Consolidated Financial Statements of

# PETROKAMCHATKA PLC

(formerly PetroKamchatka Resources Plc (note 1))

As at February 28, 2010 and May 31, 2009

For the three and nine month periods ended February 28, 2010 and February 28, 2009

(United States Dollars)

(Unaudited – See Notice of No Auditor Review of Interim Financial Statements)

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The Corporation's independent auditor has not performed a review of the consolidated financial statements for the three or nine month periods ended February 28, 2009.

# PetroKamchatka Plc

(formerly PetroKamchatka Resources Plc (note 1))

**Consolidated Balance Sheets** (unaudited)

United States Dollars

As at

| | | February 28, 2010 | | May 31, 2009 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | $ | 11,469,276 | $ | 2,108,822 |
| Accounts receivable (note 5) | | 2,852,484 | | 1,514,742 |
| Prepaid expenses | | 72,481 | | 146,527 |
| | | 14,394,241 | | 3,770,091 |
| Property and equipment (note 6) | | 57,274,311 | | 53,857,598 |
| | $ | 71,668,552 | $ | 57,627,689 |
| **Liabilities and Shareholders' Equity** | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued liabilities | $ | 4,904,833 | $ | 6,562,053 |
| Shareholder loans (note 7) | | – | | 395,051 |
| | | 4,904,833 | | 6,957,104 |
| **Shareholders' Equity** | | | | |
| Share capital (note 8(a)) | | 91,692,190 | | 69,731,912 |
| Share purchase warrants (note 8(b)) | | 7,038,779 | | 6,960,263 |
| Contributed surplus (note 8(d)) | | 3,818,396 | | 3,224,396 |
| Currency translation adjustment | | 1,018,864 | | 1,018,864 |
| Deficit | | (36,804,510) | | (30,264,850) |
| | | 66,763,719 | | 50,670,585 |
| | $ | 71,668,552 | $ | 57,627,689 |

Going concern (note 2)
Commitments and contingencies (notes 6 and 12)
Subsequent events (note 13)

# PetroKamchatka Plc

(formerly PetroKamchatka Resources Plc (note 1))

## Consolidated Statements of Operations, Comprehensive Loss and Deficit (unaudited)

United States Dollars

| | For the three month period ended February 28, 2010 | For the three month period ended February 28, 2009 | For the nine month period ended February 28, 2010 | For the nine month period ended February 28, 2009 |
|---|---|---|---|---|
| **Interest income** | $ 64 | $ 984 | $ 19,361 | $ 36,232 |
| **Expenses** | | | | |
| General and administration | 734,071 | 643,554 | 3,714,175 | 2,750,601 |
| Reorganization and listing costs (note 1) | – | – | 1,173,758 | – |
| Financing and other costs | (432,388) | 162,846 | (432,388) | 271,486 |
| Foreign exchange (gain) loss | 186,364 | 199,939 | (138,066) | 597,623 |
| Stock-based compensation (note 8(c)) | 217,000 | 148,283 | 594,000 | 424,630 |
| Depreciation | 288,700 | 16,571 | 493,800 | 38,424 |
| Write down of property and equipment (note 6) | – | – | 982,582 | 75,417 |
| | 993,747 | 1,171,193 | 6,387,861 | 4,158,181 |
| **Loss before income taxes** | (993,683) | (1,170,209) | (6,368,500) | (4,121,949) |
| Income taxes | – | – | – | – |
| **Net loss and comprehensive loss for the period** | (993,683) | (1,170,209) | (6,368,500) | (4,121,949) |
| Deficit, beginning of period | (35,810,827) | (25,404,031) | (30,264,850) | (22,452,291) |
| Transaction costs (note 1) | – | – | (171,160) | – |
| **Deficit, end of period** | $ (36,804,510) | $ (26,574,240) | $ (36,804,510) | $ (26,574,240) |
| **Net loss per share** | $ (0.00) | $ (0.01) | $ (0.02) | $ (0.03) |
| Weighted average number of common shares: Basic and diluted | 488,498,041 | 158,119,627 | 410,721,730 | 153,945,726 |

See accompanying notes to consolidated financial statements

# PetroKamchatka Plc

(formerly PetroKamchatka Resources Plc (note 1))

