MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") for PetroKamchatka Plc ("PetroKamchatka", "the Corporation", "us" or "we"), prepared as at April 28, 2011, provides a review of the Corporation's financial results for the three month and nine month periods ended February 28, 2011. The MD&A should be read in conjunction with the unaudited consolidated financial statements and accompanying notes of the Corporation for the three and nine month periods ended February 28, 2011 and the audited consolidated financial statements of the Corporation for the year ended May 31, 2010 and the audited consolidated financial statements of PetroKamchatka Resources Plc ("PKR") for the year ended May 31, 2009. The Corporation followed the continuity of interest basis of accounting whereby the Corporation is considered a continuation of PKR, which was acquired by the Corporation on November 23, 2009 pursuant to a takeover offer. The consolidated financial statements, and all figures in this MD&A, are presented in United States dollars, unless otherwise indicated, and are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The financial statements referred to above and other information with respect to the Corporation are available on PetroKamchatka's website (www.petrokamchatka.com) and in public filings available through SEDAR (www.sedar.com).

CORPORATE OVERVIEW

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

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

In the fiscal year ended May 31, 2010, PetroKamchatka drilled two unsuccessful wells on its Tigil Block in Kamchatka. These were the Corporation's first two wells drilled in Russia. In the first quarter of fiscal 2011, as part of its capital monitoring process, the Corporation relinquished three of its seven exploration licenses back to the Russian Federal Ministry of Natural Resources ("MNFR") by payment of land tax payments in the aggregate amount of US $21,085 (Russian roubles 632,550). The surrendered licenses were Urginskaya, Pustaretskaya and Palanskaya. The Tigil license expired on December 31, 2010. At February 28, 2011, the Corporation held interests in the remaining three onshore exploration licenses representing an aggregate 1,137,065 net hectares.

The exploration license on the Icha Block (377,700 gross hectares, 169,965 net to the Corporation) is held by a Russian joint interest entity. On March 24, 2011, the shareholders of the joint interest entity, CJSC Icha Exploration, agreed to seek early relinquishment of the Icha license back to the MNFR as it was determined that the mapped prospects were non-commercial on a fully risked basis. The Icha license will expire on December 30, 2011 if early relinquishment is not approved. Effective February 28, 2011, the Corporation recorded a writedown of $17,013,932 representing its interest in the Icha license. A second joint interest entity, CJSC Tigil Exploration, owns a mobile drilling rig and other equipment used to support drilling and seismic operations. The

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

The fiscal year for the Corporation is the 12-month period ended May 31. The terms “fiscal 2011”, “current year” and “the year” are used throughout the MD&A and in all cases refer to the period from June 1, 2010 to May 31, 2011. The terms “1Q 2011” or “the first quarter of fiscal 2011” or “the first quarter” refer to the three month period ended August 31, 2010. The terms “2Q 2011” or “the second quarter of fiscal 2011” or “the second quarter” refer to the three month period ended November 30, 2010. The terms “3Q 2011” or “the third quarter of fiscal 2011” or “the third quarter” refer to the three month period ended February 28, 2011. The terms “the first three quarters of the current year” or “the first nine months of the current year” refer to the nine month period from June 1, 2010 to February 28, 2011. The terms “Fiscal 2010” and “prior year” are used throughout the MD&A and in all cases refer to the period from June 1, 2009 to May 31, 2010. Any references to “fiscal 2009” that may be used in the MD&A for comparative purposes refer to the period from June 1, 2008 to May 31, 2009. Any reference to “the first quarter of the prior year” or “Q1 2010” used in the MD&A for comparative purposes refers to the period from June 1, 2009 to August 31, 2009. Any reference to “the second quarter of the prior year” or “Q2 2010” used in the MD&A for comparative purposes refers to the period from September 1, 2009 to November 30, 2009. Any reference to “the third quarter of the prior year” or “Q3 2010” used in the MD&A for comparative purposes refers to the period from September 1, 2009 to February 28, 2010. Any reference to “the first three quarters of the prior year” or “the first nine months of the prior year” used in the MD&A for comparative purposes refers to the period from June 1, 2009 to February 28, 2010.

THIRD QUARTER 2011 UPDATE

During the three month period ended February 28, 2011, the Corporation continued its cost monitoring program in order to preserve capital. The Tigil license expired on December 31, 2010 and activities were ongoing to mobilize and store equipment located in Russia. On March 24, 2011, the Corporation and its joint venture partner agreed to seek approval for the early relinquishment of the Icha license as it was determined the mapped prospects were non-commercial on a fully risked basis. Effective, February 28, 2011, the Corporation recorded a writedown of the carrying value of its full cost pool relating to the Icha license of $17,013,932.

