKPL entered into a restated rig purchase agreement with HighKelly to acquire the HighKelly rig for $16 million. Pursuant to this agreement and the Settlement Agreement, PetroKamchatka withdrew as a direct purchaser of the HighKelly rig and KKPL agreed to purchase such rig and grant to PetroKamchatka a 46.25% interest therein. PetroKamchatka repaid its loan with KKPL on June 8, 2008 and paid its share of the final rig payments on November 12, 2008. Management considers PetroKamchatka's obligations under the Settlement Agreement have been met and has requested KKPL to provide a formal recognition of PetroKamchatka's 46.25% interest in the HighKelly rig in accordance with the provisions of the Settlement Agreement. On August 18, 2009, KKPL initiated an arbitration proceeding in The International Court of Arbitration against HighKelly, the manufacturer of the HighKelly rig, in respect of the claim by KKPL that HighKelly failed to comply with its contractual obligations to manufacture and deliver a customized rig to KKPL in compliance with specific contracted requirements. Pursuant to KKPL's request for arbitration, KKPL is seeking to reject the rig and recover the amounts paid or, alternatively, damages for the alleged breach of contract by HighKelly. PetroKamchatka is not involved in these proceedings and is not able to predict the outcome of such proceedings. It has been determined that the HighKelly rig is unsuited for PetroKamchatka's operations in Kamchatka, and it should be sold. There is no certainty as to the price that may be realized on sale or that a sale of the rig may be realized on terms acceptable to PetroKamchatka.

Land Use Rights

Conducting operations which include exploration and production works requires the holding of respective rights to real property (land) on which such work is to be carried out. In certain cases, it may be necessary to reclassify the land prior to commencement of any work, which is often a time-consuming and costly procedure. Lack of the relevant title to land or loss thereof may impact on the works timetable and could have a negative impact on the cost of operations, results, financial condition or development prospects of PetroKamchatka.

No Reserves or Production

PetroKamchatka does not have any proven reserves or production and may never have any reserves. The future performance of PetroKamchatka's business will depend upon the ability to identify, acquire or successfully discover and develop oil and natural gas reserves that are economically recoverable. Without successful exploration activities, PetroKamchatka will not be able to develop oil and natural gas reserves or generate revenues. There are no assurances that oil and natural gas reserves will be discovered in sufficient quantities to enable PetroKamchatka to recover PetroKamchatka's exploration and development costs or sustain PetroKamchatka's business. No assurance can be given that PetroKamchatka's exploration and development activities will result in the discovery of any reserves. Operations may be curtailed, delayed or cancelled as a result of lack of adequate capital and other factors, such as lack of availability of rigs and other equipment, title problems, weather, compliance with governmental regulations or price controls, mechanical difficulties, or unusual or unexpected formations, pressures and or work interruptions. In addition, the costs of future exploration and development may materially exceed initial estimates.

Resource Estimates

There are numerous uncertainties inherent in estimating quantities of prospective resources, including many factors beyond PetroKamchatka's control. The resources from PetroKamchatka's properties were independently evaluated by D&M with an effective date of June 30, 2009 which is prior to the drilling of two unsuccessful wells on two of the prospects contained in the D&M Report. A subsequent D&M Report has not been commissioned and if it were, there could likely be material downward adjustments as a consequence of drilling two unsuccessful wells. These evaluations include a number of assumptions relating to factors such as ultimate recovery of resources, timing and amount of capital expenditures, marketability of production, future prices of crude oil, operating costs, abandonment and salvage values and royalties and other government levies that may be imposed over the producing life of the resources. These assumptions were based on information available at the date the relevant evaluations were prepared, and many of these assumptions are subject to change and are beyond PetroKamchatka's control. Actual production and net revenue derived therefrom will vary from these evaluations, and such variations could be material.

Estimates with respect to resources that may be developed and produced in the future are often based upon volumetric calculations, probabilistic methods and upon analogy to similar types of resources, rather than upon actual production history. Estimates based on these methods generally are less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations, which may be material, in the estimated resources.

Resource estimates may require revision based on actual production experience. Such figures are typically determined based upon assumed commodity prices and operating costs. Fluctuations in crude oil prices and costs may render uneconomic the recovery of such oil.

References to "resources" and "prospective resources" in this MD&A do not constitute, and should be distinguished from, references to "reserves". Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on the analysis of drilling, geological, geophysical, and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable.