## **Consolidated Statements of Cash Flows** (unaudited)

United States Dollars

| | For the three month period ended February, 28 2010 | For the three month period ended February, 28, 2009 | For the nine month period ended February 28, 2010 | For the nine month period ended February 28 2009 |
|---|---|---|---|---|
| Cash provided by (used in): | | | | |
| **Operations** | | | | |
| Net loss and comprehensive loss for the period | $ (993,683) | $ (1,170,209) | $ (6,368,500) | $ (4,121,949) |
| Items not involving cash: | | | | |
| Depreciation | 288,700 | 16,571 | 493,800 | 38,424 |
| Stock-based compensation | 217,000 | 148,283 | 594,000 | 424,630 |
| Shares issued for services | – | 21,433 | 49,653 | 141,523 |
| Shares issued for bonuses | – | – | 593,334 | – |
| Shares issued for settlement of claim | – | 350,000 | – | 350,000 |
| Unrealized foreign exchange (gain) loss | 185,971 | 671,581 | (270,734) | (77,807) |
| Write down of property and equipment | – | – | 982,582 | 75,417 |
| | (302,012) | 37,659 | (3,925,865) | (3,169,762) |
| Change in non-cash working capital (note 11) | 346,004 | 288,462 | 176,144 | 425,271 |
| | 43,992 | 326,121 | (3,749,721) | (2,744,491) |
| **Investing** | | | | |
| Property and equipment expenditures (note 11) | (2,234,940) | (775,042) | (4,349,762) | (18,000,068) |
| Short-term investments | – | 2,825,000 | – | 9,425,204 |
| Rig loan | – | – | – | (4,108,758) |
| Change in non-cash working capital (note 11) | (1,112,344) | (3,003,135) | (2,205,448) | (7,090,636) |
| | (3,347,284) | (953,177) | (6,555,210) | (19,774,258) |
| **Financing** | | | | |
| Issue of share capital for cash, net | – | – | 19,812,261 | 11,762,652 |
| Shareholder loan repayment | – | – | (395,051) | – |
| Change in non-cash working capital (note 11) | (228,795) | 148,150 | – | 6,711,494 |
| | (228,795) | 148,150 | 19,417,210 | 18,474,146 |
| Foreign exchange gain (loss) on cash held in foreign currencies | (130,349) | 411,879 | 248,175 | 161,564 |
| **Increase (decrease) in cash and cash equivalents** | (3,662,436) | (67,027) | 9,360,454 | (3,883,039) |
| **Cash and cash equivalents, beginning of period** | 15,131,712 | 1,479,308 | 2,108,822 | 5,295,320 |
| **Cash and cash equivalents, end of period** | $ 11,469,276 | $ 1,412,281 | $ 11,469,276 | $ 1,412,281 |

See accompanying notes to consolidated financial statements

**1. General:**

a) On December 23, 2008, PetroKamchatka Plc (the "Corporation" or "PKP") was incorporated under the Companies (Jersey) Law 1991 by directors and officers of PetroKamchatka Resources Plc with the intent to have it acquire all the shares of PetroKamchatka Resources Plc ("PKR"). PKR was incorporated on November 23, 1998 under the Business Corporations Act (Yukon) and was redomiciled to Cyprus on August 25, 2009. PKR is principally engaged in the exploration for, and development of, petroleum and natural gas resources in the Russian Federation. Since inception, the efforts of the Corporation have been devoted to identifying and acquiring exploration and production licenses and conducting exploration activities thereon. To date, the Corporation has received no revenue from these operations.

In October 2009, PKP issued a Take-Over Bid Circular to the shareholders of PKR, to acquire all of the issued and outstanding Class A Common Shares of PKR including any that would become outstanding upon the conversion of warrants of PKR or exercise of options of PKR and to acquire all of the issued and outstanding warrants of PKR (the "Offer"). The shareholders of PKR received one share of PKP for each PKR share held. The warrant holders of PKR received one warrant of PKP for each warrant of PKR held. The PKP warrants and options were issued on substantially similar terms and conditions as the PKR warrants and options. PKP acquired PKR effective November 23, 2009.

