MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") for EastSiberian Plc, ("EastSiberian", "the Corporation", "us" or "we"), prepared as at September 22, 2014, provides an overview of the Corporation's audited financial results for the year ended May 31, 2014 (the "Reporting Date"). The MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Corporation for the year ended May 31, 2014. The consolidated financial statements and all figures in this MD&A are presented in United States dollars, unless otherwise indicated.

The financial statements referred to above and other information with respect to the Corporation is available on EastSiberian's website (www.EastSiberian.com) and in public filings available on SEDAR (www.sedar.com).

CORPORATE OVERVIEW

EastSiberian Plc was incorporated on December 23, 2008 under the Companies (Jersey) Law 1991. The head office of the Corporation is located at 9 Esplanade, St. Helier, Jersey, JE23QA. The Corporation has principally been engaged in exploration for oil and natural gas in eastern Russia which activity is conducted pursuant to exploration licenses granted to Russian subsidiaries and affiliates of its wholly-owned Cyprus subsidiary, PetroKamchatka Resources Ltd. ("PKR"). The common shares of the Corporation are listed for trading on the TSX NEX (trading symbol: "ESB.H").

The Corporation has the following subsidiaries and affiliates:

		Percentage of Ownership	
Name of Subsidiary or Affiliate	Country of Incorporation	May 31, 2014	May 31, 2013
PetroKamchatka Resources Ltd.	Cyprus	100%	100%
OJSC LukinCholot	Russia	90%	90%
CJSC Palana-Exploration	Russia	*Wound up*	100%
CJSC Tigil Exploration	Russia	50%	50%
CJSC Icha Exploration	Russia	50%	50%
PetroKamchatka Services Inc.	Canada	100%	100%
Nabesche River Exploration Ltd.	Canada	*Wound up*	100%

PKR owns 90% of OJSC LukinCholot ("LukinCholot") which in turn owned owns 50% of CJSC Tigil Exploration and CJSC Icha Exploration. PKR is the direct owner of the other subsidiaries. KNOC Kamchatka Petroleum Limited ("KKPL"), a company owned 55% by Korea National Oil Corporation ("KNOC"), owns the remaining interest in the joint venture.

In its history, the Corporation indirectly secured eight onshore exploration licenses in Kamchatka representing an aggregate 3,698,155 net hectares. The eight licenses were: Tigil, Icha, Urginskaya, Pustaretskaya, Palanskaya, Ichinskaya, Vorovskaya and Tigilskaya. Since drilling of two unsuccessful wells in fiscal year 2010 the Corporation has either allowed certain exploration licenses to expire or applied for and received approval for early relinquishment back to the Russian Federal Ministry of Natural Resources ("MNFR"). The most recent surrenders were the Ichinskaya and Vorovskaya exploration licenses which were terminated by the MNFR on February 22, 2012 and the Tigilskaya exploration license which was terminated by the MNFR on February 12, 2013. The Corporation determined that mapped prospects on its licenses were either non-commercial on a fully risked basis or sufficient capital to complete the minimum commitments under the terms of the licenses was not available. All costs associated with the expired or relinquished licenses have been expensed by the Corporation.

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

The preparation of financial statements in accordance with IFRS 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 EastSiberian's current beliefs as well as assumptions made by EastSiberian based upon information currently available concerning business prospects, strategies, regulatory developments, the ability to obtain equipment in a timely manner to carry out exploration and 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 EastSiberian and its shareholders. These factors include, but are not limited to, risks associated with petroleum and natural gas exploration, financial risks, 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. In addition, there is a risk that the specific need for substantial amounts of capital that may be required will not be raised. 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 2014”, “current year”, “the year” and “the year ended May 31, 2014” are used throughout the MD&A and in all cases refer to the period from June 1, 2013 to May 31, 2014. The terms “Fiscal 2013”,“prior year” and “the year ended May 31, 2013’ are used throughout the MD&A and in all cases refer to the period from June 1, 2012 to May 31, 2013.