At February 28, 2011, the Corporation’s working capital was $3,331,137 (May 31, 2010 - $7,451,857) including cash of $3,122,111 (May 31, 2010 - $7,915,415). The Corporation has no debt.

The Corporation’s capital expenditures on property and equipment in the three month and nine month periods ended February 28, 2011 amounted to $18,888 and $783,770 respectively. For comparison, the capital expenditures in the three and nine month periods ended February 28, 2010 were $2,234,940 and $4,349,762 respectively.

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 nine month periods ended February 28, 2011, aggregate costs of $999,800 and $1,696,855 respectively, were expensed and included in ‘equipment operating costs and other’. There were no similar type costs incurred in the nine months ended February 28, 2010. No depreciation is provided for when the rig is not in use and held in storage. The Corporation has not reached any conclusions regarding future drilling plans.

SELECTED FINANCIAL INFORMATION

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

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

For the three month periods ended		**February 28, 2011**		**February 28, 2010**
Interest income	$	-	$	64
Expenses	$	18,626,411	$	993,747
Net loss and comprehensive loss	$	(18,626,411)	$	(993,683)
Net loss per share – basic and diluted	$	(0.04)	$	(0.00)
Weighted average number of common shares outstanding		490,345,076		488,498,041
Cash provided by (used in) operations	$	(1,862,182)	$	43,992
Cash used in investing	$	(442,236)	$	(3,347,284)
Cash used in financing	$	-	$	(228,795)
Foreign exchange gain (loss) on cash held in foreign currencies	$	27,929	$	(130,349)
Decrease in cash and cash equivalents	$	(2,276,489)	$	(3,662,436)
For the nine month periods ended		**February 28, 2011**		**February 28, 2010**
Interest income	$	-	$	19,361
Expenses	$	21,024,152	$	6,387,861
Net loss and comprehensive loss	$	(21,024,152)	$	(6,368,500)
Net loss per share – basic and diluted	$	(0.04)	$	(0.02)
Weighted average number of common shares outstanding		489,850,074		410,721,730
Cash used in operations	$	(4,605,705)	$	(3,749,721)
Cash used in investing	$	(201,036)	$	(6,555,210)
Cash provided by financing	$	-	$	19,417,210
Foreign exchange gain on cash held in foreign currencies	$	13,437	$	248,175
Increase (decrease) in cash and cash equivalents	$	(4,793,304)	$	9,360,454

As at		February 28, 2011		May 31, 2010
Cash and cash equivalents	$	3,122,111	$	7,915,415
Working capital	$	3,331,137	$	7,451,857
Total assets	$	15,790,014	$	38,076,803
Total liabilities	$	1,572,060	$	3,249,580
Shareholders' equity	$	14,217,954	$	34,827,223
Number of common shares outstanding		490,396,137		489,063,510
Number of warrants outstanding		20,882,774		20,882,774
Number of options outstanding		18,653,000		21,625,000

RESULTS OF OPERATIONS

	For the three months ended				For the nine months ended			
General and administrative expenses		**February 28, 2011**		**February 28, 2010**		**February 28, 2011**		**February 28, 2010**
Employee salaries and benefits	$	178,457	$	243,486	$	566,678	$	1,176,699
Professional fees	$	186,327	$	140,611	$	607,722	$	981,097
Directors fees and expenses	$	80,044	$	108,019	$	276,286	$	328,465
Office administration and other	$	58,583	$	241,955	$	222,581	$	1,227,914
General and administrative expenses	**$**	**503,411**	**$**	**734,071**	**$**	**1,673,267**	**$**	**3,714,175**

General and administrative expenses for the three months ended February 28, 2011 were $503,411, a 31% decrease to the $734,071 for the three months ended February 28, 2010. For the nine months ended February 28, 2011 and February 28, 2010 general and administrative expenses were $1,673,267 and $3,714,175 respectively, a 55% decrease. The decrease for both periods is a result of ongoing efforts to monitor and reduce costs in order to preserve capital.

The average monthly general and administrative expense in the third quarter of Fiscal 2011 amounted to $167,804 as compared to an average of $244,690 per month in the third quarter of fiscal 2010.