The Corporation followed the continuity of interest basis of accounting whereby the Corporation is considered a continuation of PKR. These financial statements reflect the assets, liabilities and results of operations of PKR for periods prior to the acquisition by PKP. PKR is consolidated as a 100% owned subsidiary of PKP. As PKP had no significant assets, liabilities, capital, income or expense prior to the acquisition, the transaction has had no significant impact on the financial statements, except for transaction costs, which were included in expense as part of reorganization and listing costs.

b) On October 2, 2009, the Corporation entered into an Arrangement Agreement with Bluerock Acquisition Corp. ("Bluerock") a capital pool company listed on the TSX Venture Exchange to complete a business combination. The arrangement was approved at a special meeting of the Bluerock shareholders and by the Court of Queen's Bench of Alberta on November 25, 2009 resulting in the Corporation issuing 6,626,501 common shares, on the basis of 0.46837 of a common share for each Bluerock common share outstanding and 187,348 warrants. Bluerock had no operating assets and limited working capital. As a result, the transaction has not been recorded as a business combination, but rather as a capital transaction.

**1. General (continued):**

Details of the acquisition were as follows:

| | Number of shares | Amount |
|---|---|---|
| Working capital (including cash of $171,160) | | $ 98,840 |
| Common shares issued to Bluerock shareholders | 6,626,501 | $ 98,840 |

Transaction costs incurred by Bluerock relating to the acquisition, of $171,160 have been recorded as a charge to deficit to the extent of cash available in Bluerock. Additional costs related to the Bluerock transaction, the PKP acquisition of PKR and the listing of the common shares of PKP for trading on the TSX Venture Exchange have been expensed as reorganization and listing costs.

**2. Going concern:**

These consolidated financial statements have been 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 operations.

The Corporation presently does not have sufficient funds to meet all of its exploration and drilling commitments on its licenses in Kamchatka, Russia (see note 6).

During the nine month period ended February 28, 2010, the Corporation raised net cash proceeds of $19,812,261 through two private placements and became a listed public company (see notes 1 and 8(a)). The Corporation has, at February 28, 2010, working capital of $9,489,408. If the Corporation is unable to raise additional funds as needed, the Corporation may be in breach of its funding obligations under its agreements with KNOC Kamchatka Petroleum Limited ("KKPL") and may not be able to meet all of its license commitments on its licenses in Kamchatka. It could therefore lose part of its interest in the Russian properties. Management believes the going concern assumption to be appropriate for these consolidated financial statements. If the going concern assumption was not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, reported expenses and the balance sheet classifications used.

**3. Basis of Presentation:**

The consolidated financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”). These unaudited interim consolidated financial statements are prepared on a basis consistent with the accounting policies and method of application used in the preparation of the audited consolidated financial statements as at May 31, 2009 and for the year then ended. These unaudited interim financial statements do not include all of the information and disclosures required by GAAP applicable to annual financial statements and, therefore, should be read in conjunction with the audited consolidated financial statements as at May 31, 2009. In the preparation of these consolidated financial statements, management has made estimates and assumptions that affect the recorded amounts of certain of the Corporation’s assets, liabilities and expenses. The most significant estimates relate to the cost recovery assessment for property and equipment. Actual results could differ from these estimates.

All consolidated financial statement amounts are stated in United States currency.

The consolidated financial statements include the accounts of the Corporation and its subsidiaries as well as its proportionate share of the accounts of its joint interest corporations. The Corporation conducts certain of its oil and gas exploration activities on a joint interest basis. These consolidated financial statements reflect only the Corporation's proportionate interest in such activities (see note 6).

At present, all activities of the Corporation are in the exploration stage. The Corporation follows the full cost method of accounting for oil and gas properties whereby all costs of exploring for and developing oil and gas reserves are capitalized in cost centers on a country-by-country basis. Such costs include land acquisition costs and geological, geophysical and drilling costs. All general and administrative costs are expensed as incurred. Carrying costs directly attributable to property and equipment under construction are capitalized.

**4. Changes in Accounting Policies:**

Effective June 1, 2008 the Corporation adopted the following new accounting standards issued by the CICA: Section 1535 “Capital Disclosures”, Section 3862 “Financial Instruments – Disclosures” and Section 3863 “Financial Instruments – Presentation”. These new sections replace financial instruments – disclosure and presentation, revising and enhancing the disclosure requirements, and carrying forward unchanged the presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

**4. Changes in Accounting Policies (continued):**

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 (see note 10).

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 (see note 10).

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 year ended May 31, 2009 and the nine month period ended February 28, 2010.

