Consolidated Financial Statements of

PetroKamchatka Plc

As at November 30, 2010 and May 31, 2010
and for the three and six month periods ended November 30, 2010 and 2009
(United States Dollars)
(Unaudited)

PetroKamchatka Plc

Consolidated Balance Sheets
(Unaudited)
(United States Dollars)

As at	November 30, 2010	May 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 5,398,600	$ 7,915,415
Accounts receivable	1,338,002	2,758,064
Prepaid expenses	40,459	27,958
	6,777,061	10,701,437
Property and equipment (note 3)	27,887,372	27,375,366
	$ 34,664,433	$ 38,076,803
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,928,058	$ 3,249,580
Shareholders' equity:		
Share capital (note 6(b))	91,787,815	91,755,940
Share purchase warrants (note 6(c))	7,038,779	7,038,779
Contributed surplus (note 6(e))	4,178,414	3,903,396
Currency translation adjustment	1,018,864	1,018,864
Deficit	(71,287,497)	(68,889,756)
	32,736,375	34,827,223
Going concern (note 2)		
Commitments (note 9)		
Subsequent events (note 10)		
	$ 34,664,433	$ 38,076,803

See accompanying notes to financial statements

PetroKamchatka Plc

Consolidated Statements of Operations, Comprehensive Loss and Deficit
Unaudited
(United States Dollars)

	Three Months Ended November 30, 2010	Three Months Ended November 30, 2009	Six Months Ended November 30, 2010	Six Months Ended November 30, 2009
Interest income	$ –	$ 366	$ –	$ 19,297
Expenses:				
Equipment operating costs and other (note 3(a)(iv))	533,615	–	697,055	–
General and administration	540,926	2,169,952	1,169,856	2,980,104
Reorganization and listing costs	–	1,173,758	–	1,173,758
Foreign exchange (gain) loss	29,811	(409,371)	2,936	(324,430)
Stock-based compensation (note 6(e))	106,018	217,000	275,018	377,000
Depreciation	5,511	195,100	252,876	205,100
Write down of property and equipment (note 3(b))	–	982,582	–	982,582
	1,215,881	4,329,021	2,397,741	5,394,114
Loss before income taxes	(1,215,881)	(4,328,655)	(2,397,741)	(5,374,817)
Income taxes	–	–	–	–
Net loss and comprehensive loss for the period	(1,215,881)	(4,328,655)	(2,397,741)	(5,374,817)
Deficit, beginning of period	(70,071,616)	(31,311,012)	(68,889,756)	(30,264,850)
Transaction costs	–	(171,160)	–	(171,160)
Deficit, end of period	$(71,287,497)	$(35,810,827)	$(71,287,497)	$(35,810,827)
Net loss per share	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.01)
Weighted average number of common shares outstanding: Basic and diluted	489,739,640	404,501,039	489,606,631	372,471,085

See accompanying notes to financial statements

PetroKamchatka Plc

Consolidated Statements of Cash Flows
Unaudited
(United States Dollars)

	Three Months Ended November 30, 2010	Three Months Ended November 30, 2009	Six Months Ended November 30, 2010	Six Months Ended November 30, 2009
Cash provided by (used in):				
Operations:				
Net loss and comprehensive loss for the period	$ (1,215,881)	$ (4,328,655)	$ (2,397,741)	$ (5,374,817)
Items not involving cash:				
Depreciation	5,511	195,100	252,876	205,100
Stock-based compensation	106,018	217,000	275,018	377,000
Shares issued for services	–	49,653	31,875	49,653
Shares issued for bonuses	–	593,334	–	593,334
Unrealized foreign exchange (gain) loss	12,933	(425,525)	17,685	(456,705)
Write down of property and equipment	–	982,582	–	982,582
	(1,091,419)	(2,716,511)	(1,820,287)	(3,623,853)
Change in non-cash working capital (note 8)	(694,253)	1,108,829	(923,236)	(169,860)
	(1,785,672)	(1,607,682)	(2,743,523)	(3,793,713)
Investing:				
Property and equipment	(9,270)	(588,861)	(764,882)	(2,114,822)
Change in non-cash working capital (note 8)	273,177	144,148	1,006,082	(1,093,104)
	263,907	(444,713)	241,200	(3,207,926)
Financing:				
Issue of share capital and warrants for cash, net	–	8,423,682	–	19,232,264
Share subscriptions	–	–	–	580,000
Shareholder loans repayment	–	–	–	(395,051)
Change in non-cash working capital (note 8)	–	198,111	–	228,793
	–	8,621,793	–	19,646,006
Foreign exchange gain (loss) on cash held in foreign currencies	(33,572)	487,245	(14,492)	378,523
Increase (decrease) in cash and cash equivalents	(1,555,337)	7,056,643	(2,516,815)	13,022,890
Cash and cash equivalents, beginning of period	6,953,937	8,075,069	7,915,415	2,108,822
Cash and cash equivalents, end of period	$ 5,398,600	$ 15,131,712	$ 5,398,600	$ 15,131,712