FOURTH QUARTER 2014 UPDATE

At May 31, 2014, the Corporation had negative working capital of $1,132,837 (May 31, 2013 – working capital surplus of $753,885). The components of working capital at May 31, 2014 included cash of $48,009, accounts receivable of $47,998 less accounts payable and accrued liabilities of $1,228,844. The Corporation has no long-term debt. Accounts payable at May 31, 2014, included $1,148,629 owing to directors and officers of the Corporation. The accounts payable to directors and officers are anticipated to be paid by way of a share issuance. Working capital at May 31, 2013 included cash of $423,122, accounts receivable of $117,222 and prepaid expenses of $3,641 less accounts payable and accrued liabilities of $1,197,870 and convertible note payable of $100,000.

RESULTS OF OPERATIONS

The consolidated financial information for EastSiberian includes the Corporation and its subsidiaries and investments in joint venture.

All amounts expressed in USD	**Year ended May 31,**	
	2014	**2013**
General and administrative expenses	639,750	1,521,890
Loss on equity accounted investees	89,166	199,762
Other income	(26,340)	-
Foreign exchange loss (gain)	17,467	(112,437)
Settlement of accrued liabilities	(238,296)	-
Foreign exchange differences realized from other comprehensive income	(266,734)	-
Loss before income taxes	215,013	1,609,215
Current income taxes	-	80,080
Net loss	**215,013**	**1,689,295**
Other comprehensive loss (income)		
Foreign exchange differences on translation of foreign operations	(2,795)	1,489
Foreign exchange differences reclassified to income	266,734	-
Other comprehensive loss	**263,939**	**1,489**
Total comprehensive loss for the year	**478,952**	**1,690,784**

General and Administrative Expenses

The period-over-period decline in general and administrative expenses is a result of the Corporation’s ongoing efforts to monitor and reduce costs and the wind-down of operations in Russia.

Loss on equity accounted investees

Loss on equity accounted investees represents Corporation's share in the losses of CJSC Tigil Exploration and CJSC Icha Exploration.

Other income

During the year ended May 31, 2014 the Corporation sold fully amortized office furniture and equipment for $26,340.

Gain from accounts payable write-off

During the year ended May 31, 2014 the Corporation reversed accrued liabilities of $238,296 that related to liabilities that have been discharged.

Gain on foreign exchange differences transferred from other comprehensive income

During the year ended May 31, 2014 the Corporation reclassified accumulated foreign exchange differences related to the liquidated during the year subsidiaries and subsidiaries in Russia to be liquidated in the foreseeable future.

SELECTED FINANCIAL INFORMATION

All amounts expressed in USD		**Year ended May 31,**	
except as otherwise noted	**2014**	**2013**	**2012**
Net loss for the period	215,013	1,689,295	9,289,892
Weighted average number of common shares outstanding – basic and diluted	4,959,340	4,903,998	4,903,998
Net loss per share – basic and diluted	-0.04	-0.34	-1.89
Comprehensive loss for the period	478,952	1,690,784	10,901,081
Cash flow used in operations	(284,197)	(2,151,926)	(3,778,444)
Cash flow from (used in) investing	-	2,284,817	(30,915)
Cash flow from financing	-	100,000	-
Foreign exchange gain (loss) on cash	(1,750)	1,759	-
Increase (decrease) in cash and cash equivalents	(373,363)	232,892	(3,809,359)
Cash and cash equivalents	48,009	423,122	188,471
Working deficit	(1,132,837)	(753,885)	936,899
Total assets	96,007	543,985	3,734,509
Total liabilities	1,228,844	1,297,870	2,797,610
Shareholders' equity (deficit)	(1,132,837)	(753,885)	936,899

SUMMARY OF QUARTERLY RESULTS
(unaudited)

All amounts expressed in USD except as otherwise noted	For the three month periods ended			
	August 31, 2012	November 30, 2012	February 28, 2013	May 31, 2013
Net loss for the period	535,554	458,813	463,905	231,023
Weighted average number of common shares outstanding – basic and diluted	4,903,998	4,903,998	4,903,998	4,903,998
Net loss per share – basic and diluted	-0.11	-0.09	-0.09	-0.05
Comprehensive loss for the period	535,554	458,813	463,905	232,512
Cash flow provided by (used in) operations	(1,219,197)	(529,594)	(515,622)	112,489
Cash flow provided by (used in) investing	2,492,045	-	-	-
Cash flow provided by (used in) financing	100,000	-	-	-
Foreign exchange gain (loss) on cash	3,305	-	6,274	(9,579)
Increase (decrease) in cash and cash equivalents for the period	1,376,153	(529,594)	(509,348)	102,910