In 2008, the CICA Accounting Standards Board confirmed that a changeover to International Financial Reporting Standards ("IFRS") from Canadian GAAP will be required for publicly accountable enterprises effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Corporation will be required to adopt IFRS beginning with its first quarter financial statements for the fiscal year ending May 31, 2012, with comparative figures for the respective period in the year ending May 31, 2011. The eventual changeover to IFRS represents changes due to new accounting standards. The Corporation continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

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.

**4. Changes in Accounting Policies (continued):**

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, with earlier application permitted. The Corporation is currently assessing the impact that the adoption of these Sections may have on its results of operations or financial position.

In June 2009, the CICA issued amendments to CICA Handbook Section 3862, Financial Instruments – Disclosures. The amendments include the enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments will be effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instruments disclosure standards in IFRS. The Corporation will include these additional disclosures in its annual financial statements for the year ending May 31, 2010.

**5. Accounts receivable:**

Accounts receivable include $663,070 (May 31, 2009 - $1,492,380) which is the Corporation’s proportionate share of net refunds from the Russian Tax Authority for Russian value added taxes which have been received subsequently.

**6. Property and equipment:**

| | February 28, 2010 | | | |
|---|---|---|---|---|
| | Cost | Accumulated depreciation | Accumulated write-down | Net Book Value |
| Petroleum and natural gas properties: | | | | |
| Russia | $ 44,779,855 | $ - | $ - | $ 44,779,855 |
| Canada | 4,943,573 | - | (4,943,573) | - |
| | 49,723,428 | - | (4,943,573) | 44,779,855 |
| Joint interest in drilling rig | 8,444,381 | - | (3,464,999) | 4,979,382 |
| Drilling rig and equipment - Russia | 7,784,245 | (462,500) | - | 7,321,745 |
| Office furniture and equipment | 420,991 | (227,662) | - | 193,329 |
| | $ 66,373,045 | $ (690,162) | $ (8,408,572) | $ 57,274,311 |

| | May 31, 2009 | | | |
|---|---|---|---|---|
| | Cost | Accumulated depreciation | Accumulated write-down | Net Book Value |
| Petroleum and natural gas properties: | | | | |
| Russia | $ 40,190,403 | $ - | $ - | $ 40,190,403 |
| Canada | 4,943,573 | - | (4,943,573) | - |
| | 45,133,976 | - | (4,943,573) | 40,190,403 |
| Joint interest in drilling rig | 8,444,381 | - | (2,482,417) | 5,961,964 |
| Drilling rig and equipment - Russia | 7,498,228 | - | - | 7,498,228 |
| Office furniture and equipment | 403,365 | (196,362) | - | 207,003 |
| | $ 61,479,950 | $ (196,362) | $ (7,425,990) | $ 53,857,598 |

All of the Corporation’s petroleum and natural gas properties in Russia and Canada are considered unevaluated. The ultimate recovery of the property and equipment cost is dependent upon the existence and commercial exploitation of petroleum and natural gas reserves or a sale of properties to a third party. The Corporation presently does not have sufficient cash to fund all of its planned exploration programs on its Russian properties. Uncertainties regarding the political, legal, tax or regulatory environment, including the potential for adverse and retroactive changes with respect to the Corporation’s operations in the Russian Federation could significantly affect the Corporation and the ultimate cost recovery of its assets.

**6. Property and equipment (continued):**

(a) Russia:

In October 2009, the Corporation began using and depreciating the drilling rig and equipment acquired for drilling in Russia. Drilling rig and equipment depreciation for the three and nine month periods ended February 28, 2010 was $185,000 and $462,500, using the straight-line method of depreciation over the estimated useful life of the assets of seven years.

Exploration licenses in Russia are issued by the federal Ministry of Natural Resources (“MNRF”) and grant the holder of the license the right to explore for oil and natural gas reserves within the area specified in the license. In the event of a commercial discovery, the Corporation has the right to convert parts of the exploration license into a production license. Exploration licenses have an associated license agreement, which specifies a required geological and geophysical work program to be completed.

The Corporation is the operator and owns a 45.0% indirect interest in two exploration licenses (the Tigil and Icha Licenses) located in the Koryakia Autonomous Okrug in the Kamchatka Peninsula, in the far east of Russia. The Corporation’s indirect interest increased from 42.5% to 45% on August 11, 2009 when it acquired an additional 5% equity ownership in its Russian subsidiary from a minority shareholder.

