Iskander energy

2013 Consolidated Financial Statements

December 1, 2014

Independent Auditor's Report

To the Shareholders of
Iskander Energy Corp.

We have audited the accompanying consolidated financial statements of Iskander Energy Corp., which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012 and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Iskander Energy Corp. as at December 31, 2013 and December 31, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Iskander Energy Corp.'s ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Accountants

ISKANDER ENERGY CORP.

CONSOLIDATED BALANCE SHEETS

(thousands of United States dollars)

	Notes	December 31, 2013	December 31, 2012
ASSETS			
Current assets			
Cash and cash equivalents	5	1,178	5,329
Accounts receivable and others	6	237	404
Assets held for sale	7	-	3,776
		1,415	9,509
Non-current assets			
Exploration and evaluation assets	8	4,453	2,913
Property, plant and equipment	9	112	1,891
Investment in joint ventures	10	-	19,606
		4,565	24,410
Total assets		5,980	33,919
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other payables	12, 16 (d)	1,579	1,499
Carried interest liabilities	13	223	2,479
		1,802	3,978
Non-current liabilities			
Decommissioning liabilities	14	291	-
Long term loans & other liabilities	15	2,833	6,231
		3,124	6,231
Shareholders' equity			
Share capital	16 (a)	52,625	44,966
Contributed surplus	16 (b)	38,744	37,161
Warrants	16 (e)	3,050	1,285
Reserve for repurchase of shares	16 (f)	(334)	(380)
Accumulated other comprehensive income		(1,893)	64
Deficit		(91,138)	(58,381)
Equity attributable to Iskander shareholders		1,054	24,715
Non-controlling interest		-	(1,005)
Total equity		1,054	23,710
Total liabilities and shareholders' equity		5,980	33,919

The notes form an integral part of these consolidated financial statements.

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Approved on behalf of the Board of Directors:

Kent Jespersen
Chairman of the Board

Michael Hibberd
Director

December 1, 2014

ISKANDER ENERGY CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(thousands of United States dollars)

	Notes	Years ended December 31 2013	2012
Administrative expenses	20	3,532	5,407
Share-based compensation	16 (c), (d)	1,923	3,857
Pre-license expense		162	245
Foreign exchange loss (gain)		(2,211)	(56)
Loss on investment and joint ventures	11 (iii), (iv)	16,030	292
Depreciation and asset impairment	8, 11 (i), (ii), (vi)	9,198	12
Other income		(47)	(78)
Total expenses		28,587	9,679
Loss before tax		(28,587)	(9,679)
Net loss		(28,587)	(9,679)
Items that may be reclassified subsequently to net income			
Foreign currency translation gain/(loss) of foreign operations		(13)	64
Items that will not be reclassified to net income			
Foreign currency translation gain/(loss) of parent company		(1,944)	-
Other comprehensive loss		(1,957)	64
Comprehensive loss from continuing operations		(30,544)	(9,615)
Comprehensive income (loss) from discontinued operations	11 (v)	(3,165)	(5,766)
Comprehensive loss		(33,709)	(15,381)
Loss attributable to non-controlling interest from discontinued operations		-	2,018
Loss and comprehensive loss attributable to Iskander shareholders		(33,709)	(13,363)
Basic and diluted loss per share		$ (0.50)	$ (0.21)

The notes form an integral part of these consolidated financial statements.

ISKANDER ENERGY CORP.

CONSOLIDATED STATEMENTS OF EQUITY

(thousands of United States dollars)

	2013	2012
Share Capital		
Balance, beginning of year	44,966	66,335
Shares issued net of issuance cost	7,495	5,425
Shares cancelled	-	(26,666)
Exercise of options and warrants	164	84
Repurchase of shares	-	(212)
Balance, end of year	52,625	44,966
Contributed Surplus		
Balance, beginning of year	37,161	4,796
Shares cancelled	-	26,665
Shareholder's contribution	-	2,005
Repurchase of stock options	-	(30)
Forfeited stock options	(35)	-
Share-based compensation	1,618	3,756
Stock options exercised	-	(31)
Balance, end of year	38,744	37,161
Warrants		
Balance, beginning of year	1,285	1,185
Warrants issued	1,671	100
Warrants extension	138	-
Warrants exercised	(44)	-
Balance, end of year	3,050	1,285
Reserve for Repurchase of Shares		
Balance, beginning of year	(380)	-
Additions to Reserves	-	(380)
Re-measurement of reserve	46	-
Balance, end of year	(334)	(380)
Accumulated Other Comprehensive Income		
Balance, beginning of year	64	-
Foreign currency translation adjustment on foreign operations	(1,957)	64
Balance, end of year	(1,893)	64
Deficit		
Balance, beginning of year	(58,381)	(44,916)
Net (loss) for the period	(31,752)	(15,445)
Repurchase of shares	-	(38)
Loss (gain) attributable to non-controlling interest		2,018
Acquisition of additional interest in Poland subsidiary	(1,005)	-
Balance, end of year	(91,138)	(58,381)
Equity attributable to Iskander Energy Corp. shareholders	1,054	24,715
Non-controlling interest		
Balance, beginning of year	(1,005)	1,013
Acquisition of additional interest in subsidiary	1,005	-
(Loss)/Income attributable to non-controlling interest	-	(2,018)
Balance, end of year	-	(1,005)
Total Equity	1,054	23,710

The notes form an integral part of these consolidated financial statements.