All amounts expressed in USD except as otherwise noted	For the three month periods ended			
	August 31, 2013	November 30, 2013	February 28, 2014	May 31, 2014
Net loss for the period	232,270	(90,669)	140,418	(67,007)
Weighted average number of common shares outstanding – basic and diluted	4,903,998	4,903,998	4,908,930	5,103,998
Net loss (gain) per share – basic and diluted	-0.05	0.02	-0.03	0.01
Comprehensive loss for the period	232,270	(90,669)	140,418	196,932
Cash flow provided by (used in) operations	(146,349)	(64,015)	(102,390)	28,557
Foreign exchange gain (loss) on cash	-	-	-	(1,750)
Increase (decrease) in cash and cash equivalents for the period	(146,349)	(64,015)	(102,390)	26,807

SUMMARY OF GENERAL AND ADMINISTRATIVE EXPENSES BY QUARTER
(unaudited)

All amounts expressed in USD	**For the three month periods ended**			
	August 31, 2012	**November 30, 2012**	**February 28, 2013**	**May 31, 2013**
Employee salaries and benefits	78,977	106,546	195,043	104,756
Professional fees and consultants	176,099	255,397	97,143	24,256
Directors fees and expenses	52,256	11,006	44,756	7,256
Office administration and other	197,405	44,465	84,916	41,621
Total	**504,735**	**417,412**	**421,856**	**177,887**

All amounts expressed in USD	**For the three month periods ended**			
	August 31, 2013	**November 30, 2013**	**February 28, 2014**	**May 31, 2014**
Employee salaries and benefits	112,500	112,500	20,000	20,000
Professional fees and consultants	13,600	25,000	48,000	69,610
Directors fees and expenses	12,500	15,000	15,000	15,000
Office administration and other	52,922	34,828	38,290	35,000
Total	**191,522**	**187,328**	**121,290**	**139,610**

LIQUIDITY AND CAPITAL RESOURCES

Overview

EastSiberian has been engaged in the exploration for petroleum and natural gas in Kamchatka, Russia and was unsuccessful in making a commercial hydrocarbon discovery. EastSiberian is now focusing on other low risk existing properties and other development opportunities in Central America. The Corporation 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, and reported expenses.

At May 31, 2014, the Corporation had a working capital deficiency of $1,132,837 had an accumulated deficit of $98,801,800 and expects to incur further losses in the development of its business. The Corporation has no positive cash flow and there is a significant risk associated with the Corporation's ability to raise additional capital. The working capital deficit and the need to raise capital in the very near term create a material uncertainty as to the Corporation's ability to continue as a going concern. Management believes the going concern assumption to be appropriate for these consolidated financial statements as the Corporation was discussing with potential investors to examine existing properties and other development opportunities in Central America.

Capital management

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

At May 31, 2014, the Corporation's consolidated working capital deficiency was negative $1,132,837. The Corporation has no long-term debt and certain liabilities totaling $1,148,629 are to be paid through the issuance of common shares. Management believes the going concern assumption to be appropriate for these consolidated financial statements as the Corporation is currently engaged with specific investors examining existing properties and other development opportunities in Central America. Management undertook significant cost reduction measures in fiscal years 2014 and 2013 and continues to work towards further reductions of general and administrative and other expenses. However, it is unable to meet its work-commitment obligations without a significant capital injection and significant doubt exists about the Corporation's ability to continue as a going concern. The Corporation has no cash inflow, nor is there any assurance that it can raise additional capital under current market conditions. If the going concern assumption was not appropriate for these consolidated financial statements, then adjustments would be necessary to adjust the carrying value of assets and liabilities, and reported expenses.

Capital expenditures

The Corporation did not incur any capital expenditures on property and equipment in the years ended May 31, 2014 and 2013. EastSiberian's future capital requirements will focus on new prospects in Central America. All work programs and budgets are subject to approval by the Board of Directors and upon the ability of the Corporation to obtain adequate financing.