On January 29, 2008, the Corporation obtained a third exploration license (“Urginskaya”) in the Kamchatka Peninsula in which the Corporation owns a 90% indirect interest. The Urginskaya license covers approximately 2,134 square kilometers and is valid until February 15, 2013. The Urginskaya license specified that the license holder must shoot a minimum of 200 kilometers of seismic by February 1, 2010 and drill and complete one well within the first three years of the license term. The Corporation did not meet the seismic commitment and is seeking a revision of these commitments. In the event changes are not granted, the license will be forfeited. In September 2009, the Corporation acquired four additional licenses in the Kamchatka Peninsula of Russia. The Corporation owns a 100% indirect interest in these licenses which are valid until September 2014 and specify minimum seismic, drilling and completion requirements in the first two to three years of the license term.

The Tigil license covers approximately 3,274 square kilometers and was granted to the Corporation on December 29, 2005. The license is valid until December 31, 2010. The Tigil license specifies that the license holder must shoot 400 kilometers of seismic data during 2006 and 2007 and drill two wells to a depth of 3,000 meters during 2007 and 2008. The Corporation completed its requirements with respect to the seismic program. The Corporation also obtained an extension of its commitment to drill its wells whereby one well was required to be drilled by December 31, 2009, and the remaining well by December 31, 2010. The Corporation completed drilling the first well in January 2010.

**6. Property and equipment (continued):**

(a) Russia (continued):

The Icha license acquired on December 29, 2006 covers approximately 3,777 square kilometers. The work program requirements for seismic data were completed in April 2007. The license also requires the drilling and completion of one well before the license expiry on December 30, 2011.

Effective December 7, 2005, the Corporation sold 50% of its interests in its Tigil and Icha licenses to KNOC Kamchatka Petroleum Limited ("KKPL"), a partially owned subsidiary of Korea National Oil Corporation ("KNOC"). Under shareholder agreements, concluded on February 22, 2006, and initial share purchase agreements, KKPL was to fund agreed upon amounts for certain initial expenditures incurred by the Corporation as follows: 50% of certain equipment acquired for use in the projects; 80% of the first $10,000,000 of exploratory expenditures with respect to the Icha and Tigil licenses; 53.75% of the next $20,000,000; and for costs in excess of $30,000,000, KKPL will pay between 50% and 52.5% (formerly 53.75%).

On October 5, 2007, the Corporation and KKPL, together with KNOC, signed a Settlement Agreement, which, among other things called for certain payments to be made by the Corporation. The obligations of the Corporation under the Settlement Agreement are secured by a pledge of 51% of the Corporation's shares in the Tigil and Icha project companies, which own the Russian assets. The pledged shares are to be released on satisfaction of payments required under these contracts and satisfactory performance under the project agreements or provision of acceptable security. Management considers that the Corporation's obligations under the Settlement Agreement have been met. The Corporation is in the process of obtaining the release of the pledged shares and formal recognition of its 46.25% interest in a drilling rig.

(b) Joint interest in drilling rig:

The Corporation paid $8,444,381 for its 46.25% interest in a drilling rig acquired with KKPL. The Corporation and KKPL have determined that this rig is not suited for the Russian drilling program, and has undertaken to sell the rig. No firm offers have been received to date. Based on an independent appraisal of the current market value, the carrying value of the Corporation's 46.25% interest in the drilling rig was written down to its fair value, as determined at May 31, 2009 and currently, resulting in a write-down of $2,482,417 at May 31, 2009 and a further write down of $982,582 at November 30, 2009. No additional write down is required in the three month period ended February 28, 2010.

## 6. Property and equipment (continued):

(b) Joint interest in drilling rig (continued):

KKPL has not obtained all of the information that it requires to be assured that the rig meets the contracted specifications such that it would be in a position to formally accept the rig. On August 18, 2009, KKPL initiated an arbitration proceeding in The International Court of Arbitration against the manufacturer of the rig in respect of the claim by KKPL that the manufacturer 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.

## 7. Related party transactions and balances:

At February 28, 2010, there were no amounts receivable from directors or officers (May 31, 2009 - $nil). The Corporation’s aggregate liabilities owing to directors and officers amounted to $413,993 as at February 28, 2010 (May 31, 2009 - $216,590) for services performed and expenses incurred in the normal course of operations.

On July 8, 2009, the Corporation repaid loans 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 to the Corporation during the year ended May 31, 2009.