Equipment Operating Costs and Other

Equipment operating costs and other during the three month and nine month periods ended February 28, 2011 amounted to $999,800 and $1,696,855 respectively, net of VAT recoveries. There were no similar costs for the nine months ended February 28, 2010. Commencing June 1, 2010, the Corporation's share of expenditures relating to the Tigil license were expensed as incurred. 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, costs are expensed when incurred. Such costs include rig and equipment mobilization expenditures, storage expenditures and other amounts.

Foreign Exchange (Gain) Loss

The Corporation had a foreign exchange loss in the three month period ended February 28, 2011 of $14,894 (unrealized gain of $38,361) and a foreign exchange loss in the nine month period ended February 28, 2011 of $17,830 (unrealized gain of $20,676) compared to a foreign exchange loss of $186,364 (unrealized loss of $185,971) in the three months ended February 28, 2010 and a foreign exchange gain of $138,066 (unrealized gain of $270,734) in the nine month period ended February 28, 2011. PetroKamchatka is exposed to foreign currency fluctuations as it holds cash and incurs expenditures for property and equipment and expenses in Russian roubles, Euros, Pounds Sterling and Canadian Dollars and is exposed to fluctuations in exchange rates of these currencies relative to the US dollar. There were no forward foreign exchange rate contracts in place as at February 28, 2011 and May 31, 2010 or at any time during the nine months ended February 28, 2011 or thereafter.

Depreciation

Depreciation expense in the three month and nine month periods ended February 28, 2011 was $5,511 and $258,387 respectively. This compares to depreciation expense in the three and nine months ended February 28, 2010, of $288,700 and $493,800 respectively. The decrease in the three months ended February 28, 2011 is the result of the Corporation's policy not to record depreciation expense on the mobile drilling rig and other equipment located in Russia when it is being stored. When the rig and other equipment are being utilized, depreciation is calculated on a straight-line basis over seven years. In the second and third quarters of fiscal 2011, the rig and equipment were being prepared to be moved to a storage facility pending decisions regarding future drilling. The lack of drilling success to date has impacted the near-term use of the drilling rig and equipment.

Stock Based Compensation

Stock based compensation expense for the three and nine month periods ended February 28, 2011 was $88,863 and $363,881 respectively, compared to $217,000 and $594,000 for the three month and nine month periods ended February 28, 2010. The decrease is mainly the result of revaluation of options granted to consultants and the expiry and forfeiture of previously granted options.

Writedown of Property and Equipment

On March 24, 2011, the Corporation and its joint venture partner agreed to seek an early relinquishment of the Icha exploration license which will expire on December 30, 2011. In the three and nine month periods ended February 28, 2011, the Corporation reported a writedown of property and equipment of $17,013,932 compared to a writedown in the three and nine month periods ended February 28, 2010 of $nil and $982,582.

The writedown in the fiscal period 2011 is comprised of amounts previously capitalized in Russia's full cost pool of petroleum and natural gas properties. This amount represents the net difference between capitalized costs relating to the Icha exploration license, located in Kamchatka Russia, and the estimated net present value of the future net benefits expected to be derived from the Icha license of $nil. This represents a complete writedown of the carrying costs of this exploration license. The writedown was recorded after an evaluation of the existing mapped prospects on the Icha license indicated the prospects were non-commercial on a fully risked basis. The Corporation and its joint venture partner agreed to seek an early relinquishment of the Icha exploration license which will expire on December 30, 2011.

Net Loss and Cash Used in Operations

The net loss and comprehensive loss for the three months ended February 28, 2011 was $18,626,411 compared to a net loss and comprehensive loss of $993,683 for three month period ended February 28, 2010. The net loss and comprehensive loss for the nine months ended February 28, 2011 was $21,024,152 compared to the net loss and comprehensive loss for the nine months ended February 28, 2010 of $6,368,500.

Cash used in operations in the three months ended February 28, 2011 was $1,862,182 compared to cash provided by operations for the three months ended February 28, 2010 of $43,992. The increase in cash used in operations is due to higher equipment operating costs and other amounts expensed in 2011 and a recovery of financing costs in 2010. There were no amounts, classified as '*equipment operating costs and other*', incurred in the third quarter of 2010. For the nine months ended February 28, 2011, cash used in operations was $4,605,705 compared to cash used in operating in the nine months ended February 28, 2010 of $3,749,721. Cash used in operations is determined by deducting non-cash items from the net loss. Non-cash items include depreciation, stock based compensation, unrealized foreign exchange gains and losses, write down of property and equipment and shares issued for services.