Equity

Common shares issued and outstanding:

	Number	Amount
Share capital at May 31, 2013	4,903,998	$ 91,806,942
Note payable converted to shares	200,000	$ 100,000
Share capital at May 31, 2014	5,103,998	$91,906,942

On August 26, 2012, the Corporation signed a one year non-interest bearing convertible note in the amount $100,000 with N&M Capital Limited, a corporation controlled by an officer and director of the Corporation. The holder and the Corporation could convert all or any portion of the note into common shares at a price of $0.50 per common share. During the year ended May 31, 2014, the note was converted into 200,000 common shares.

RELATED PARTY TRANSACTIONS

The Corporation considers its directors and executives to be key management personnel. Compensation attributed to key management personnel comprising salaries and directors fees for the year ended May 31, 2014 was $348,979 (May 31, 2013 - $759,401). At May 31, 2014, there was $1,148,629 (May 31, 2013 - $799,651) owing to directors and officers for services performed in the normal course of operations. The Corporation intends to pay off the accounts payable to management and directors and officers by converting this amount owed into Corporation's common shares.

During the year ended May 31, 2014 the convertible note payable which was held by a corporation controlled by a director of the Corporation was converted into 200,000 common shares.

OFF-BALANCE SHEET ARRANGEMENTS

As at May 31, 2014 and 2013, the Corporation did not have any off-balance sheet arrangements.

FINANCIAL INSTRUMENTS

The fair value of the Corporation's financial instruments, including cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximated their carrying values as at May 31, 2014 and May 31, 2013.

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 May 31, 2014 and May 31, 2013 or for the reporting periods then ended or thereafter.

The Corporation is exposed to foreign currency fluctuations as it holds cash and incurs expenses and property and equipment expenditures in foreign currencies. The Corporation incurs expenditures and expenses 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 May 31, 2014 and May 31, 2013 or for the reporting periods then ended or thereafter.

Financial instruments that potentially subject the Corporation to concentration of credit risk consist of accounts receivable. Accounts receivable consists of accounts receivable from the Corporation's joint interest entities. All accounts 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 and provisions. Accounts payable consist primarily of invoices payable to trade suppliers or professionals for services rendered.

RECENT CHANGES IN ACCOUNTING POLICIES

The Corporation prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these financial statements are based on IFRS in effect as at May 31, 2014.

Effective June 1, 2013 the Corporation adopted the following standards and amendments:

IFRS 10 - Consolidated financial statements; IAS 27 - Separate financial statements

IFRS 10 replaces all the guidance on control and consolidation in IAS 27, Consolidated and separate financial statements, and SIC-12, Consolidation – special purpose entities. Full retrospective application is required in accordance with the transition provisions of the standard, unless impracticable, in which case the group applies it from the earliest practicable date.

IAS 27 was amended following the issuance of IFRS 10. The revised IAS 27 deals only with the accounting for subsidiaries, associates and joint ventures in the separate financial statements of the parent company.

The Corporation has applied the above standards retrospectively. The above standards did not result in changes to the Corporation's financial statements.

IFRS 11 - Joint Arrangements

IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers. Under IAS 31 entities have the choice to proportionately consolidate or equity account for interests in jointly controlled entities. IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures are accounted for using the equity method of accounting whereas for a joint operation the venturer must recognize its share of the assets, liabilities, revenue and expenses of the joint operation.

The Corporation has re-evaluated its involvement in CJSC Tigil Exploration and CJSC Icha Exploration and classified them as a joint venture. Accordingly, under IFRS 11, the Corporation has applied equity method accounting to the investment at June 1, 2012. Previously, these investment were accounted for using proportionate consolidation.

The following table summarizes the adjustments made to Corporation's statements of financial position at June 1, 2012 and May 31, 2013, and its statements of comprehensive loss and cash flows for the year ended May 31, 2013 as a result of the application of the equity method of CJSC Tigil Exploration and CJSC Icha Exploration.