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. Not all exploration projects will result in discoveries. The chance that an exploration project will result in the discovery of petroleum is referred to as the "chance of discovery." Thus, for an undiscovered accumulation the chance of commerciality is the product of two risk components - the chance of discovery and the chance of development.

Actual production and net revenues will vary from the underlying variables assumed in the D&M Report. The D&M Report, with an effective date of June 30, 2009, provides information relating to certain oil and natural gas resources of PetroKamchatka's properties, specifically prospects and leads identified by PetroKamchatka in the Icha, Tigil and Urginskaya Blocks in the Kamchatka Peninsula. The Corporation has subsequently surrendered the Urginskaya exploration license back to the MNFR. The D&M Report provided an estimate of potential present worth of the resources of Icha and Tigil prospects only, discounted at 10%. As

PetroKamchatka had only identified leads to date on the Urginskaya Block, there was no inclusion of estimated net worth from the Urginskaya Block included in the D&M Report. Variations in the estimated future net resources and the estimated future net worth associated with such resources, could be material. The resources and potential present worth (discounted at 10%) contained in the D&M Report will be reduced to the extent that such activities do not achieve the level of success assumed in the D&M Report.

Seasonality

The level of oil and natural gas exploration and development activity in the Kamchatka Peninsula is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable, with associated restrictions on the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and natural gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and potential declines in production of oil and natural gas of PetroKamchatka. Supplies are shipped via water in the summer during the shipping season from May to September. In winter months there is possible access to the Tigil Block by way of winter roads.

Competition

Oil and natural gas exploration is intensely competitive in all its phases and involves a high degree of risk. PetroKamchatka competes with numerous other participants in the search for oil and natural gas properties. PetroKamchatka's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of PetroKamchatka. PetroKamchatka's ability to establish and increase reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. In addition, competitive factors will affect the distribution, marketing and prices realized from future oil and natural gas sales and will be affected by methods and reliability of delivery. Competition may also be presented by alternate fuels and other sources of energy.

Conflicts of Interest

There are potential conflicts of interest to which some of the directors and officers of PetroKamchatka may be subject in connection with its operations. Conflicts of interest, if any, will be subject to and governed by the procedures and remedies set forth in the Jersey Law.

Issuance of Debt

PetroKamchatka requires significant financial resources to conduct its exploration plans and to develop its properties. These activities may be financed partially or wholly with debt, which may increase PetroKamchatka's debt levels above industry standards. Depending on future exploration and development plans, if any, PetroKamchatka may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms. The level of PetroKamchatka's indebtedness from time to time could impair PetroKamchatka's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Variations in Exchange Rates

PetroKamchatka is exposed to foreign exchange rate changes, as a significant amount of PetroKamchatka's costs are denominated in Russian Ruble. Fluctuations in future Russian/United States and Canadian/United States exchange rates (RUR per USD or CAD per USD, as the case may be) could impact the value of PetroKamchatka. PetroKamchatka has not engaged in any risk management activities related to these exchange rates to date. To the extent that PetroKamchatka engages in risk management activities relating to forward hedging of RUR and/or CAD against the USD, it will be subject to credit risk associated with counterparties with which it contracts.

Hedging

PetroKamchatka does not currently engage in any hedging activities.

Fluctuations in the price of the PKK Shares

In recent years, the stock market has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to the operating performance of these companies. The market price of the Corporation’s common shares could be subject to wide fluctuations in response to a number of factors, most of which PetroKamchatka cannot control, including:

- changes in securities analysts' recommendations and their estimates of PetroKamchatka's financial performance;
- the public's reaction to PetroKamchatka's press releases, announcements and filings with Canadian securities regulatory authorities or others and those of its competitors;
- fluctuations in broader stock market prices and volumes, particularly among securities of oil and natural gas services companies;
- changes in market valuations of similar companies;
- investor perception of PetroKamchatka's industry or its prospects;
- additions or departures of key personnel;
- commencement of or involvement in litigation;
- changes in environmental and other governmental regulations;
- announcements by PetroKamchatka or its competitors of strategic alliances, significant contracts, new technologies, acquisitions, commercial relationships, joint ventures or capital commitments;
- variations in PetroKamchatka's quarterly results of operations or cash flows or those of other oil and natural gas companies;
- revenues and operating results failing to meet the expectations of securities analysts or investors in a particular quarter;
- changes in PetroKamchatka's pricing policies or the pricing policies of its competitors;
- future issuances and sales of the Corporation’s shares or other securities;
- demand for and trading volume of the Corporation’s shares;
- domestic and worldwide supplies and prices of and demand for oil and natural gas; and
- changes in general conditions in the domestic and worldwide economies, financial markets or the oil and natural gas industry.