SUMMARY OF QUARTERLY RESULTS

	For the three month periods ended			
	May 31, 2009	**August 31, 2009**	**November 30, 2009**	**February 28, 2010**
Interest income	$ 1,748	$ 18,931	$ 366	$ 64
Writedown of property and equipment	$ 2,407,000	$ -	$ 982,582	$ -
Other expenses	$ 1,285,358	$ 1,065,093	$ 3,346,439	$ 993,747
Total expenses	$ 3,692,358	$ 1,065,093	$ 4,329,021	$ 993,747
Net loss and comprehensive loss	$ (3,690,610)	$ (1,046,162)	$ (4,328,655)	$ (993,683)
Net loss per share – basic and diluted	$ (0.02)	$ (0.00)	$ (0.01)	$ (0.00)
Cash provided by (used in) operations	$ (1,738,593)	$ (2,186,031)	$ (1,607,682)	$ 43,992
Cash provided by (used in) investing	$ 2,233,133	$ 2,309,170	$ (444,713)	$ (3,347,284)
Cash provided by (used in) financing	$ (298,556)	$ 11,024,213	$ 8,621,793	$ (228,795)
Foreign exchange gain (loss) on cash held in foreign currencies	$ (96,555)	$ (108,722)	$ 487,245	$ (130,349)
Increase (decrease) in cash and cash equivalents in the fiscal period ended	$ 99,429	$ 11,038,630	$ 7,056,643	$ (3,662,436)

	For the three month periods ended			
	May 31, 2010	**August 31, 2010**	**November 30, 2010**	**February 28, 2011**
Interest income	$ 69,003	$ -	$ -	$ -
Writedown of property and equipment	$ 30,965,917	$ -	$ -	$ 17,013,932
Other expenses	$ 1,188,332	$ 1,181,860	$ 1,215,881	$ 1,612,479
Total expenses	$ 32,154,249	$ 1,181,860	$ 1,215,881	$ 18,626,411
Net loss and comprehensive loss	$ (32,085,246)	$ (1,181,860)	$ (1,215,881)	$ (18,626,411)
Net loss per share – basic and diluted	$ (0.08)	$ (0.00)	$ (0.00)	$ (0.04)
Cash provided by (used in) operations	$ (871,098)	$ (957,851)	$ (1,785,672)	$ (1,862,182)
Cash provided by (used in) investing	$ (2,259,592)	$ (22,707)	$ 263,907	$ (442,236)
Cash provided by (used in) financing	$ 3	$ -	$ -	$ -
Foreign exchange gain (loss) on cash held in foreign currencies	$ (423,174)	$ 19,080	$ (33,572)	$ 27,929
Increase (decrease) in cash and cash equivalents in the fiscal period ended	$ (3,553,861)	$ (961,478)	$ (1,555,337)	$ (2,276,489)

In the three month period ended February 28, 2011, the Corporation experienced an overall increase in expenses due to higher equipment operating costs and other amounts expensed in the quarter and a writedown of the Corporations interest in the Icha license. The cash used in operations was impacted by the Corporation's policy to expense, as '*equipment operating costs and other*', the Corporation's share of amounts incurred by the joint interest entities.

SUMMARY OF GENERAL AND ADMINISTRATIVE EXPENSES BY QUARTER

	For the three month periods ended			
	May 31, 2009	**August 31, 2009**	**November 30, 2009**	**February 28, 2010**
Employee salaries and benefits	$ 210,156	$ 206,261	$ 726,952	$ 243,486
Professional fees	$ 503,599	$ 274,683	$ 565,803	$ 140,611
Directors fees and expenses	$ 63,750	$ 101,750	$ 118,696	$ 108,019
Office administration and other	$ 78,098	$ 227,458	$ 758,501	$ 241,955
General and administrative expenses	**$ 855,603**	**$ $810,152**	**$ 2,169,952**	**$ 734,071**

	For the three month periods ended			
	May 31, 2010	**August 31, 2010**	**November 30, 2010**	**February 28, 2011**
Employee salaries and benefits	$ 87,788	$ 208,599	$ 179,622	$ 178,457
Professional fees	$ 1,103,110	$ 228,824	$ 192,571	$ 186,327
Directors fees and expenses	$ 82,515	$ 75,616	$ 120,626	$ 80,044
Office administration and other	$ (462,325)	$ 115,891	$ 48,107	$ 58,583
General and administrative expenses	**$ 811,088**	**$ 628,930**	**$ 540,926**	**$ 503,411**

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

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

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

As at February 28, 2011, PetroKamchatka had working capital of $3,331,137 (May 31, 2010 - $7,451,857) and did not have any bank loans or other credit facilities or long-term debt. Working capital at February 28, 2011 was comprised of cash and cash equivalents of $3,122,111, accounts receivable of $1,749,063 and prepaid expenses of $32,023 less accounts payable and accrued liabilities of $1,572,060. There were no funds raised from equity issues in the first nine months of fiscal 2011 (February, 2010 - $19,812,261).