Statements of Financial Position		**June 1, 2012**	
All amounts expressed in USD	As previously reported	Adjustments	As restated
Cash and cash equivalents	229,460	(40,989)	188,471
Deficit	(97,142,873)	245,381	(96,897,492)
Accounts payable and accrued liabilities	1,807,880	(286,370)	1,521,510
Investment in equity accounted investees	-	1,588,479	1,588,479
Investment in drilling rig held for resale	1,588,479	(1,588,479)	-
		May 31, 2013	
Cash and cash equivalents	424,368	(1,246)	423,122
Foreign currency translation reserve	265,286	192	265,478
Deficit	(98,758,752)	171,965	(98,586,787)
Accounts payable and accrued liabilities	1,371,273	(173,403)	1,197,870

Statement of Cash flows		**2013**	
All amounts expressed in USD	As previously reported	Adjustments	As restated
Net cash (used in) operating activities	(2,398,896)	39,743	(2,359,153)

Statement of Comprehensive Loss		**2013**	
United States Dollars	As previously reported	Adjustments	As restated
Expenses:			
General and administrative expenses	1,645,802	(123,912)	1,521,890
Other items:			
Loss on equity accounted investees	-	199,762	199,762
Foreign exchange loss (gain)	(110,003)	(2,434)	(112,437)
Loss before income taxes	1,535,799	73,416	1,609,215
Current income taxes	80,080	-	80,080
Net loss	**1,615,879**	**73,416**	**1,689,295**
Other comprehensive loss			
Foreign exchange differences on translation of foreign operations	1,681	(192)	1,489
Other comprehensive loss	**1,681**	**(192)**	**1,489**
Total comprehensive loss (income) for the period	**1,617,560**	**73,224**	**1,690,784**

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.

EastSiberian is currently listed on the TSX NEX, and the Corporation’s CEO and President 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 ‘few’ 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 and could represent significant or material weakness in internal controls.

The CEO and President 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 EastSiberian should be considered highly speculative due to the lack of existing funds to obtain any early stage of development of future EastSiberian Russian properties. EastSiberian 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 EastSiberian's business. Prospective investors should take these risks into account in evaluating EastSiberian and in deciding whether to make an investment in EastSiberian. 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 EastSiberian 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 EastSiberian 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. EastSiberian 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 EastSiberian 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 EastSiberian 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. EastSiberian is unable to predict whether any portion of any resource potential 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 EastSiberian'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 EastSiberian.

The marketability of any oil and natural gas discovered or acquired will be affected by numerous factors beyond the control of EastSiberian. These factors include: market fluctuations; proximity and capacity of oil and natural gas pipelines and processing facilities; 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 EastSiberian's future exploration and development activities.

EastSiberian does not presently have sufficient funds to pay for any exploration and development commitments. The exploration and development of any new EastSiberian properties depends on EastSiberian's ability to obtain additional financing through equity financing or other means. Failure to obtain any financing necessary to fund future capital expenditure plans may result in a delay in the exploration, development or production from these properties.

As a result of the weakened global economic situation, EastSiberian, along with all other oil and gas entities, may have restricted access to equity or debt capital. There may be increases in borrowing costs. Future capital expenditures will be financed out of funds generated from operations, borrowings and possible future equity sales. EastSiberian'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 EastSiberian's securities in particular.

There can be no assurance that EastSiberian 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 EastSiberian. The failure of EastSiberian to obtain additional financing on a timely basis or on terms favourable to EastSiberian could result in the loss or substantial dilution of EastSiberian's interests in its properties. The failure of any joint venture partner to obtain required financing could adversely affect EastSiberian's ability to complete the exploration or development of any such joint venture project on a timely basis, if at all.

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

History of Losses

EastSiberian has incurred substantial losses in all of its fiscal years including the most recent fiscal year ended May 31, 2014. EastSiberian's net loss during the year ended May 31, 2014 was $1,132,837. Cash flow used in operating activities during the same period was approximately $373,363. As at May 31, 2014, EastSiberian had a deficit of approximately $98.8 million. To become profitable, EastSiberian must identify and establish reserves on new properties, and then either develop its properties or locate and enter into agreements with third party operators on favourable economic terms. EastSiberian may suffer significant additional losses in the future and may never be profitable. Even if EastSiberian does achieve profitability, it may not be able to sustain or increase profitability on a quarterly or annual basis. EastSiberian expects to incur losses unless and until such time as one or more of any future properties enters into commercial production and generates sufficient net revenue to fund continuing operations.