ISKANDER ENERGY CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31, 2013 and December 31, 2012

(thousands of United States dollars)

	Years ended December 31	
	2013	**2012**
CASH FLOW FROM OPERATING ACTIVITIES		
Loss from continuing operations	(28,587)	(9,679)
Adjustments for:		
Loss on investment and joint ventures	16,030	292
Asset impairment	9,162	-
Share-based compensation	1,582	3,857
Non-cash transaction costs	138	-
Depreciation and accretion	37	12
Unrealized foreign exchange (gain)/loss	(2,209)	52
Loss adjusted for non-cash items	(3,847)	(5,466)
(Increase)/Decrease in accounts receivables	167	280
(Decrease)/Increase in trade and other payables	81	908
Net cash from continuing operating activities	(3,599)	(4,278)
Net cash from discontinued operating activities	(67)	(110)
Net cash from operating activities	(3,666)	(4,388)
CASH FLOW FROM INVESTING ACTIVITIES		
Investment in joint ventures	(1,223)	(4,469)
Capital expenditures	(9,165)	(4,176)
Short term investments	-	6,777
Net cash used in continuing investing activities	(10,388)	(1,868)
Net cash used in discontinued investing activities	686	(2,196)
Net cash used in investing activities	(9,702)	(4,064)
CASH FLOW FROM FINANCING ACTIVITIES		
Issuance of shares and units	9,689	4,692
Shareholder’s contribution	-	2,005
Repurchase of shares	-	(250)
Repurchase of stock options	-	(31)
Options exercised	-	53
Warrants exercised	120	-
Share issue expense	(587)	(270)
Long term loans & other liabilities	-	-
Net cash used in continuing financing activities	9,222	6,199
Net cash used in discontinued financing activities	-	-
Net cash used in financing activities	9,222	6,199
Effect of exchange rate on cash and cash equivalents	(5)	102
Increase (decrease) in cash and cash equivalents	(4,151)	(2,151)
Cash and cash equivalents at beginning of year	5,329	7,480
Cash and cash equivalents at end of year	1,178	5,329

The notes form an integral part of these consolidated financial statements.

(Tabular amounts and amounts in text are in thousands of United States dollars, unless otherwise stated.)

1 Corporate Information

The consolidated financial statements of Iskander Energy Corp. ("Iskander" or the "Company") for the year ended December 31, 2013 are comprised of Iskander and its subsidiaries (together the Company). The Company is engaged in the exploration for and ultimately the development and production of oil and natural gas from its licensed properties in Central Eastern Europe (Ukraine, Georgia, Bulgaria and Poland). As at December 31, 2013, the Company is in the process of determining and quantifying its resources. To the date of these financial statements, the Company has incurred exploration and evaluation costs in respect of mineral licenses but has not incurred any costs with respect to developing any mineral properties.

Iskander Energy Corp. is a privately held company, incorporated and domiciled in Canada. Its head office is at, 400, 333 11th Avenue S.W., Calgary, Alberta T2R 1L9. The Company was incorporated on November 29, 2010, under the laws of the Province of Ontario. Effective August 2, 2013, the Company was continued into the Province of Alberta.

2 Going concern

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due.

The Company is an oil and gas exploration and development company with properties located in Ukraine, Georgia, Bulgaria and Poland. The Company's properties are still in the exploration stage and have no proved reserves or production revenue. To date, the Company's exploration and development operations have been financed by way of equity issuances.

As at December 31, 2013, the Company's cash position was $1.2 million which will not be sufficient to fund the exploration and development program over the next twelve months (see note 22). There are also significant exploration and development commitments in 2015 and 2016. In the absence of additional funding, and the deferral of certain exploration and development commitments, these circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. During 2014, the Company obtained a standstill agreement from the Government of Bulgaria which delays the implementation of the work program for a period of two years or until the ban on fracking is removed. In addition, the Company negotiated the settlement of the $3 million work plan penalty.

Subsequent to December 31, 2013, the Company completed two private financing totaling CAD $9.1 million (see note 21 a). It is critical that the Company is able to find and develop commercial reserves so as to earn sufficient revenues and cash flows in a time frame that enables the Company to sustain its operations in the future. The Company also intends to continue raising funds through equity financing, divestment or farm-out arrangements to fund the exploration and development program and there are no guarantees that additional equity or farm-out arrangements will be available when needed.

Subsequent to December 31, 2013, the economic and political environment in Ukraine deteriorated significantly which caused the Company to cease all operations in the region due to violence and political instability. No further capital expenditures are currently planned for the licenses until geopolitical stability and a favorable investment climate returns. The Company continues to work with Governmental authorities to protect the licenses and seek extensions and modifications to the terms of the licenses. Ultimately, such modifications will require the approval of legislative bodies which are located in the Donetsk region. The Company currently has no expectations as to the timing of such approvals but will continue to monitor the process. A prolonged period of violence and political instability would have a material impact on the Company's value related to the properties in Ukraine.

The Company will continue to adjust the scope of its operations and anticipated expenditures in light of its working capital position and geopolitical risks. However, there is no assurance that any steps taken by the Company will be successful in this regard, and there is risk that unforeseen circumstances and expenditures will limit the time period for which cash will be available. The Company may not be able to raise financing of sufficient magnitude, or on a cost-effective basis. The failure of the Company to raise further financing would limit the ability of the Company to advance its business plan and carry on current activities.

The Company's ability to continue as a going concern is dependent upon its ability to fund its work programs and obligations. The consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expense and the balance sheet classifications, that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

3 Basis of Presentation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC").

On December 1, 2014 the Board of Directors approved the consolidated financial statements.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value as explained in the significant accounting policies in note 4.

c) Use of management estimates, judgments and measurements uncertainty

The timely preparation of the consolidated financial statements requires that management make estimates and use judgment regarding the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as at the date of the consolidated financial statements. Accordingly, actual results could differ from estimated amounts as future confirming events occur. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined below:

(i) Determination of cash-generating units ("CGU")

The determination of CGUs requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or group of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

(ii) Exploration and Evaluation ("E&E")

The decision to transfer assets from E&E to property, plant and equipment ("PP&E") is based on the estimated proved plus probable reserves used in the determination of an area's technical feasibility and commercial viability. The determination of fair value requires judgment of similar transactions and expectations associated with future reserve and resource exploitation (see note 8).