Capital management

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

The Corporation’s February 28, 2011 consolidated working capital of $3,331,137 and the fact the Corporation has no debt are positive factors supporting a ‘going-concern’ status. The Corporation’s working capital at February 28, 2011 decreased by $4,120,720 in the nine months since the May 31, 2010 fiscal year end. The Corporation’s financial risk must be considered in more depth given the stage of its operations and funding limitations. Although management has undertaken significant cost reduction measures, the Corporation continues to incur equipment operating costs, general and administrative and other expenses. The Corporation has no cash inflow, nor is there any assurance that it can raise additional capital under current market conditions or sell its interest in the HighKelly drilling rig.

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

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

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Capital expenditures

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

	For the three month periods ended			
	May 31, 2009	**August 31, 2009**	**November 30, 2009**	**February 28, 2010**
Russia petroleum and natural gas properties	$ 1,719,557	$ 2,720,723	$ 1,766,695	$ 3,239,957
Less VAT recoveries	$ (3,151,626)	$ (1,163,291)	$ (1,244,471)	$ (1,013,494)
	$ (1,432,069)	$ 1,557,432	$ 522,224	$ 2,226,463
Canada petroleum and natural gas properties	$ -	$ -	$ -	$ -
Joint interest in drilling rig	$ -	$ -	$ -	$ -
Other equipment – Russia	$ (306,973)	$ 224,113	$ 61,904	$ -
Office furniture and equipment	$ 1	$ 4,416	$ 4,733	$ 8,477
Total capital expenditures	**$ (1,739,041)**	**$ 1,785,961**	**$ 588,861**	**$ 2,234,940**

	For the three month periods ended			
	May 31, 2010	**August 31, 2010**	**November 30, 2010**	**February 28, 2011**
Russia petroleum and natural gas properties	$ 2,827,912	$ 794,827	$ 9,270	$ 18,888
Less VAT recoveries	$ (1,553,409)	$ (39,215)	$ -	$ -
	$ 1,274,503	$ 755,612	$ 9,270	$ 18,888
Canada petroleum and natural gas properties	$ 165,850	$ -	$ -	$ -
Joint interest in drilling rig	$ 198,296	$ -	$ -	$ -
Other equipment - Russia	$ (286,017)	$ -	$ -	$ -
Office furniture and equipment	$ (44,488)	$ -	$ -	$ -
Total capital expenditures	**$ 1,308,143**	**$ 755,612**	**$ 9,270**	**$ 18,888**

During the three months ended February 28, 2011, PetroKamchatka incurred net capital expenditures on its Russian oil and gas properties of $18,888. During the three month period ended February 28, 2010, the Corporation incurred net capital expenditures on the Russian oil and gas properties of $2,226,463 after netting VAT recoveries of $1,013,494.

PetroKamchatka's future capital requirements will focus on the resource evaluation of its Russian properties and meeting its work commitments under the Russian exploration licenses. The 2011 work program and budgets are subject to the approvals of KKPL and the board of directors and upon the ability of the Corporation to obtain adequate financing.

Equity

As at April 28, 2011, PetroKamchatka had 490,396,137 common shares, 20,882,774 warrants and 18,653,000 options outstanding. The option and warrant exercise prices were out-of-the-money at February 28, 2011.

CONTRACTUAL OBLIGATIONS

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

Tigil

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

Icha

The work commitments of the Icha exploration license require that one well be drilled on the Icha Block before the end of October 2011. The Corporation and its joint venture partner have determined that the mapped prospects on the Icha license are non-commercial on a fully risked basis. On March 24, 2011, it was agreed to seek early relinquishment of the Icha license. Otherwise the license will expire on December 30, 2011.