See accompanying notes to financial statements

1. Basis of Presentation:

The interim consolidated financial statements of PetroKamchatka Plc (the “Corporation” or “PKP”) have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”) consistent with the accounting policies and methods of application used in the preparation of the audited consolidated financial statements of the Corporation as at May 31, 2010 and the year then ended. The disclosures included below are incremental to those included with the annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the Corporation’s consolidated financial statements and notes thereto for the year ended May 31, 2010.

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. While it is the opinion of management that these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below, actual results could differ from the estimates made.

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. If the going concern assumption was not appropriate for these consolidated financial statements, then adjustments would be necessary to adjust the carrying value of assets and liabilities, reported expenses and to revise the balance sheet classifications used.

The Corporation presently does not have sufficient funds to meet all of its exploration and drilling commitments on its licenses in Kamchatka, Russia (note 3). During the year ended May 31, 2010, the Corporation drilled two dry holes which has negatively impacted the ability of the Corporation to raise additional capital.

The Corporation’s working capital at November 30, 2010 was $4,849,003 (May 31, 2010 - $7,451,857). 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 remaining licenses in Kamchatka. It could therefore lose all or part of its interests in the remaining Russian properties. Management believes the going concern assumption to be appropriate for these consolidated financial statements.

3. Property and equipment:

November 30, 2010	Cost	Accumulated depreciation	Accumulated impairment	Net book value
Petroleum and natural gas properties:				
Russia	$ 46,819,240	$ –	$(29,759,649)	$ 17,059,591
Canada	5,184,840	–	(5,184,840)	–
	52,004,080	–	(34,944,489)	17,059,591
Drilling rig and equipment - Russia	7,498,228	(886,795)	–	6,611,433
Joint interest in drilling rig	8,567,260	–	(4,430,000)	4,137,260
Office furniture and equipment	376,613	(297,525)	–	79,088
	$ 68,446,181	$ (1,184,320)	$(39,374,489)	$ 27,887,372

May 31, 2010	Cost	Accumulated depreciation	Accumulated impairment	Net book value
Petroleum and natural gas properties:				
Russia	$ 46,054,358	$ –	$(29,759,649)	$ 16,294,709
Canada	5,184,840	–	(5,184,840)	–
	51,239,198	–	(34,944,489)	16,294,709
Drilling rig and equipment - Russia	7,498,228	(644,942)	–	6,853,286
Joint interest in drilling rig	8,567,260	–	(4,430,000)	4,137,260
Office furniture and equipment	376,613	(286,502)	–	90,111
	$ 67,681,299	$ (931,444)	$(39,374,489)	$ 27,375,366

(a) Russia

The ultimate recovery of property and equipment costs is dependent upon the existence and commercial exploitation of petroleum and natural gas reserves or a sale of equipment to a third party. The Corporation presently does not have sufficient cash to fund all expenditure commitments under the terms of its Russian exploration licenses (note 2). 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 Russia could significantly affect the Corporation and the ultimate cost recovery of its assets.

3. Property and equipment (continued):

(a) Russia (continued):

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.

At November 30, 2010, the Corporation held interests in exploration licenses in the Tigil, Icha, Ichaskaya, and Vorovskaya areas of Kamchatka. (See note 10(b)).