(iii) Impairment of assets

The recoverable amounts of CGUs, investments in joint ventures and individual assets have been determined as the greater of an asset's or CGU's value-in-use and fair value less costs to sell. These calculations require the use of estimates and assumptions and are subject to changes as new information becomes available including information on future commodity prices, expected production volumes, quantity of reserves or resources and discount rates as well as future development and operating costs. The Company also has to consider market transactions for fair value and interpretation of laws under foreign jurisdictions. It is reasonably possible that the commodity price assumptions may change, which may impact the estimated life of the field and economical reserves and resources recoverable and may require a material adjustment to the carrying value of oil and natural gas assets. The Company monitors internal and external indicators of impairment relating to its tangible assets (see note 11).

(iv) Share-based compensation

Compensation costs accrued for share-based compensation are subject to the estimation of what the ultimate payout will be using the Black-Scholes pricing model which is based on significant assumptions such as the future volatility of the Company's share price and expected term of the issued stock option. The Company is not listed for trading on a public exchange and share prices and trading volatility are based on limited activity and information available from peer companies. The Company was formed in 2010 and has little history upon which to base estimates of option and warrant life and forfeiture rates (see note 16 c, e).

(v) Income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change and interpretation. As such, income taxes are subject to measurement uncertainty. The Company follows the liability method for calculating deferred taxes. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to the expectations of future cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the deferred tax assets and liabilities recorded at the balance sheet date could be impacted. Additionally, changes in tax laws could limit the ability of the Company to obtain tax deductions in the future (see note 19).

4 Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, and have been applied consistently by the Company and its subsidiaries.

a) Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in profit or loss as a gain on acquisition. Acquisition related costs, other than share issue costs, are expensed as period costs in the consolidated statements of operations.

Where the Company's interest in the subsidiary is less than 100% the interest attributable to the minority shareholders is reflected as non-controlling interests. The Company recognizes non-controlling interests in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

b) Interest in joint ventures, jointly controlled operations and jointly controlled assets

Some of the Company's petroleum and natural gas activities involve jointly-controlled assets. The financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related operating costs.

The Company's investment in Bulgaria is accounted for using the equity method whereby the Company's share of the Bulgarian entity's net income is included in the consolidated statements of operations.

c) Foreign currency translation

Functional currencies of the Company's individual entities represent the currency of the primary economic environment in which the entity operates. Transactions in foreign currencies are translated to the appropriate functional currency at foreign exchange rates that approximate those on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the appropriate functional currency at foreign exchange rates at the balance sheet date. Foreign exchange differences arising on translation are recognized in earnings. Non-monetary assets that are measured in a foreign currency at historical cost are translated using the exchange rate at the date of the transaction.

d) Financial instruments

The Company initially measures financial instruments at estimated fair value. The Company's loans and receivables are comprised of cash and cash equivalents and trade receivables are included in current assets due to their short- term nature. Financial liabilities are categorized as “Trade and other payables” and “Long term loans and other liabilities”.

Accounts receivable and others

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of being traded. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date, which are classified as non-current assets. Loans and receivables are recognized at the amount expected to be received less, any discount or rebate to reduce the loans and receivables to estimated fair value.

Other financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced and/or substantially modified, the difference in the respective carrying amounts is recognized in net income (loss).

Financial assets through profit and loss

Financial instruments classified as fair value through profit or loss are measured at their fair values at each reporting period with the change in fair value recognized in the statement of income (loss).

e) Assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when the carrying amount is to be recovered principally through a sale transaction rather than through continued use. This condition is met when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying value amount and fair value less cost to sell.

f) Capital assets

(i) Exploration and evaluation (“E&E”) expenditures

All costs directly associated with the exploration and evaluation of oil and natural gas reserves are initially capitalized. E&E costs are those expenditures for an area where technical feasibility and commercial viability have not yet been determined. These costs include unproved property acquisition costs, exploration costs, geological and geophysical costs, asset retirement costs, E&E drilling, sampling and appraisals. Costs incurred prior to acquiring the legal rights to explore an area are charged directly to net income (loss) as exploration expense.

When an area is determined to be technically feasible and commercially viable the accumulated costs are tested for impairment immediately before being transferred to PP&E, where they are depleted. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to net income (loss) as exploration expense.

(ii) Property, plant and equipment

Costs associated with drilling rigs and related equipment, office furniture, fixtures and leasehold improvements are carried at cost and depreciated on a straight-line basis over the estimated service lives of the assets, which range from 1 to 10 years.

g) Impairment of long-term assets

The carrying amounts of the Company’s long-term assets are reviewed at each reporting date to determine whether there is any indication of impairment. If an indication of impairment exists, then the asset’s recoverable amount is estimated. E&E assets are assessed for impairment when they are reclassified to PP&E, and if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality. The recoverable amount of an asset is the greater of its value in use and its fair value less costs of disposal (“FVLCOD”).

Value in use is determined by estimating the present value of the pre-tax future net cash flows expected to be derived from the continued use of the asset. FVLCOD is based on available market information, where applicable. The Company generally estimates fair value less costs to sell using a discounted cash flow model which has a significant number of assumptions. The model uses expected cash flows from contingent and prospective resources. Resource estimates and expected future cash flows from production of resources are subject to measurement uncertainty as discussed above and subject to variability to changes in forecasted commodity prices. The discount rate applied to the cash flows is also subject to management’s judgment and will affect the recoverable amount calculated. Commodity price changes impact the expected future cash flows which may require a material adjustment to the carrying value of tangible and intangible assets. The Company monitors internal and external indicators of impairment relating to its tangible and intangible assets. These indicators include changes in commodity prices, resource volumes and discount rates.

E&E assets are allocated to related CGUs where they are assessed for impairment upon their eventual reclassification to PP&E. E&E assets not reclassified to PP&E are assessed for impairment on an operating segment level.