Other Russian Licenses

The Urginskaya, the Pustaretkaya and the Palanskaya exploration licenses were surrendered back to the MNFR in the first quarter of fiscal 2011 in exchange for aggregate land tax payments of US $21,085 (Russian roubles 632,550). Given the expiry of the Tigil license and after the early surrender/expiry of the Icha license, the Corporation continues to hold the Ichinskaya and Vorovskaya exploration licenses. These are valid until September 14, 2014. Each requires minimum seismic, drilling and completion programs in the first two to three years of the license term.

Other

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

Fiscal 2011	$	71,000
Fiscal 2012	$	284,000
Fiscal 2013	$	284,000
Fiscal 2014	$	59,000
Total	$	$698,000

RELATED PARTY TRANSACTIONS

At November 30, 2010, there were no amounts due from directors or officers.

At February 28, 2011, there was $140,200 (May 31, 2010 - $67,500) owing to directors and officers for services performed in the normal course of operations.

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

OFF-BALANCE SHEET ARRANGEMENTS

As at February 28, 2011 and May 31, 2010, the Corporation did not have any off-balance sheet arrangements, other than the Corporation's lease commitments as described previously.

FINANCIAL INSTRUMENTS

The fair value of the Corporation's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximated their carrying values as at February 28, 2011 and May 31, 2010.

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

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

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can also reduce the Corporation's ability to raise capital. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. In the future, the Corporation may attempt to mitigate commodity price risk through the use of financial derivatives. The Corporation did not have any oil or gas production and did not have any risk management contracts in place as at February 28, 2011 and May 31, 2010 and for the three month periods ended February 28, 2011 and 2010.

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, Pounds sterling, Euros and Canadian dollars and is exposed to fluctuations in exchange rates in these currencies. There were no forward foreign exchange rate contracts in place as at February 28, 2011 and May 31, 2010 or during three month periods ended February 28, 2011 and 2010 or thereafter.

Financial instruments that potentially subject the Corporation to concentration of credit risk consist of accounts receivable. However, there is low credit risk on accounts receivable. Accounts receivable consists of Russian VAT, amounts due from the Canadian Government and accounts receivable from the Corporation's joint ventures. All account receivable are current and considered collectible.

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

RECENT CHANGES IN ACCOUNTING POLICIES

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

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In February 2008, the CICA's Accounting Standards Board ("AcSB") confirmed that accounting standards in Canada will converge with IFRS. Foreign companies listed for trading in Canada which presently prepare financial statements under Canadian GAAP, such as the Corporation, will begin reporting under IFRS for interim and annual financial statements for fiscal years beginning on or after January 1, 2011, with appropriate comparative information for the prior year. As the year end of PetroKamchatka is May 31, it will begin reporting under IFRS in its fiscal year beginning June 1, 2011.

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

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

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

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

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

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

Phase V Ongoing Compliance – with IFRS after implementation.

The Corporation has completed Phase I and Phase II. It is proceeding through Phase III and Phase IV. It has not yet analyzed in sufficient detail all of the conversion implications to properly select from available accounting policy alternatives. The Corporation may engage external consultants with IFRS conversion expertise to assist existing staff and consultants to achieve the Corporation's IFRS conversion. Management is not yet able to quantify the impact of adopting IFRS on its financial statements.

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

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

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

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

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

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

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

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

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

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

Other IFRS Changes That Could Impact the Corporation

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

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

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

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

- They have reviewed the interim consolidated financial statements and interim MD&A (the "interim filings") of the Corporation;

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

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

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

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

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

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

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

BUSINESS CONDITIONS AND RISKS

An investment in PetroKamchatka should be considered highly speculative due to the early stage of development of PetroKamchatka's Russian properties. PetroKamchatka is in the exploration phase. It has no proven reserves or production or production revenues and has drilled two unsuccessful wells to date. There is no assurance that any future wells that may be drilled will be successful. There is no assurance that any discoveries that may occur will provide commercial quantities of oil or natural gas. The following information describes certain significant risks and uncertainties inherent in PetroKamchatka's business. Prospective investors should take these risks into account in evaluating PetroKamchatka and in deciding whether to make an investment in PetroKamchatka. This section does not describe all risks applicable to the Company, its industry or its business, and it is intended only as a summary of certain material risks. Prospective investors should carefully consider such risks and uncertainties together with other information contained in this MD&A. If any of such risks or uncertainties actually occurs, the Company's business, financial condition or operating results could be harmed substantially and could differ materially from the plans and other forward-looking statements discussed elsewhere in this MD&A.