## 8. Share capital:

In November 2009, PKP acquired PKR. Each Class A common Share of PKR was exchanged for one common share of PKP and each PKR Warrant was exchanged for one warrant of PKP on substantially similar terms and conditions as the PKR Warrants. PKP issued options in the same amounts and on substantially the same terms as the PKR options.

As the forgoing transactions do not substantially change the number of or nature of the share capital or the warrants and options, and the Corporation has adopted the continuity of interest basis of accounting, the following information concerning PKR is also applicable to the ongoing PKP Corporation.

**8. Share capital (continued):**

(a) Common shares issued and outstanding:

| | February 28, 2010 | | May 31, 2009 | |
|---|---|---|---|---|
| | Number Issued | Amount | Number Issued | Amount |
| Share capital balance, beginning of period | 158,119,627 | $69,731,912 | 131,107,734 | $57,799,682 |
| Issued for cash | 228,505,044 | 11,477,980 | 24,960,000 | 12,480,000 |
| Less share issue costs | - | (89,401) | - | (717,349) |
| Less portion representing warrant value | - | - | - | (321,944) |
| Issued for delay in public listing | - | - | 17,562 | - |
| Issued for settlement of claim | - | - | 1,750,000 | 350,000 |
| Issued for services | 1,851,715 | 111,023 | 284,331 | 141,523 |
| Issued for bonus | 8,766,666 | 876,667 | | |
| Issued for settlement of liabilities | 17,600,000 | 880,000 | - | - |
| Issued for shares of a subsidiary | 5,200,000 | 260,000 | - | - |
| Issued for cash | 61,828,486 | 9,274,273 | - | - |
| Less share issue costs | - | (850,591) | - | - |
| Less portion representing warrant value | - | (78,516) | - | - |
| Issued to acquire Bluerock (note 1) | 6,626,501 | 98,840 | - | - |
| PKP shares | 2 | 3 | - | - |
| Share capital balance, end of period | 488,498,041 | $91,692,190 | 158,119,627 | $69,731,912 |

**8. Share capital (continued):**

(b) Warrants:

The following is a continuity of warrants issued to investors and brokers:

| | February 28, 2010 | | May 31, 2009 | |
|---|---|---|---|---|
| | Number | Amount | Number | Amount |
| Warrant balance, beginning of period | 19,516,940 | $ 6,960,263 | 21,866,217 | $ 8,021,512 |
| Issued to brokers | 1,365,834 | 78,516 | 1,347,500 | 321,944 |
| Issued to investors (note 1) | 187,348 | - | | |
| Expired | - | - | (3,696,777) | (1,383,193) |
| Warrant balance, end of period | 21,070,122 | $ 7,038,779 | 19,516,940 | $ 6,960,263 |

The following summarizes information on warrants issued to investors to purchase common shares that were outstanding as at February 28, 2010:

| Exercise Price $ | Pounds | Outstanding and Exercisable | Contractual life |
|---|---|---|---|
| | 0.525 | 5,760,809 | December 10, 2011 |
| CAD 1.25 | | 7,589,999 | December 10, 2011 |
| CAD 0.10 | | 187,348 | May 14, 2010 |
| | | 13,538,156 | |

On March 15, 2010, the Corporation received approval from investor warrant holders of the 0.525 pounds and CAD 1.25 warrants to amend the existing term of their warrants. The warrants were exchanged for warrants with substantially similar terms and conditions except that the contractual life was amended to expire on December 10, 2011, two years after the Corporation's listing on the TSX Venture Exchange ("TSXV"). The original warrants expired fifteen days following the listing of the Corporation on a recognized public stock exchange and the TSXV was not considered to be a recognized exchange under the original warrant agreement.

**8. Share capital (continued):**

(b) Warrants (continued):

The following summarizes information about warrants issued to brokers to purchase common shares that were outstanding as at February 28, 2010:

| Exercise Price $ | Pounds | Outstanding and exercisable | Contractual life |
|---|---|---|---|
| CAD 0.50 | | 28,800 | December 10, 2011 |
| | 0.42 | 447,705 | December 10, 2011 |
| CAD 1.00 | | 773,600 | December 10, 2011 |
| USD 0.50 | | 4,916,027 | December 10, 2011 |
| USD 0.15 | | 1,365,834 | November 19, 2011 |
| | | 7,531,966 | |

(c) Stock options:

The Corporation has a stock option plan for employees, consultants, officers and directors. On October 16, 2009, the Board of Directors of the Corporation adopted a new stock option plan. Under the terms of the option plan, the Corporation may grant options up to 10% of the aggregate number of common shares outstanding, with no one optionee permitted to hold more than 5% of the total options outstanding in any 12 month period. The options granted may not be for a term exceeding five years and vest one-third each year from the date of grant. The exercise price of options is approved by the Board and cannot be less than the market price of its common shares on the day the option is granted.