An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognized in net income (loss).

h) Share-based compensation

The Company has an incentive stock option plan for employees, officers, directors and consultants as described in note 16 c, d, e). The Company records share-based compensation expense using the fair value method. The fair value of an option is calculated at the grant date using the Black-Scholes pricing model, and expensed over the vesting period of the option. The Company records the cumulative share-based compensation as contributed surplus. When options are exercised, contributed surplus is reduced and share capital is increased by the amount of accumulated share- based compensation for the exercised option. Any consideration received on the exercise of stock options is credited to share capital.

The Company also has a deferred share unit plan (“DSU”) for officers and directors as described in note 16 d). Each DSU granted permits the holder to receive a cash payment equal to the volume of DSU’s multiplied by the fair market value share price which shall be determined by the Corporate Governance Committee of the Board. DSU’s vest immediately upon grant but are not exercisable until resignation or termination from the Board of Directors or employment. The Company records the fair value, based on the period end price per share using the most recent data available, as share-based compensation expense and recognizes a current liability in “Trade and Other Payables”.

i) Provisions

A provision is recognized if, as a result of a past event, the Company has a current legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

j) Decommissioning liabilities

The Company’s activities give rise to dismantling, decommissioning, abandonment and site disturbance remediation activities. Provision is made for the estimated cost of the future site restoration and capitalized in the relevant asset category.

Decommissioning liabilities are measured at the present value of management’s best estimate of the expenditure required to settle the present obligation at the balance sheet date using a risk-free discount rate. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as a finance expense whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning liabilities are charged against the provision to the extent the provision was established.

k) Other income and expense

Other expense comprises interest expense on borrowings, accretion on decommissioning liabilities, revaluation of derivative financial liabilities and impairment losses recognized on financial assets. Other income comprises interest earned on cash and cash equivalents, short-term investments and financial instruments through profit and loss.

l) Cash and cash equivalents

Cash and cash equivalents are comprised of cash in the bank and term deposits held with banks with original maturities of 3 months or less.

m) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in comprehensive income (loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined on a non- discounted basis using tax rates and laws enacted or substantively enacted by the balance sheet date and expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax is provided on temporary differences arising on investments in subsidiaries except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not be reversed in the foreseeable future. Deferred tax assets and liabilities are presented as non-current.

n) Per share information

Basic net income (loss) per share is calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees and broker warrants, except when the effect would be anti-dilutive.

o) Share capital

Common shares are classified as equity. Equity is initially recorded at the fair value of the proceeds received less incremental costs directly attributable to the issue of common shares and share options, net of any tax effects.

p) Adoption of new accounting pronouncements

On January 1, 2013, the Company adopted new standards with respect to consolidation (IFRS 10), joint arrangements (IFRS 11), disclosures of interest in other entities (IFRS 12), fair value measurement (IFRS 13) as well as amendments related to investments in associates and joint ventures (IAS 28). The adoption of these standards and amendments had no impact on the amounts recorded in the consolidated financial statements for the year ended December 31, 2013.

Presentation of items of Other Comprehensive Income

Effective January 1, 2013, the Company has adopted the amendments to IAS 1, Presentation of items of Other Comprehensive Income. These amendments required the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. The amendment affected presentation only and had no impact on the Company's financial position or performance.

q) Recent accounting pronouncements

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32, Financial Instruments Presentation. The amended standard requires entities to disclose both gross and net information about both instruments and transactions eligible for offset. The amendments clarify that the right to offset must be available on the current date and cannot be contingent on a future event. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014 and require retrospective application. The adoption of this amendment is not expected to have a significant impact on the Company.

IAS 36 Impairment of Assets – Amendments to IAS 36. The amended standard requires entities to disclose the recoverable amount of an impaired CGU if the amount is based on fair value less costs of disposal. The amendment is effective January 1, 2014. The adoption of this amendment is not expected to have a significant impact on the Company.

IFRS 9 Financial Instruments. The IASB is finalizing this standard which will eventually replace the IFRS 9 Financial Instruments. The standard will be published in three phases, of which two phases were already published: accounting for financial assets and financial liabilities, and hedge accounting. The third phase will focus on impairment of financial instruments. The full impact of this standard will not be known until all three phases are published. The effective date of this standard was not announced yet.

IFRIC 21 Levies – Interpretation of IAS 37 Provisions, contingent liabilities and assets. This interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment occurs. The interpretation is effective January 1, 2014. The Company is currently evaluating the impact of this interpretation.

There have also been revisions made to the following existing standards: IFRS 7 “Financial Instruments: Disclosures”, IAS 39 “Financial Instruments: Recognition and Measurement”, IAS 19 “Employee Benefits”, IAS 16 “Property, Plant and Equipment”, and IAS 27 “Separate Financial Statements”. The following describes the impact as a result of the application of the new and revised standards.

The revisions to existing standards mostly involve amendments to the definitions provided by the standards. Introduction of the new standard, IFRS 13 “Fair Value Measurement”, impacts the following standards for the revised definition of fair value: IAS 39 “Financial Instruments: Recognition and Measurement”, IAS 19 “Employee Benefits”, IAS 16 “Property, Plant and Equipment” and IAS 36 “Impairment of Assets”. IFRS 9 “Financial instruments” and IFRS 7 “Financial instruments: Disclosures” have been amended for the Mandatory Effective Date and Transition Disclosures definitions. IAS 27 “Separate Financial Statements” has been revised to reflect new standards, IFRS 10 “Consolidated Financial Statements” and IFRS 12 “Disclosure of Interests in Other Entities”, in determining to disclose separate financial statements for an investment entity.

The revisions to these standards have no impact on the financial statements

5 Cash and cash equivalents

Cash and cash equivalents represent cash in bank.