Risks Associated with Oil and Natural Gas Exploration

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

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 drilling unsuccessful 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, be commercially viable to produce any portion of the resources. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the risk and cost of operations and various field operating conditions may adversely affect the production from successful wells. In addition, delays in obtaining governmental approvals or consents, insufficient storage or transportation capacity or other geological and mechanical conditions may negatively impact PetroKamchatka's future success.

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

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

Financial Risks

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

PetroKamchatka does not presently have sufficient cash to pay for exploration and development programs in Fiscal 2011 and beyond. The exploration and development of PetroKamchatka's properties in 2011 and beyond depends, therefore, on PetroKamchatka's ability to obtain additional financing through equity financing or other means. Failure to obtain any financing necessary to fund PetroKamchatka's future capital expenditure plans may result in a delay in development or production from PetroKamchatka's properties.

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, creating a climate of volatility, tightened 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.

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

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

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

History of Losses

PetroKamchatka has incurred substantial losses in all of its fiscal years including the most recent fiscal year ended May 31, 2010. In addition, PetroKamchatka's total net loss and comprehensive loss during the nine month period ended February 28, 2011 was $21,024,152. Cash used in operating activities during the first nine months of fiscal 2011 was $4,605,705. As at February 28, 2011, PetroKamchatka had a deficit of $89,913,908. PetroKamchatka has significant drilling and other work commitments that need to be funded if PetroKamchatka is to maintain its interest in its exploration licenses in Kamchatka. PetroKamchatka's ability to achieve drilling and production success will depend upon obtaining significant capital. To become profitable, PetroKamchatka must identify and establish reserves at its properties, and then either develop its properties or locate and enter into agreements with third party operators on favourable economic terms. PetroKamchatka may suffer significant additional losses in the future and may never be profitable. Even if PetroKamchatka does achieve profitability, it may not be able to sustain or increase profitability on a quarterly or annual basis. PetroKamchatka expects to incur losses unless and until such time as one or more of its properties enters into commercial production and generates sufficient net revenue to fund continuing operations.

Limited Operating History and No Record of Earnings

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

Substantial Capital Requirements

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

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

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

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

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

Political and Government Risk

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

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

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

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

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

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

Government Regulation

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

Limitations on Foreign Investments

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

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

Dependence on KKPL

KKPL is the strategic partner of PetroKamchatka in the Tigil and Icha jointly controlled companies. The Tigil exploration license expired December 31, 2010. Recent decisions among the Corporation and KKPL have resulted in seeking an early relinquishment of the Icha license and to proceed with the dissolution of the existing Joint Ventures. PetroKamchatka is dependent upon KKPL to pay its share of the dissolution costs. The Corporation continues to seek from KKPL, the formal recognition of its 46.25% interest in the HighKelly rig in accordance with the provisions of Settlement Agreement, and a formal termination of the Settlement Agreement.

Legal and Regulatory Risks

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

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

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

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

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

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

Limited Duration of Licenses

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

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

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

PetroKamchatka may not be able to, or may voluntarily decide not to, comply with license requirements for some or all of its license areas. On March 24, 2011, the Corporation and its joint venture partner decided to seek early relinquishment of the Icha license. If it fails to fulfil the specific terms of any of its licenses or if it operates in the license areas in a manner that violates Russian law, government regulators may impose fines on the Russian Companies or suspend or terminate their licenses. Any suspension or termination of one or more of the subsoil licenses could have a material adverse effect on PetroKamchatka's operations and the value of its assets.

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

Environmental

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material, as well as suspension of the operations of the subsoil user. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require PetroKamchatka to incur costs to remedy such discharge. Although PetroKamchatka believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect PetroKamchatka's financial condition, results of operations or prospects.

Prices, Markets and Marketing

The marketability and price of oil and natural gas will be affected by numerous factors beyond PetroKamchatka's control. The ability to market natural gas may depend upon PetroKamchatka's ability to acquire space on pipelines that deliver natural gas to commercial markets. PetroKamchatka may also be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities, and related to operational problems with such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

PetroKamchatka's revenues, profitability and future growth and the carrying value of its properties are substantially dependent on prevailing prices of oil and natural gas. PetroKamchatka's ability to borrow and to obtain additional capital on attractive terms is also substantially dependent upon oil and natural gas prices. Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors beyond the control of PetroKamchatka. These factors include economic conditions, the actions of the Organization of Petroleum Exporting Countries, governmental regulation, political stability in the Middle East and elsewhere, the foreign supply of oil and natural gas, the price of foreign imports and the availability of alternative fuel sources. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on PetroKamchatka's carrying value of its resources or future proved reserves (if any), borrowing capacity, revenues, profitability and cash flows from operations. No assurance can be given that prices for oil or natural gas will be sustained at levels that will enable PetroKamchatka to operate profitably.

