



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. The Company does not have 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 the Company'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 of 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 the Company's future exploration and development activities beyond the end of calendar 2009.

PetroKamchatka does not presently have sufficient cash to pay for its planned exploration and development programs in calendar 2010 and beyond. The exploration and development of PetroKamchatka's properties depend, 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 the Company fails to raise sufficient capital to pay its share of cash calls on the Tigil and Icha Blocks, the Company 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 Tigil Exploration and 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. In addition, general economic indicators have deteriorated, including declining consumer sentiment, increased unemployment and declining economic growth and uncertainty about corporate earnings.

More recently, many of the world's major stock indices are beginning to show early signs of recovery. 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

The Company has incurred substantial losses in all of its fiscal years including the most recent fiscal year ended May 31, 2009. The Company's total net loss and comprehensive loss during the year ended May 31, 2009 was

approximately \$7.8 million. Cash used in operating activities during the same fiscal year was approximately \$4.5 million. As at May 31, 2009, the Company had a deficit of approximately \$30.3 million. The Company has significant drilling and other work commitments that need to be funded if the Company is to maintain its interest in its exploration licences in Kamchatka. The Company's ability to achieve drilling and production success will depend upon obtaining significant capital. See "Description of the Properties - Properties" discussed in this website. To become profitable, the Company 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. The Company may suffer significant additional losses in the future and may never be profitable. Even if the Company does achieve profitability, it may not be able to sustain or increase profitability on a quarterly or annual basis. The Company 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

The Company only recently commenced operations in Russia and has no earnings history. Accordingly, the Company 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 the Company's business will be dependent upon the successful development of the Company's lands, and there can be no assurance that the Company will achieve profitability in the future. There are no known quantities of oil or natural gas reserves on the Company'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 the Company is unable to predict when, if at all, profitability will be achieved. An investment in the Common 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

The Company's business plan requires significant expenditure, particularly near-term capital expenditure, in its exploration and development phases, assuming there may be a development phase, which assumption is uncertain. The Company may be unable to finance its needs on acceptable terms, or at all, which may have a material adverse effect on the Company's operations. The Company's future growth depends on the Company's 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 the Company'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) the Company being more vulnerable to competitive pressures and economic downturns, and (iii) restrictions on the Company's operations.

The Company might not be able to obtain necessary financing on acceptable terms, or at all. If sufficient capital resources are not available, the Company 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 the Company'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, the Company 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. The Company is unable to foresee all the changes possible on the political scene of the Russian Federation that might impact upon the binding provisions of law, the regulations and their interpretation or enforcement as well as the consequences of such changes upon the Company'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 the operations and other matters.

There can be no assurance that the licence agreements under the licences granted by FASU and others are enforceable or binding in accordance with the Company's understanding of their terms; or that if breached, the Company would be able to find a remedy. The Company bears the risk that a change of government could occur and a new government may terminate or void the licences, laws and regulations that the Company 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.

The Company'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 licences 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 the Company 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 the Company's control and may significantly affect the viability or profitability of its operations, or its ability to obtain future licences.

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. See "Industry Conditions" discussed in this website. 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 licences and permits from various governmental authorities. There can be no assurance that PetroKamchatka will be

able to obtain all necessary licences 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 Russian Law on Subsoil, 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 the Company as at this date, the Company 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 the Company, 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 licence (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 the Company in the Tigil and Icha Blocks. As such, the Company is dependent upon KKPL. Amongst other terms, the Shareholder Agreements set forth: cost sharing arrangements between the Company 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 Kamchatka. Failure by the Company 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 the Company alleging it failed to perform its obligations pursuant to the Shareholder Agreements. On October 5, 2007, the Company 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 a Global Amending Agreement. Management considers the Company's obligations under the Settlement Agreement have been met. The Company 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. The Company is requesting from KKPL a release of the shares of CJSC Tigil Exploration and CJSC Icha Exploration that are pledged to KKPL, 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 the Company'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 the Company, potentially without adequate compensation, would have a material adverse effect on the Company.

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 the Company 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 the Company 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 Licences

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

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

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 licences provide that they may be terminated if licencees fail to comply with licence requirements; if licencees do not make timely payments of levies and taxes for the use of the subsoil, if licencees systematically fail to provide information; or if licencees fail to fulfil any capital expenditure and/or work commitments.