6 Accounts Receivable and others

	2013	2012
VAT receivable	26	-
GST/HST receivable	16	241
Other receivables	136	42
Prepayments	59	121
	237	404

7 Assets Held for Sale and Discontinued Operations

During the fourth quarter of 2012, the Board of Directors of Iskander approved the strategic decision to divest of all its assets in Poland. At December 31, 2012 the assets held for sale were measured at the lower of the carrying value and fair value less costs to sell, which resulted in the impairment loss of $5.5 million being recorded in the consolidated statements of the comprehensive income for the year ended December 31, 2012.

On February 6, 2013, Iskander Energy Corp. became the sole shareholder of Eurogas Polska Sp. Z.o.o. The shares were acquired by exercising its option to purchase all of the issued and outstanding shares of Eurogas Polska for $10. The acquisition of outstanding shares of Eurogas Polska resulted in a transfer of non-controlling interest balance to contributed surplus (see note 16 b).

As at December 31, 2013, assets held for sale in Poland were further impaired (see note 11 v).

8 Exploration and Evaluation Assets

Balance, December 31, 2011	7,706
Additions	840
Joint interest acquisition – South Donbass license (Ukraine)	1,463
Joint interest acquisition – Kruto license (Ukraine)	1,475
Assets transferred to Assets held for sale (Poland) – note 7	(8,541)
Cumulative translation adjustment	(30)
Balance, December 31, 2012	2,913
Additions – South Donbass and Kruto license (Ukraine)	5,280
Additions – Satskhenisi license (Georgia)	4,169
Disposals	(462)
Impairment – South Donbass and Kruto license – note 11 (i), (ii)	(7,447)
Balance, December 31, 2013	4,453

On June 14, 2013, the Company has signed a farm-in transaction with a private company in Georgia. The transaction contemplates earning a 50% working interest in a light oil field, which is governed by a Production Sharing Agreement ("PSA"), in exchange for executing a capital program and carrying the partner for its 50% share of the program which will be carried out during 2013-2015. On October 24, 2013, the Georgian Ministry of Justice issued a revised PSA which closed this transaction and made Iskander a 50% working interest partner in the PSA, subject to fulfilling its capital program commitments.

9 Property, Plant and Equipment

	Drilling rigs	Furniture, fixtures and other	Total
Cost			
Balance at December 31, 2011	1,672	6	1,678
Additions	66	115	181
Cumulative translation adjustment	44	-	44
Balance, December 31, 2012	1,782	121	1,903
Additions	-	65	65
Disposals	-	(20)	(20)
Impairment of assets – note 11 (vi)	(1,782)	-	(1,782)
Cumulative translation adjustment	-	(8)	(8)
Balance, December 31, 2013	-	158	158
Accumulated Depreciation			
Balance, December 31, 2011	-	-	-
Depreciation expense	-	12	12
Balance, December 31, 2012	-	12	12
Depreciation expense	-	34	34
Balance, December 31, 2013	-	46	46

Net Book Value			
Balance, December 31, 2011	1,672	6	1,678
Balance, December 31, 2012	1,782	109	1,891
Balance, December 31, 2013	-	112	112

10 Investment in Joint Ventures

	2013	2012
RSG (Bulgaria) – see Impairment note 11 (iv)	-	12,118
Non-current loan to RSG Bulgaria – see Impairment note 11 (iv)	-	788
Karbona Energo LLC (Ukraine) – see Impairment note 11 (iii)	-	6,846
Cumulative translation adjustment	-	(146)
	-	19,606

On October 3, 2013, the Company became the sole shareholder of Karbona Energo LLC. The shares were acquired in exchange for US $0.3 million cash. The acquisition of the remaining 49% of the shares in Karbona relinquished the Company from any further drilling commitments to earn its interest in the assets and resulted in the acquisition of $0.4 million of cash. The transaction was accounted for as an acquisition of assets, which related primarily to working capital. As a result of the transaction, effective October 3, 2013, Karbona Energo LLC is now consolidated

11 Impairment

(i) South Donbass license

On December 15, 2013, the South Donbass exploration license in Ukraine expired. Prior to the expiry in accordance with the legal process the application for a production license was filed. As at December 31, 2013, the Company's interest in South Donbass is contingent upon receipt of the production license. As a result an impairment loss of $5.9 million was recognized on these associated exploration and evaluation assets. Once the production license is granted, the Company will review the circumstances and asset whether the impairment loss and costs previously incurred should be reversed as part of exploration and evaluation assets.

(ii) Kruto license

Subsequent to year end, the economic and political environment in Ukraine has deteriorated significantly (see note 21 b) which was a strong indicator for the assets impairment. The current exploration license will expire in July 2016, however due to the current economic and political environment the Company does not plan any further capital expenditures until the situation in Ukraine becomes more stable. As a result an impairment loss of $1.5 million was recognized on these associated exploration and evaluation assets.

(iii) Krasno license

During the three months ended March 31, 2013, the Company completed testing of its first well drilled in the Krasno license. Economic quantities of gas were not recovered and the well was temporarily suspended which resulted in a $6.2 million impairment.

(iv) Gradishte and Kilifarevo license

In January 2012, subsequent to the investment in joint venture in RSG, the Government of Bulgaria introduced a moratorium on all fracture stimulation activities until such time that adequate environmental and regulatory processes and approvals can be developed.

Based on technical analysis completed to date, Management believes that hydrocarbons cannot be economically produced from the reservoirs without fracing technology and therefore a permanent or extended ban on fracing would result in a full impairment of its investment in Bulgaria.

As at December 31, 2013, the ban on fracing had not been removed or modified which was considered as an indicator of impairment. The Gradishte and Kilifarevo licenses will expire in July 2015. If the fracing moratorium was removed in near future, it would not provide sufficient time to complete its work commitments as per agreement. Accordingly, the Company recognized $9.5 million impairment. The current and non-current liabilities associated with work commitments were reversed, instead a penalty of $3 million was recognized which becomes payable if the entire work program is not fulfilled. The penalty was recognized at its present value using a 15% discount rate.