The Corporation is the operator and owns a 45% indirect interest in the Tigil and Icha exploration licenses. On August 11, 2009, the Corporation's indirect interest increased from 42.5% to 45.0% when it acquired an additional 5% equity ownership in its Russian subsidiary from a minority shareholder.

(i) Tigil exploration license:

The Tigil license was granted to the Corporation on December 29, 2005. The license was valid until December 31, 2010 (note 10(b)). The Tigil exploration license specified that the license holder must shoot 400 kilometers of seismic data during 2006 and 2007 and drill two wells during 2007 and 2008. The Corporation previously completed its requirements with respect to the seismic program. The Corporation obtained an extension of its commitment to drill its wells which was satisfied by the end of May, 2010. Both exploration wells were unsuccessful. The accumulated impairment of the full cost pool of petroleum and natural gas properties in Russia includes a write down at May 31, 2010 of the Tigil carrying costs of $29,469,147. Subsequent to May 31, 2010, the Corporation's share of expenditures relating to the Tigil joint interest entity, have been expensed as incurred.

(ii) Icha exploration license:

The Icha exploration license was acquired on December 29, 2006. The work program requirements for seismic data were completed in April 2007.

The license requires the drilling and completion of one well before the end of October 2011. The license will expire on December 30, 2011.

3. Property and equipment (continued):

(a) Russia (continued):

(iii) Other exploration licenses:

On January 29, 2008, the Corporation obtained a 90% indirect interest in the Urginskaya exploration license in the Kamchatka Peninsula. The Urginskaya exploration license specified that the license holder must complete 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. In September 2009, the Corporation acquired 100% interests in the Pustaretskaya, Palanskaya, Ichinskaya and Vorovksaya exploration licenses. The licenses, each with a five year term, require minimum seismic, drilling and completion programs in the first two to three years of the license term. In August 2010, the Corporation surrendered the Urginskaya, Pustaretskaya and Palanskaya exploration licenses back to the MNFR. The accumulated impairment to the full cost pool of petroleum and natural gas properties in Russia includes a write down at May 31, 2010 of $237,873, $18,012 and $34,617 respectively.

(iv) Mobile drilling rig

The Tigil joint interest entity owns a mobile drilling rig and other equipment located in Russia. In periods when the drilling rig and equipment are idle and not assigned to a specific drilling location, certain costs are expensed when incurred. Such costs include rig and equipment mobilization expenditures, storage expenditures and other amounts. During the three and six month periods ended November 30, 2010, aggregate costs of $528,011 were expensed and included in ‘equipment operating costs and other’. No depreciation is provided for when the rig is not in use and held in storage

(b) Joint interest in drilling rig:

The aggregate cost amount of $8,567,260 (May 31, 2010 - $8,567,260) represents the Corporation’s 46.25% share of the original purchase price for a new drilling rig (the “HighKelly rig”) of $17,533,000 plus the Corporation’s share of other costs. The Corporation and KKPL determined that this rig is not suited for the Russian drilling program and purchased a separate mobile rig and other ancillary equipment to drill in Russia. The estimated fair market value of the drilling rig as indicated by an independent appraisal was $9,223,200 gross. On this basis, the carrying value of the Corporation’s 46.25% interest was written down in the fiscal year ended May 31, 2010 by $2,023,000 to $4,137,260, which amount is net of estimated selling costs. There was no write down during the six months ended November 30, 2010. For the three and six months ended November 30, 2009, the Corporation recorded a write down of the joint interest drilling rig in the amount of $982,582.

3. Property and equipment (continued):

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

The Corporation is informed that KKPL has not yet 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. Upon resolution of this dispute, the Corporation and KKPL have undertaken to sell the rig.

(c) Canada:

The Corporation is not active in Canada and its properties in British Columbia have been fully written down.

4. Joint ventures:

The Corporation's net interests in Tigil and Icha are accounted for on a proportionate consolidation basis.