The following options have been granted:

| | February 28, 2010 | May 31, 2009 |
|---|---|---|
| Outstanding, beginning of period | 6,225,000 | 5,400,000 |
| Granted | 15,100,000 | 825,000 |
| Outstanding, end of period | 21,325,000 | 6,225,000 |
| Exercisable, end of period | 3,875,000 | 1,933,333 |

The fair value of stock options granted and warrants issued during the nine month period ended February 28, 2010 was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

**8. Share capital (continued):**

(c) Stock options (continued):

| | Warrants | Options |
|---|---|---|
| Fair value of stock options granted in the year ended May 31, 2009 (per option) | - | $ 0.30 |
| Fair value of stock options granted in the period ended February 28, 2010 (per option) | - | $ 0.06 |
| Fair value of warrants granted in the year ended May 31, 2009 (per warrant) | $0.24 | - |
| Fair value of warrants granted in the period ended February 28, 2010 (per warrant) | $ 0.06 | - |
| Expected volatility | 69% | 69% |
| Risk free rate of return | 3.2% to 4.3% | 2.9% to 4% |
| Expected option life | 2 to 5 years | 5 years |
| Forfeiture rate | nil% | nil% |
| Dividend yield | nil% | nil% |

The following table summarizes stock options outstanding and exercisable at February 28, 2010:

| | Stock Options Outstanding | | | Stock Options Exercisable | |
|---|---|---|---|---|---|
| Exercise Price | Number Outstanding | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Number Exercisable | Weighted-Average Exercise Price |
| $ 1.25 CAD | 200,000 | 0.71 | $ 1.25 CAD | 200,000 | $ 1.25 CAD |
| $ 0.50 | 6,025,000 | 2.92 | $ 0.50 | 3,675,000 | $ 0.50 |
| $ 0.10 | 15,100,000 | 4.59 | $ 0.10 | - | $ 0.10 |
| | 21,325,000 | 4.08 | | 3,875,000 | |

The following table summarizes stock options outstanding and exercisable at May 31, 2009:

| | Stock Options Outstanding | | | Stock Options Exercisable | |
|---|---|---|---|---|---|
| Exercise Price | Number Outstanding | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Number Exercisable | Weighted-Average Exercise Price |
| $ 1.25 CAD | 200,000 | 1.46 | $ 1.25 CAD | 200,000 | $ 1.25 CAD |
| $ 0.50 | 6,025,000 | 3.66 | $ 0.50 | 1,733,333 | $ 0.50 |
| | 6,225,000 | 3.60 | | 1,933,333 | |

For the three and nine month periods ended February 28, 2010, the Corporation recognized compensation expense of $217,000 and $594,000, respectively (for the three and nine month periods ended February 28, 2009, $148,283 and $424,630**,** respectively) with an equal and offsetting amount to contributed surplus, based on the vesting terms of the options.

**8. Share capital (continued):**

(d) Contributed surplus:

Changes in contributed surplus are as follows:

| | February 28, 2010 | May 31, 2009 |
|---|---|---|
| Beginning of period | $ 3,224,396 | $ 1,266,573 |
| Stock-based compensation | 594,000 | 574,630 |
| Expired warrants | - | 1,383,193 |
| End of period | $ 3,818,396 | $ 3,224,396 |

**9. Income taxes:**

The Corporation has incurred expenditures in various jurisdictions, which are subject to tax authority approval. Any future tax asset would be offset by a valuation allowance due to the uncertainty surrounding the future utilization of the tax pools by the Corporation.

On August 25, 2009, PKR redomiciled to Cyprus. PKR is considered to have disposed of all its assets at fair value on the date of redomiciliation (note 1) and the Canadian tax pools were utilized or expired as part of the redomiciliation process.