Limited Operating History and No Record of Earnings

Since EastSiberian commenced operations in Russia and has no earnings history. Accordingly, EastSiberian 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 EastSiberian's business will be dependent upon the successful development of future EastSiberian lands, and there can be no assurance that EastSiberian will achieve profitability in the future. Revenues may not occur for some time, if at all. The timing and extent of these influences is variable and uncertain and accordingly EastSiberian is unable to predict when, if at all, profitability will be achieved. An investment in the EastSiberian 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

EastSiberian's business plan requires significant expenditures, particularly near-term capital expenditures, on any new exploration and development phases, assuming there may be a development phase. EastSiberian may be unable to finance its needs on acceptable terms, or at all, which may have a material adverse effect on EastSiberian's operations. EastSiberian'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 ability to fund and acquire new exploration or production properties; (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 potential future operating cash flow being dedicated to the payment of principal and interest; (ii) EastSiberian being more vulnerable to competitive pressures and economic downturns; and (iii) restrictions on EastSiberian's operations.

EastSiberian might not be able to obtain necessary financing on acceptable terms, or at all. If sufficient capital resources are not available, EastSiberian might be forced to curtail exploration and/or development drilling and other activities.

If EastSiberian'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 EastSiberian.

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

Political and Government Risk

Beyond the risks inherent in the oil and natural gas industry, EastSiberian 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. EastSiberian 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 EastSiberian'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 EastSiberian's understanding of the terms; or that if breached, EastSiberian would be able to find a remedy. EastSiberian bears the risk that a change of government could occur and a new government may terminate or void the licenses, laws and regulations that EastSiberian is relying upon. Operations in Russia are subject to risks due to the harsh climate, difficult topography and the potential for social, political, economic, legal and financial instability.

EastSiberian's core focus for exploration has historically been 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; and
- risks associated with government policy that forces EastSiberian and its partners to cede an interest in the project to government-owned or controlled oil and natural gas companies.

EastSiberian's recent announcement that it may pursue other areas of interest in Russia may increase the exposure to these political and government risks. Changes in any government policy or regulation are beyond EastSiberian'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 Governments in Russia and Central America 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 EastSiberian's costs, any of which may have a material adverse effect on EastSiberian's intended business, financial condition and results of operations. EastSiberian's operations require licenses and permits from various governmental authorities. There can be no assurance that EastSiberian 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 EastSiberian 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 EastSiberian 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 EastSiberian as at this date, EastSiberian does not believe that any of the potential properties will be classified as significant based on the above criteria.

If in the process of a geological survey, a foreign investor, such as EastSiberian, 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 has been a strategic partner of EastSiberian in the Tigil and Icha jointly controlled companies. The Tigil exploration license expired on December 31, 2010, and on April 29, 2011, the MNFR approved the early relinquishment of the Icha license effective March 28, 2011. EastSiberian is dependent upon KKPL to pay its share of the dissolution costs upon wind-up of the Tigil and Icha joint venture companies.

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 EastSiberian'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 EastSiberian, potentially without adequate compensation, would have a material adverse effect on EastSiberian.

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 EastSiberian 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 EastSiberian 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.

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.

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

The rights of any subsoil user may also be challenged on the basis of defects in the process of issuing its subsoil license. 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 EastSiberian to incur costs to remedy such discharge. Although EastSiberian 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 EastSiberian'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 EastSiberian's control. The ability to market natural gas may depend upon EastSiberian's ability to acquire space on pipelines that deliver natural gas to commercial markets. EastSiberian 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.

EastSiberian's revenues, profitability and future growth and the carrying value of any future properties are substantially dependent on prevailing prices of oil and natural gas. EastSiberian'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 EastSiberian. 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 EastSiberian's carrying value of future 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 EastSiberian 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, EastSiberian enters into contractual arrangements with third parties which subject EastSiberian to the risk that such parties may default on their obligations. EastSiberian may be exposed to third party credit risk through its contractual arrangements with any future joint venture partners, suppliers and other parties. In the event such entities fail to meet their contractual obligations to EastSiberian, such failures could have a material adverse effect on EastSiberian and its future cash flow from operations.