At November 30, 2010 and May 31, 2010, the Corporation's net contributions to the joint ventures were as follows:

	Tigil	Icha	Total
Balance Sheet as at November 30, 2010:			
Cash and cash equivalents	$ 497,051	$ 235,331	$ 732,382
Accounts receivable	131,571	151,717	283,288
Property and equipment, cost	29,469,147	17,013,932	46,483,079
Accumulated impairment	(29,469,147)	–-	(29,469,147)
Drilling rig and related equipment	5,955,102	–-	5,955,102
Accounts payable	(17,356)	(121,867)	(139,223)
Net contribution to joint venture	$ 6,566,368	$17,279,113	$ 23,845,481
Balance Sheet as at May 31, 2010:			
Cash and cash equivalents	$ 1,500,332	$ 349,206	$ 1,849,538
Accounts receivable	1,428,262	–	1,428,262
Property and equipment, cost	29,469,147	16,267,828	45,736,975
Accumulated impairment	(29,469,147)	–	(29,469,147)
Drilling rig and related equipment	6,196,956	–	6,196,956
Accounts payable	(186,039)	(5,778)	(191,817)
Net contribution to joint venture	$ 8,939,511	$16,611,256	$ 25,550,767

4. Joint ventures (continued):

For the three month periods ended November 30, 2010 and 2009, the Corporation's proportionate share of net loss and changes in cash flows from the joint ventures were as follows:

		Tigil		Icha		Total
Three months ended November 30, 2010						
Income Statement						
Revenues	$	–	$	–	$	–
Expenses (recovery)		(116,991)		528,175		411,184
Proportionate share of net income (loss)	$	116,991	$	(528,175)	$	(411,184)
Three months ended November 30, 2010						
Cash flows						
Operating activities	$	116,991	$	(645,885)	$	(528,894)
Financing activities		(530,277)		662,492		132,215
Investing activities		–		–		–
Proportionate share of increase (decrease) in cash	$	(413,286)	$	16,607	$	(396,679)

		Tigil		Icha		Total
Three months ended November 30, 2009						
Income Statement						
Revenues	$	–	$	(136)	$	(136)
Expenses (recovery)		133,266		(46,788)		86,478
Proportionate share of net income (loss)	$	(133,266)	$	46,924	$	(86,342)
Three months ended November 30, 2009						
Cash flows						
Operating activities	$	51,734	$	46,924	$	98,658
Financing activities		4,219,412		(4,503,406)		(283,994)
Investing activities		(8,467,389)		2,029,450		(6,437,939)
Proportionate share of increase (decrease) in cash	$	(4,196,243)	$	(2,427,032)	$	(6,623,275)

4. Joint ventures (continued):

For the six month periods ended November 30, 2010 and 2009, the Corporation's proportionate share of net loss and changes in cash flows from the joint ventures were as follows:

	Tigil	Icha	Total
Six months ended November 30, 2010			
Income Statement			
Revenues	$ –	$ –	$ –
Expenses (recovery)	288,302	527,613	815,915
Proportionate share of net income (loss)	$ (288,302)	$ (527,613)	$ (815,915)
Six months ended November 30, 2010			
Cash flows			
Operating activities	$ (46,448)	$ (645,323)	$ (691,771)
Financing activities	(1,689,738)	1,277,552	(412,186)
Investing activities	732,905	(746,104)	(13,199)
Proportionate share of (decrease) in cash	$ (1,003,281)	$ (113,875)	$ (1,117,156)

	Tigil	Icha	Total
Six months ended November 30, 2009			
Income Statement			
Revenues	$ –	$ (1,144)	$ (1,144)
Expenses (recovery)	163,763	(3,556)	160,207
Proportionate share of net income (loss)	$ (163,763)	$ 4,700	$ (159,063)
Six months ended November 30, 2009			
Cash flows			
Operating activities	$ 21,237	$ 4,700	$ 25,937
Financing activities	9,499,687	(5,223,889)	4,275,798
Investing activities	(6,462,198)	5,397,535	(1,064,663)
Proportionate share of (decrease) in cash	$ 3,058,726	$ 178,346	$ 3,237,072

'Investing activities' are net of VAT ("Value Added Tax") recoveries, which were greater than expenditures in some periods.