The realization of any of these risks and other factors beyond PetroKamchatka's control could cause the market price of the Corporation’s shares to decline significantly. In particular, the market price of the Corporation’s shares may be influenced by variations in oil and natural gas commodity prices, because demand for PetroKamchatka's services is closely related to the prices of these commodities. This may cause the Corporation’s share price to fluctuate with these underlying commodity prices, which are highly volatile.

Risk associated with non-compliance with specific, formal requirements of Russian law

Pursuant to some provisions of Russian law, a court may order the liquidation of a Russian company due to non-satisfaction of formal requirements by such company, associated with the incorporation, reorganization or operations of a company. There have been cases in the past where formal infringements in the course of establishing a Russian company or the failure to satisfy the requirements of Russian law have been used by Russian courts as grounds for the liquidation of the company. For instance, under Russian commercial companies law, a negative value of net assets, computed in compliance with Russian accounting standards as at the end of the second or subsequent year of a company's operations, may serve as grounds for the court to issue an order to liquidate the company upon a motion submitted by State administration authorities. Numerous Russian companies have a negative value of net assets, caused by very low, historical level of total assets indicated in the balance sheet drawn in compliance with Russian accounting standards, however, this has no negative impact on the solvency of such companies, i.e., ability to cover current debts. When taking the decision on issuing an order on the liquidation of a company, some Russian courts have been guided not only by the fact that the given company failed to satisfy the binding requirements of the law, but also by other factors, such as i.e., the financial condition of the company and its ability to meet tax requirements, as well as the business and economic consequences of its liquidation. Such risk is present in relation to some of the Russian Companies.
In case of forced liquidation, PetroKamchatka may be forced to reorganize the current operations carried out by such subsidiaries. One of the consequences of liquidation is the automatic loss of all the rights resulting from Geological Licenses. Such liquidation may result in additional costs, which in consequence may have an adverse effect upon the operations, results, financial condition or development prospects of PetroKamchatka.

Risk associated with the obligations of stockholders, ensuing from the provisions of Russian law

Under Russian law, a stockholder of a Russian joint-stock company bears no liability for the company's obligations and only bears the risk of losing the invested capital. This principle, however, is subject to an exemption in situations where: (i) the company is declared bankrupt due to any actions or omissions on the part of a stockholder or a shareholder; and (ii) the value of the company's assets is not sufficient to pay its obligations. Moreover, a stockholder in a Russian joint-stock company who has control over the company and has the right to issue binding instructions to the company, is jointly and severally liable with the company for any obligations resulting from transactions entered into or action taken upon instructions of such stockholder or shareholder.

Pursuant to the above, PetroKamchatka may in some cases be held liable for the liabilities of its Russian subsidiaries, which may have material adverse effects on the operations, results, financial condition or development prospects of PetroKamchatka.

PetroKamchatka may be unable to recover funds from Russian subsidiaries

From time to time, PetroKamchatka may transfer funds to its Russian subsidiaries in the form of loans, advances or equity contributions. There is no assurance that PetroKamchatka's subsidiaries will be able to pay principal or interest on loans or advances or distribute dividends without incurring costs, expenses, fees or charges, due to Russian currency control regulation, limitations on the payment of dividends, taxation of such payments and other Russian law restrictions. Such costs, expenses, fees or charges may have material adverse effects on the value of the Corporation’s shares.

Risk associated with access to oil and natural gas storage, transmission and transport infrastructure

There is a risk associated with restricted access to the means of the transmission and transportation infrastructure, which could limit the possibilities for oil and natural gas sales outside the Russian Federation. Access of third parties to the transmission capacities and exporting potential is highly dependent on the discretional decisions of the Russian Government and the existing syndicates of companies, controlling the transmission infrastructure. In the case of commercial discoveries, PetroKamchatka will have to incur investment outlays for the transmission and storage infrastructure. There is no guarantee that any of the Russian Subsidiaries' access to transmission and transport infrastructure will not be hampered, or that the future costs for the storage and transmission infrastructure will not be significant and may have a material adverse effect on the operations, results, financial condition or development prospects of PetroKamchatka.