**10. Financial instruments and risk management:**

(a) Capital management:

As an exploration company, operations are financed principally through equity. Therefore, the Corporation’s capital consists of shareholders’ equity. The Corporation’s objectives when managing capital are to: finance planned exploration activities; sustain its ability to continue as a going concern; maximize returns for shareholders and benefits for other stakeholders; and provide resources to facilitate growth.

The Corporation manages the capital structure and responds to changes in economic conditions and planned requirements. It will continue to use cash from equity offerings to fund operations and invest in its capital expenditure program. Future capital strategies may include debt financing and obtaining strategic partners to fund a portion of its projects.

There are no external restrictions on the Corporation’s capital.

(b) Fair values:

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 February 28, 2010 and May 31, 2009.

**10. Financial instruments and risk management (continued):**

(c) Financial instrument risk exposure and management:

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:

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 risk:

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 three or nine month periods ended February 28, 2010 and 2009.

Foreign currency risk:

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 and Canadian dollars and is exposed to fluctuations in exchange rates in these currencies. There are no exchange rate contracts in place as at or during the three or nine month periods ended February 28, 2010 or 2009.

A 1% change in foreign exchange rates between the Russian ruble and the U.S. dollar would have resulted in approximate $17,000 change in net loss for the nine month period ended February 28, 2010.

Credit Risk:

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

There is minimal credit risk on accounts receivable. Accounts receivable consists of Russian value added taxes (note 5), amounts due from the Canadian Government and accounts receivable from the Corporation's joint ventures. All amounts due to the Corporation for Russian value added taxes and due from the Canadian Government were received subsequent to the end of the period.

**10. Financial instruments and risk management (continued):**

(c) Financial instrument risk exposure and management (continued):

Liquidity Risk:

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.

The Corporation prepares budgets for its corporate operations and capital expenditure programs which are regularly monitored and updated as considered necessary.

**11. Supplemental cash flow disclosures:**

Change in non-cash working capital (provided by (used in)):

| | Three months ended February 28, 2010 | Three months ended February 28, 2009 | Nine months ended February 28, 2010 | Nine months ended February 28, 2009 |
|---|---|---|---|---|
| Accounts receivable | $ (1,844,997) | $ 769,981 | $ (1,337,742) | $ 5,826,543 |
| Prepaid expenses | 109,183 | 67,782 | 74,046 | 18,026 |
| Accounts payable and accrued liabilities | 796,300 | (2,320,826) | (1,657,220) | (5,714,682) |
| Less unrealized gain (loss) on working capital | (55,621) | (1,083,460) | 22,562 | (83,758) |
| Less non-cash working capital acquired from Bluerock (note 1) | - | - | (72,320) | - |
| Less shares issued for accounts payable | - | - | 941,370 | - |
| Change in non-cash working capital | (995,135) | (2,566,523) | (2,029,304) | 46,129 |
| Less changes in non-cash working capital related to investing | 1,112,344 | 3,003,135 | 2,205,448 | 7,090,636 |
| Less changes in non-cash working capital related to financing | 228,795 | (148,150) | - | (6,711,494) |
| Changes in non-cash working capital related to operations | $ 346,004 | $ 288,462 | $ 176,144 | $ 425,271 |

**11. Supplemental cash flow disclosures (continued):**

Property and equipment expenditures in investing activities exclude non-cash amounts of $543,333 related to shares issued for property and equipment costs.

Cash interest of $5,051 was paid during the nine month periods ended February 28, 2010 (2009 - $182,489).

**12. Commitments and contingencies:**

Under the Corporation's Russian exploration licenses the Corporation is committed to complete seismic programs and drill wells by certain dates in order to retain its licenses (see note 6).

The Corporation is committed to making payments with respect to its office leases in Canada which expire on October 31, 2013 and June 30, 2013.

Future net minimum lease payments for these leases are as follows for the fiscal years ended:

| | | |
|---|---|---|
| 2010 | $ | 63,000 |
| 2011 | | 252,000 |
| 2012 | | 252,000 |
| 2013 | | 252,000 |
| 2014 | | 52,000 |
| | **$** | **871,000** |

**13. Subsequent events:**

On March 15, 2010, the Corporation received approval from investor warrant holders of the 0.525 pound and CAD 1.25 warrants to amend the existing term of their warrants (see note 8(b)).

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 which represents one-half of the remuneration owed to these individuals for this period.