Subsequent to December 31, 2013, the Company entered into an agreement with the local partner in Bulgaria which eliminates the $3 million penalty that was recognized above (see note 21) in exchange for EUR 122,000, a contingent payment of approximately $150,000 by the end of 2014 and the reduction of the working interest to 50%. The impact of this agreement will be reflected in the 2014 financial statements.

On June 11, 2014, the Company received a standstill agreement from the Bulgarian Government which delays the implementation of the work program for a period of up to two years or until the ban on fracing is removed. At the end of the standstill period, the Company will submit a modified work program to reflect the revised development strategy reflecting the regulatory and environmental regulations in effect at that time.

(v) Bieszczady license

The current phase of the Bieszczady exploration license in Poland expired in July 2013. An application for a new exploration license was submitted by the operator during the year ended December 31, 2013. As at December 31, 2013, the renewed license had not yet been approved. as such the assets held for sale associated Poland were fully impaired, recognizing an impairment of $3.1 million in discontinued operations.

Subsequent to year-end, on May 6, 2014, the new exploration licences were granted to the operator. Upon receipt of the official licenses, the Company was able to enter into a transaction which resulted in the sale of 100% of the shares held in Eurogas Polska, the entity holding the interest in the Polish assets (see note 21). The purchase price of the transaction was $1 million payable in three installments of which $760 thousand has been received to date in accordance with the terms of the transaction. The remaining amounts are due by December 31, 2014.

(vi) Drilling rigs

During the period ended December 31, 2013, the Company discovered that it had been defrauded by the entity which was storing two rigs owned by the Company. The Company is currently pursuing legal and criminal actions against the involved parties. As a result of the ongoing proceedings the Company recorded an impairment loss on the rigs of $1.7 million.

12 Trade and Other Payables

	2013	2012
Trade payables	734	490
Accrued liabilities	845	1,009
	1,579	1,499

Accrued liabilities related primarily to obligation to fund $375,000 as part of acquisition of interests in the South Donbass and Kruto licenses (Note 8) and $326,000 liability associated with issued and outstanding Deferred Share Units issued to directors and senior executives as part of changes to compensation in early 2013 (see note 16 d).

13 Carried Interest Liabilities

Carried interest liability represents Company's contractual obligation to fund work program commitments on behalf of other partners in below listed joint venture investments. Initially, the Company recognized 100% of the carried obligation liability, which is reduced as work commitment is fulfilled.

	2013	2012
Current portion of carried interest liability in Karbona (i)	-	1,481
Current portion of carried interest liability in Bulgaria (ii)	223	998
	223	2,479

(i) Current portion of carried interest liability in Karbona

During the year ended December 31, 2013, the Company has reduced its initial obligation for investment in Karbona to nil as result of an agreement to acquire 100% of Karbona Energo LLC (see note 10).

(ii) Current portion of carried interest liability in Bulgaria

	Total liability
Balance, December 31, 2011	351
Reclassification from Long term carried interest liability	946
Settlement of liability	(299)
Balance, December 31, 2012	998
Reclassification from Long term carried interest liability	4,528
Accretion	2,208
Foreign exchange rate differences	(362)
Settlement of liability	(267)
Impairment – note 11 (iv)	(6,882)
Balance, December 31, 2013	223

The remaining carried interest relates to a consulting agreement with local parties which is not directly tied to the licenses.

14 Decommissioning Liabilities

	2013	2012
Balance, beginning of year	-	170
Provisions for new wells	158	-
Acquisition in Karbona license	131	
Accretion	2	7
Assets transferred to Assets held for sale – note 10	-	(177)
Balance, end of year	291	-

The total decommissioning liability is estimated based on the Company's net ownership in wells drilled as at December 31, 2013, the estimated costs to abandon and reclaim the wells and the estimated timing of the costs to be paid in future periods.

During the year ended December 31, 2013, the Company recognized $100,000 liability on its first well drilled on the South Donbass license in Ukraine and $58,000 on its two wells drilled on the Satskhenisi license in Georgia. The remaining liability of $131,000 was recognized as result of acquisition of 49% interest in Karbona license (see note 10).

The Company provides for the future cost of the decommissioning oil and natural gas properties on a discounted basis. The decommissioning liabilities were discounted using a risk free discount rate of 10%. The obligations are not expected to be settled within a year and are therefore reported as long-term liability.

15 Long Term Loans and Other Liabilities

	2013	**2012**
Carried interest liability – note 11(iv)	-	5,851
Present value of penalty for non-performance of work plan in Bulgaria– note 11 (iv)	2,522	-
Long term provision for shares repurchase	311	380
	2,833	6,231

The Company has recognized a provision for a potential share repurchase based on the terms negotiated as part of South Donbass and Kruto agreement. According to this agreement, 500,000 shares were issued to an unrelated third party during the fourth quarter of 2012. After holding these shares for two years, this unrelated party has the right to sell these shares back to the Company at the prevailing market price. The provision was originally recognized at a net present value using a 15% discount rate and a share price of $1. As at December 31, 2013, the provision was fair valued using a share price of $0.75 which was based on the share issuance that closed subsequent to December 31, 2013 (see note 21 a).

16 Share Capital

a) Issued and outstanding common shares

	Number of shares	Amount
Balance, December 31, 2011	87,645,847	66,335
Issued shares	3,921,076	5,795
Exercise of options	70,000	84
Cancelled shares (i)	(31,333,434)	(26,666)
Repurchased shares (ii)	(250,000)	(212)
Share issue costs	-	(370)
Balance, December 31, 2012	60,053,489	44,966
Issued for cash via subscription agreements (iii)	13,688,333	8,070
Issued for consulting services	78,063	64
Issued for cash – exercise of warrants	492,000	164
Share issuance costs	-	(639)
Other	2,625	-
Balance, December 31, 2013	74,314,510	52,625

The Company has authorized and unlimited number of voting common shares without nominal or par value.