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

Third Party Risk

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

Dependence on Key Personnel

The success of PetroKamchatka will be largely dependent upon the quality of its management and personnel, including in particular, Graeme Phipps, the Chief Executive Officer and a director, and 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 purchased "key man" insurance on any of its directors, officers or key employees, and has no current plans to do so.

Availability of Drilling Equipment, Access and Infrastructure

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

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

PetroKamchatka does not currently have contractual commitments that ensure it will have adequate supply of equipment or crews to achieve possible future development plans. 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. Future development plans could require the deployment of significant amounts of equipment. Constraints in the availability of, or higher than anticipated costs for drilling rigs, equipment, supplies or personnel could delay or adversely affect PetroKamchatka's future exploration and development of its properties. This could have a material 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, and could have a material adverse effect on the value of an investment in PetroKamchatka.

Access to Kamchatka Properties

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

Risks May Not be Insurable

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

Management of Growth

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

Licenses, Permits, Approvals or Agreements

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

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

HighKelly Rig

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

Land Use Rights

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

No Reserves or Production

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

Resource Estimates

There are numerous uncertainties inherent in estimating quantities of prospective resources, including many factors beyond PetroKamchatka's control. 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, from the estimated resources.

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

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

Prospective resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development. Not all exploration projects will result in discoveries. The chance that an exploration project will result in the discovery of petroleum is referred to as the "chance of discovery." Thus, for an undiscovered accumulation the chance of commerciality is the product of two risk components - the chance of discovery and the chance of development.

Seasonality

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

Competition

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

Conflicts of Interest

There may be 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. At February 28, 2011, the Corporation had no debt.

Variations in Exchange Rates

PetroKamchatka is exposed to foreign currency fluctuations as it holds cash and incurs expenditures for property and equipment and administration expenses in Russian roubles, Euros, Pounds Sterling and Canadian Dollars and is exposed to fluctuations in exchange rates of these currencies relative to the US dollar. There were no forward foreign exchange rate contracts in place as at February 28, 2011 and May 31, 2010 or at any time during the nine months ended February 28, 2011 or thereafter. The Tigil exploration license expired December 31, 2010.

Hedging

PetroKamchatka does not currently engage in any hedging activities.

Fluctuations in the price of the PetroKamchatka Plc Shares

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

- changes in securities analysts' recommendations and their estimates of PetroKamchatka's financial performance;
- fluctuations in broader stock market prices and volumes, particularly among securities of oil and natural gas services companies;
- changes in market valuations of similar companies;
- investor perception of PetroKamchatka's industry or its prospects;
- additions or departures of key personnel;
- commencement of or involvement in litigation;
- changes in environmental and other governmental regulations;
- announcements by PetroKamchatka or its competitors of strategic alliances, significant contracts, new technologies, acquisitions, commercial relationships, joint ventures or capital commitments;

- variations in PetroKamchatka's quarterly results of operations or cash flows or those of other oil and natural gas companies;

- revenues and operating results failing to meet the expectations of securities analysts or investors in a particular quarter;

- future issuances and sales of the Corporation's shares or other securities;

- demand for and trading volume of the Corporation's shares;

- domestic and worldwide supplies and prices of and demand for oil and natural gas; and

- changes in general conditions in the domestic and worldwide economies, financial markets or the oil and natural gas industry.

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

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

Pursuant to some provisions of Russian law, a court may order the liquidation of a Russian company due to non-satisfaction of formal requirements by such company, associated with the incorporation, reorganization or operations of a company. There have been cases in the past where formal infringements in the course of establishing a Russian company or the failure to satisfy the requirements of Russian law have been used by Russian courts as grounds for the liquidation of the company. For instance, under Russian commercial company 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 subsidiaries and affiliates.

In case of liquidation, PetroKamchatka may be forced to reorganize the current operations carried out by such subsidiaries. One of the consequences of liquidation is the automatic loss of all the rights resulting from Geological Licenses. Such liquidation may result in additional costs, which in consequence may have an adverse effect upon the operations, results, financial condition or development prospects of PetroKamchatka.

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

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

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

PetroKamchatka may be unable to recover funds from Russian subsidiaries

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

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

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