Dependence on Key Personnel

The success of EastSiberian will be largely dependent upon the quality of its management and personnel, including in particular, Graeme Phipps, the Chairman of the Board of Directors and President, and key Russian personnel. Loss of the services of such persons, or the inability to attract personnel of equal ability, could materially adversely affect EastSiberian's business operations and prospects. EastSiberian 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.

EastSiberian 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 EastSiberian'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 any 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 EastSiberian.

Risks May Not be Insurable

EastSiberian'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 EastSiberian and others. In accordance with customary industry practice, EastSiberian 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.

Management of Growth

EastSiberian may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of EastSiberian 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 EastSiberian 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 EastSiberian to proceed with any development plans and otherwise accomplish EastSiberian'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. EastSiberian's inability to meet any of these requirements could have a material adverse effect on EastSiberian's potential exploration or development activities, and may even result in the termination of the subsoil use licenses.

Any new EastSiberian properties would be held indirectly in the form of licenses and ownership working interests in Russian project companies holding the licenses. If EastSiberian 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 EastSiberian's licenses or the beneficial interests relating to a license may have a material adverse effect on EastSiberian's results of operation and business.

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 work commitment timetable and could have a negative impact on the cost of operations, results, financial condition, and development prospects of EastSiberian.

No Reserves or Production

EastSiberian does not have any proven reserves or production and may never have any reserves or production. The future performance of EastSiberian'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 activities, EastSiberian 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 EastSiberian to recover EastSiberian's exploration and development costs or sustain EastSiberian's business. No assurance can be given that EastSiberian'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 potential 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 EastSiberian'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 Russia 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 EastSiberian.

Competition

Oil and natural gas exploration is intensely competitive in all its phases and involves a high degree of risk. EastSiberian competes with numerous other participants in the search for oil and natural gas properties. EastSiberian's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of EastSiberian. EastSiberian'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

Certain directors of the Corporation and its subsidiaries are associated with other reporting issuers or other corporations, which may give rise to conflicts of interest. Some of these corporations may, from time to time, be involved is business transactions which may create situations in which conflicts may arise. Ultimately, conflicts of interest declarations by the individuals will be subject to and governed by the procedures and remedies set forth in Jersey Law, if necessary.

Issuance of Debt

EastSiberian requires significant financial resources to conduct its exploration plans and to develop any new properties. These activities may be financed partially or wholly with debt, which may increase EastSiberian's debt levels above industry standards. Depending on future exploration and development plans, if any, EastSiberian 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 EastSiberian's indebtedness from time to time could impair EastSiberian's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Variations in Exchange Rates

EastSiberian is exposed to foreign currency fluctuations as it holds cash and incurs capital expenditures 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 May 31, 2014 and May 31, 2013 or at any time during the periods then ended or thereafter.

Hedging

EastSiberian does not currently engage in any hedging activities.

Fluctuations in the price of the EastSiberian 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 EastSiberian cannot control, including:

- changes in securities analysts' recommendations and their estimates of EastSiberian'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 EastSiberian'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 EastSiberian or its competitors of strategic alliances, significant contracts, new technologies, acquisitions, commercial relationships, joint ventures or capital commitments;
- variations in EastSiberian'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 EastSiberian'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 EastSiberian'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 July 2011, OJSC LukinCholot, CJSC Tigil Exploration and CJSC Icha exploration received information letters from the regional inspection tax service of Kamchatka advising the entities of the negative net asset balance in each entity. In case of refusal from voluntary liquidation or action by the shareholders of these entities to eliminate the negative asset balance, the regional tax service could assume measures to liquid the companies by judicial means.

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, EastSiberian 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 EastSiberian.

EastSiberian may be unable to recover funds from Russian subsidiaries

From time to time, EastSiberian may transfer funds to its Russian subsidiaries or affiliates in the form of loans, advances or equity contributions. There is no assurance that EastSiberian'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, EastSiberian 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 EastSiberian.