5. Related party transactions and balances:

At November 30, 2010 and May 31, 2010, there were no amounts receivable from directors or officers. The Corporation's aggregate liabilities owing to directors and officers for services performed and expenses incurred in the normal course of operations as at November 30, 2010 amounted to $152,250 (May 31, 2010 - $67,500).

6. Share capital:

(a) Authorized:

An unlimited number of common shares and an unlimited number of preferred shares.

(b) Common shares issued and outstanding:

	Number Issued	Amount
Share capital, May 31, 2010	489,063,510	$ 91,755,940
Issued for services (note 6(b)(i))	676,130	31,875
Share capital, November 30, 2010	489,739,640	$ 91,787,815

(i) On July 7, 2010, the Corporation issued 676,130 common shares to directors at a price of CAD $0.05 per share for services rendered for the three months ended June 30, 2010 in the amount of $31,875, representing a portion of the fees owed.

(c) Warrants:

There were no warrants issued during the six months ended November 30, 2010.

	Number Issued	Amount
Balance, May 31, 2010 and November 30, 2010	20,882,774	$ 7,038,779

6. Share capital (continued):

(c) Warrants (continued):

The following table summarizes information on warrants issued to investors to purchase common shares that were outstanding as at November 30, 2010:

Exercise Price $	£	Outstanding and exercisable	Contractual life
	£0.525	5,760,809	December 10, 2011
CAD 1.25		7,590,000	December 10, 2011
Balance, end of period		13,350,809	

The following table summarizes information about warrants issued to brokers to purchase common shares that were outstanding as at November 30, 2010:

Exercise price $	£	Outstanding and exercisable	Contractual life
CAD 050		28,800	December 10, 2011
	0.42	614,105	December 10, 2011
CAD 1.00		607,200	December 10, 2011
USD 0.50		4,916,026	December 10, 2011
USD 0.15		1,365,834	November 19, 2011
Balance, end of period		7,531,965	

(d) 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.

6. Share capital (continued):

(d) Stock options (continued):

The following options have been granted:

	Six months ended November 30, 2010
Outstanding, beginning of period	21,625,000
Expired	(200,000)
Forfeited	(747,000)
Outstanding, end of period	20,678,000
Exercisable, end of period	3,437,013

No stock options or warrants were issued in the six month period ended November 30, 2010. The fair value of stock options granted and warrants issued during the fiscal years ended May 31, 2010 and 2009 was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	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 year ended May 31, 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 May 31, 2010 (per warrant)	$ 0.06	–
Expected volatility	84%	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%

6. Share capital (continued):

(d) Stock options (continued):

The following table summarizes stock options outstanding and exercisable at November 30, 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
$ 0.50	5,393,000	2.67	$ 0.50	3,437,013	$ 0.50
$ 0.10	14,985,000	4.34	$ 0.10	–	$ 0.10
$ 0.11	300,000	4.42	$ 0.11	–	$ 0.11
	20,678,000	3.91		3,437,013	

Based on the vesting terms of the options, the Corporation recognized stock-based compensation expense for the three and six months ended November 30, 2010 of $106,018 and $275,018 respectively, (November 30, 2009 - $217,000 and $377,000) with equal and offsetting amounts recognized as contributed surplus.

(e) Contributed surplus:

Changes in contributed surplus are as follows:

	November 30, 2010	May 31, 2010
Balance, beginning of period	$ 3,903,396	$ 3,224,396
Stock-based compensation	275,018	679,000
Balance, end of period	$ 4,178,414	$ 3,903,396

(f) Per share amounts:

Basic income (loss) per share is computed by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding. Diluted income per common share is calculated using the treasury stock method to determine the dilutive effect of stock options and warrants. The treasury stock method assumes that the proceeds received from the exercise of in the money stock options and warrants are used to repurchase common shares at the average market price during the period. At November 30, 2010, 20,678,000 options and 20,882,774 warrants (November 30, 2009 – 21,325,000 and 21,070,122, respectively) were excluded from the calculation as they were anti-dilutive.

7. Financial instruments and risk management:

(a) Capital management:

As an exploration company, the Corporation's operations are financed principally through shareholders' equity. The Corporation's objectives when managing capital are to: finance planned exploration activities; continue as a going concern; maximize returns for shareholders; provide 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.