The Company may not be able to, or may voluntarily decide not to, comply with licence requirements for some or all of its licence areas. If it fails to fulfil the specific terms of any of its licences or if it operates in the licence areas in a manner that violates Russian law, government regulators may impose fines on the Russian Companies or suspend or terminate their licences. Any suspension or termination of one or more of the subsoil licences could have a material adverse effect on the Company'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 licences. Vague and inconsistent requirements of the Subsoil Law and the regulations thereunder can make it difficult to conclude that any given subsoil licence 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. See "Industry Conditions" discussed in this website.

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, a director and its 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.

The Company 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 the Company's future exploration and development of its properties. This could have a material adverse effect on the financial condition and results of operations. If the Company 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 investment in the Company.

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 licence areas in Kamchatka are normally accessible to pack ice breaking vessels even in the harshest of winter months. The Company expects that, with investment in suitable infrastructure, any commercially recoverable oil that may be found in the exploration licence areas in Kamchatka and subsequently produced pursuant to production licences 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. As referred to under "Industry Conditions", 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.

Licences, Permits, Approvals or Agreements

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

PetroKamchatka's properties are held indirectly in the form of licences and ownership working interests in Russian project companies holding the licences. If PetroKamchatka or the holder of the licence fails to meet the specific requirement of a licence, the licence may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence will be met. The termination or expiration of PetroKamchatka's licences or the beneficial interests relating to a licence may have a material adverse effect on PetroKamchatka's results of operation and business. For example, the Urginskaya licence requires the Company to shoot a minimum of 200 kilometres of seismic by January 29, 2010. This has not been done and the remaining period between the date hereof and that deadline is insufficient to meet this requirement. If an extension of the license is granted from FASU and if financing is available the Company plans to carry out this seismic program in the summer of 2010 or winter of 2010-2011. PetroKamchatka will make a formal request to FASU in November 2009 for an extension to meet this commitment. Such extensions have been granted in the past in respect of both the Tigil and Icha Blocks. In the event an extension is not granted, the Company will be in default of its obligations under the Urginskaya licence and the Urginskaya Block will be forfeited.

Highkelly Rig

The Company 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, the Company withdrew as a direct purchaser of the Highkelly rig and KKPL agreed to purchase such rig and grant to the Company a 46.25% interest therein. The Company repaid its loan with KKPL on June 8, 2008 and paid its share of the final rig payments on November 12, 2008. Management considers the Company's obligations under the Settlement Agreement have been met and is requesting KKPL provide a formal recognition of the Company'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. The Company 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 unsuitable for the Company'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 can be completed on terms acceptable to the Company.

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 the Company.

No Reserves or Production

The Company does not have any proven reserves or production and may never have any reserves. The future performance of the Company'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, the Company 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 the Company to recover the Company's exploration and development costs or sustain the Company's business. No assurance can be given that the Company'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 the Company's control. The resource information set forth herein represents estimates only. The resources from the Company's properties have been independently evaluated by D&M with an effective date of June 30, 2009. 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 the Company'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 website 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 the Company in the Icha, Tigil and Urginskaya Blocks in the Kamchatka Peninsula. It provides an estimate of potential present worth of the resources of Icha and Tigil prospects only, discounted at 10%. As the Company has only identified leads to date on the Urginskaya Block, there is 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 the Company. 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 fuel sources.

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 RUR. 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 PetroKamchatka 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 PetroKamchatka Shares could similarly be subject to wide fluctuations in response to a number of factors, most of which the Company cannot control, including:

- changes in securities analysts' recommendations and their estimates of the Company's financial performance;
- the public's reaction to the Company'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 the Company'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 the Company or its competitors of strategic alliances, significant contracts, new technologies, acquisitions, commercial relationships, joint ventures or capital commitments;
- variations in the Company'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 the Company's pricing policies or the pricing policies of its competitors;
- future issuances and sales of the PetroKamchatka Shares;
- demand for and trading volume of the Company's PetroKamchatka 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 the Company's control could cause the market price of the PetroKamchatka Shares to decline significantly. In particular, the market price of the PetroKamchatka Shares may be influenced by variations in oil and natural gas commodity prices, because demand for the Company's services is closely related to the prices of these commodities. This may cause the PetroKamchatka 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, the Company 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 Licences. 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 the Company.

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

The Company may be unable to recover funds from Russian subsidiaries

From time to time, the Company may transfer funds to its Russian subsidiaries in the form of loans, advances or equity contributions. There is no assurance that the Company'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 effect on the value of PetroKamchatka 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 discretionary decisions of the Russian Government and the existing syndicates of companies, controlling the transmission infrastructure. In the case of commercial discoveries, the Company 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 the Company.