(i) Cancelled shares

Effective December 12, 2011, the Company introduced a new Board of Directors and senior executives. During the year ended December 31, 2012, the new Board of Directors and senior executives were able to enter into agreements which resulted in the renegotiation of share-based transaction costs recognized in 2011 and 2010 for services provided, primarily in conjunction with corporate and property acquisitions with Companies that likely meet the definition of a related party under IFRS and third parties. As a result, 31.3 million common shares were returned to the Company for nil cash compensation along with an injection of capital of $2.0 million. For financial statements reporting, shares were cancelled at a weighted average price of $0.81 of the issued and outstanding common shares as at December 31, 2011. Total expensed costs related to these shares were $24.6 million. $4.6 million was recorded for the year ended December 31, 2010 and $19.9 million for the year ended December 31, 2011. In addition, 3.3 million stock options, granted during 2011 were returned to the Company.

(ii) Repurchased shares

During the year ended December 31, 2012, 250,000 shares were repurchased from an unrelated party at a share price of $1.00 which involved a member of the board of directors who facilitated the transaction and therefore constitutes a related party transaction. The excess price paid over the average price per share cancelled during the period has been charged to retained earnings.

(iii) Issued for cash via subscription agreements

In March 2013, the Company completed a private financing, issuing 7,100,000 units at a price of $1.00 per unit. Each unit consists of one common share and one common share purchase warrant. The common shares had a fair market value of $5.7 million and warrants were fair valued at $1.3 million. Each warrant shall be exercisable to acquire one common share of the Company at an exercise price equal to $1.00 for a period of 18 months following the closing date.

The terms of the March financing down-round protection were triggered as a result of the October 2013 financing at a price of $0.75 per unit and an aggregate of an additional 2.8 million penalty shares were issued on October 8, 2013. Share issue costs include a cash fee equal to 6% of the gross proceeds of the offering paid to the agents and 284,000 broker warrants with an exercise price of $1.50 and exercisable for a period of 18 months.

On October 3, 2013, the Company completed a private financing, issuing 3,748,333 units at a price of $0.75 per unit and with terms similar to those disclosed above under March 2013 financing. The common shares had a fair market value of $2.4 million and warrants were fair valued at $0.3 million.

The Company will issue additional 0.1 shares for each unit subscribed, if there is no liquidity event within 12 months of the completed financing. If the Company issues shares for less than $0.75 per share within following 12 months, then each subscriber will be issued additional shares equivalent to:
[Aggregate subscription amount / lower- priced share issue price x 1.05] – Total number of units subscribed.

Subsequent to December 31, 2013 the Company conducted two financings totaling CAD $9.1 million (see note 21 a), of which the second financing was completed a price of $0.01 per share. As a result of the lower price and the terms included in the March 2014 financing subscription agreements, additional shares were issued for nil consideration.

As at December 1, 2014 the Company has approximately 926 million shares outstanding.

b) Contributed surplus

	2013	2012
Opening balance	37,161	4,796
Share-based payment transactions	1,618	3,756
Cancelled shares	-	28,640
Forfeited options	(35)	-
Options exercised	-	(31)
Acquisition of additional interest in subsidiary – note 7	(1,005)	-
Closing balance	37,739	37,161

The Company has a stock option plan which provides for the issuance of options to the Company's current and past directors, officers, employees and consultants to acquire common shares. The options have vesting schedules that either vest immediately or over a two-year period and expire between 4 - 5 years from the date of grant.

c) Stock options

	Number of options	Weighted average exercise price (CAD)
Balance, December 31, 2011	16,908,334	$0.98
Granted	450,000	$2.00
Cancelled	(5,750,000)	$0.55
Forfeited	(250,000)	$0.75
Exercised	(70,000)	$0.75
Balance, December 31, 2012	11,288,334	$1.24
Granted	1,811,000	$1.00
Cancelled	(33,333)	$2.00
Forfeited	(66,667)	$2.00
Balance, December 31, 2013	12,999,334	$1.20

During the year ended December 31, 2012, the Company cancelled or were forfeited 6.0 million stock options. 3.3 million were returned to the Company as result of the agreement described in note 16 i), and remaining 2.7 million were cancelled or were forfeited due to termination of employment or consulting arrangements.

During 2013, the Company recorded $1,618,000 (2012 –$3,756,000) as share-based compensation on the consolidated statement of comprehensive income related to the outstanding stock options.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	December 31, 2013	December 31, 2012
Risk-free interest rate (%)	1.8%	1.5%
Expected life (years)	5	5
Expected volatility (%)	70%	70%
Expected dividends	-	-

The weighted average fair value of at the grant date for the year ended December 31, 2013 was CAD $0.59 per option (2012 CAD $1.71).

Stock options outstanding and the weighted average remaining life of the stock options at December 31, 2013 are as follows:

	Options outstanding			**Options Vested**
	Number of options	Weighted average remaining life (years)	Weighted average exercise price (CAD)	Number of options
$0.25	750,000	2.23	$0.25	750,000
$0.75	3,663,334	2.57	$0.75	3,663,334
$1.00	1,811,000	4.54	$1.00	603,664
$1.50 - $2.00	6,775,000	2.98	$1.60	6,658,332
	12,999,334	3.04	$1.20	11,675,330

d) Deferred Share Unit Plan

On May 27, 2013, the Company established the Deferred Share Unit Plan to provide a compensation system for the members of the Board of Directors and senior executives which is designed to replace some cash compensation and to reward significant performance achievements and align with shareholder interests. Each DSU granted permits the holder to receive a cash payment equal to the volume of DSU's multiplied by the fair market value share price which shall be determined by the Corporate Governance Committee of the Board. DSU's vest immediately upon grant but are not exercisable until resignation or termination from the Board of Directors or employment.