Current economic conditions continue to affect capital markets and the allocation of capital. This situation, together with the impact of unsuccessful drilling results from its first two wells in Tigil during the fiscal year ended May 31, 2010, stress the need for greater conservation of capital and careful monitoring of the Corporation's rate of spending on capital projects in Russia and to fund general and administrative costs, especially given the absence of adequate financing at November 30, 2010 (note 2).

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 November 30, 2010 and May 31, 2010.

(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.

(i) 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.

7. Financial instruments and risk management (continued):

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

(ii) 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 did not have any risk management contracts in place as at November 30, 2010 and May 31, 2010 or during the six month periods ended November 30, 2010 and 2009 or thereafter.

(iii) 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 roubles, Pound sterling, Euros and Canadian dollars and is exposed to fluctuations in exchange rates in these currencies. There were no exchange rate contracts in place as at November 30, 2010 and May 31, 2010 or during the six month periods ended November 30, 2010 and 2009 or thereafter. A 1% change in foreign exchange rates between the Russian rouble and the U.S. dollar would result in a $6,000 change in net loss for the six months ended November 30, 2010 ($27,000 for the six months ended November 30, 2009).

(iv) Credit risk:

Financial instruments that potentially subject the Corporation to concentration of credit risk consist of accounts receivable. There is low credit risk on accounts receivable. Accounts receivable consists of Russian value added taxes and accounts receivable from the Corporation's joint ventures. At November 30, 2010 and May 31, 2010 the Corporation's receivables were current.

7. Financial instruments and risk management (continued):

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

(v) 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.

8. Supplemental cash flow disclosures:

Change in non-cash working capital:

	Three Months Ended November 30, 2010	Three Months Ended November 30, 2009
Accounts receivable	$ (724,266)	$ (607,500)
Prepaid expenses	15,898	21,956
Accounts payable and accrued liabilities	266,653	2,109,302
Non-cash working capital acquired from Bluerock Acquisition Corp.	–	(72,320)
Shares issued for accounts payable	–	61,370
	(441,715)	1,512,808
Unrealized foreign exchange loss (gain) on working capital	20,639	(61,720)
	(421,076)	1,451,088
Less changes in non-cash working capital related to investing	(273,177)	(144,148)
Less changes in non-cash working capital related to financing	–	(198,111)
Changes in non-cash working capital related to operations	$ (694,253)	$ 1,108,829

8. Supplemental cash flow disclosures (continued):

Change in non-cash working capital:

	Six Months Ended November 30, 2010	Six Months Ended November 30, 2009
Accounts receivable	$ 1,420,062	$ 507,255
Prepaid expenses	(12,501)	(35,137)
Accounts payable and accrued liabilities	(1,321,522)	(2,453,521)
Non-cash working capital acquired from Bluerock (note 1)	–	(72,320)
Shares issued for accounts payable	–	941,370
	86,039	(1,112,353)
Unrealized foreign exchange loss (gain) on working capital	(3,193)	78,182
	82,846	(1,034,171)
Less changes in non-cash working capital related to investing	(1,006,082)	1,093,104
Less changes in non-cash working capital related to financing	–	(228,793)
Changes in non-cash working capital related to operations	$ (923,236)	$ (169,860)

Cash interest of $nil was paid during the three and six month periods ended November 30, 2010 and $5,051 for the three and six months periods ended November 30, 2009.

9. Commitments:

Under the terms and conditions of its Russian exploration licenses, the Corporation is committed to completion of seismic work programs and the drilling of exploration wells by certain dates in order to retain its rights under the licenses (note 3).

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

Future net minimum lease payments for these leases by fiscal year are as follows:

2011	$ 135,000
2012	270,000
2013	270,000
2014	56,000
	$ 731,000

10. Subsequent events:

(a) Subsequent to November 30, 2010, the Corporation issued 656,497 common shares to directors at a price of CAD $0.05 per share for services rendered for the three month period ended September 30, 2010 of $31,875, representing a portion of the fees owed to the directors.

(b) The Tigil exploration license expired on December 31, 2010 (note 3(a)).