As at December 31, 2013, there were 462,000 DSU's outstanding, with a mark-to-market liability of $326,000, based on the price of common shares which were issued as part of the financing completed in October 2013. The mark-to-market liability is included in trade and other payables (see note 12). The expense related to the DSU's is recognized in share-based compensation on the consolidated statement of comprehensive income.

e) Warrants

	Number of warrants	**Weighted average exercise price (CAD)**
Balance, December 31, 2011	3,515,549	$0.91
Granted on issuance of additional shares – note 18 a) (ii)	79,688	$1.50
Granted	146,900	$2.00
Balance, December 31, 2012	3,742,137	$0.97
Warrants issued on financing – (note 16 a)		
Granted to brokers	284,000	$1.50
Granted to shareholders	10,848,333	$1.50
Exercised	(492,000)	$0.25
Expired	(2,933,937)	$0.98
Balance, December 31, 2013	11,448,533	$1.51

During the year ended December 31, 2013, the Company recorded $52,000 (2012 - $100,000) as share issue costs which are shown as a net adjustment to share capital on the consolidated balance sheet.

Warrants outstanding and the weighted average remaining life of the broker warrants at December 31, 2013 are as follows:

	Warrants outstanding		
	Number of warrants	Weighted average remaining life (years)	Weighted average exercise price (CAD)
$1.50	11,132,333	0.89	$1.50
$2.00	316,200	0.37	$2.00
	11,448,533	0.88	$1.51

On May 27, 2013, the Board of Directors approved the extension of the warrants originally expiring between July 1, 2013 and October 30, 2013 to November 30, 2013. On November 30, 2013, none of these warrants were exercised and as such they were expired and cancelled.

During the period ended March 31, 2014 (see note 21 a), the Company issued additional 5,425,386 warrants with a term of 18 months and an exercise price of $1.00. As part of this financing, the board approved the re-pricing of 10.8 million warrants previously issued as part of the March and October 2013 financings to $1.00.

The fair value of each warrant granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2013	2012
Risk-free interest rate (%)	1.1%	1.0%
Expected life (years)	1.5	2
Expected volatility (%)	65%	65%
Expected dividends	-	-

The weighted average fair value at the grant date for the year ended December 31, 2013 was CAD $0.20 per warrant (December 31, 2012 - $0.34). Warrants are recorded as share issue expense based on the estimated fair value at the grant date.

f) Reserve for repurchase of shares

The Company has created a reserve for a potential share repurchase based on the terms negotiated as part of South Donbass and Kruto agreement. According to this agreement, 500,000 shares were issued to an unrelated third party during the fourth quarter of 2012. After holding these shares for two years, this unrelated party has the right to sell these shares back to the Company at the prevailing market price.

g) Loss per share

The following table shows the calculation of basic and diluted loss per share for the year ended:

	December 31, 2013	December 31, 2012
Loss for the period	(33,709)	(13,363)
Weighted average number of common shares	67,675	63,958
Basic and diluted loss per share	(0.50)	(0.21)

As at December 31, 2013, the weighted average number of common shares does not include potentially dilutive instruments of 12,999,334 stock options and 11,448,533 warrants.

17 Capital Management

As at December 31, 2013, the Company's net working capital deficit was ($0.4) million (December 31, 2012 – net working capital of $2.6 million).

As at December 31, 2013, the Company's cash position was $1.2 million which will not be sufficient to fund the exploration and development program over the next twelve months (see note 2). The Company will continue to adjust the scope of its operations and anticipated expenditures to match the capital available.

Subsequent to December 31, 2013, the Company completed two private financings for CAD $9.1 million (see note 21 a). Iskander has the ability to adjust its capital structure and intends to continue raising funds through equity financing, divestment or farm-out arrangements to fund the exploration and development program and there are no guarantees that additional equity or farm-out arrangements will be available when needed.

The Company has no bank debt and considers its capital structure at this time to include shareholders equity.

18 Financial Instruments and Risk Management

The Company has exposure to credit, liquidity and foreign currency risk from its use of financial instruments and investment in foreign operations. This note represents information about the Company's exposure to these risks, the Company's objectives, policies and processes for measuring and managing risk.

The Board of Directors has overall responsibility for identifying the principal risks of the Company and ensuring the policies and procedures are in place to appropriately manage these risks. Iskander's management identifies, analyzes and monitors risks and considers the implication of the market condition in relation to the Company's activities.

a) Fair value of financial instruments:

Financial instruments comprise cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities and long term loans.

There are three levels of fair value by which a financial instrument can be classified:

Level 1 - Quoted prices in active markets for identical assets and liabilities such as traded securities on a registered exchange where there are a sufficient frequency and volume of transactions to provide ongoing pricing information.

Level 2 - Inputs other than quoted prices that are observable for the asset and liability either directly and indirectly such as quoted forward prices for commodities, time value and volatility factors which can be substantially observed or corroborated in the marketplace; and

Level 3 - Inputs that are not based on observable market data.

The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to their short term maturities. The Company's long term liabilities comprise of carried interest liabilities recognized under corporate acquisition agreements during the years 2011 and 2012 and provision for shares purchase. Carried interest liabilities and provision for share purchase have been recognized at their present values using a 15% discount and accordingly the fair market value approximates the present value.

The following table summarizes Iskander's financial instruments as at December 31, 2013 and December 31, 2012:

	Fair value through profit & loss	Fair value through OCI	Loans and receivables	Financial liabilities	Total carrying value
As at December 31, 2013					
Assets					
Cash and cash equivalents	-	-	1,178	-	1,178
Accounts receivable	-	-	237	-	237
	-	-	1,415	-	1,415
Liabilities					
Trade and other liabilities	-	-	-	1,579	1,579
Carried interest liabilities	-	-	-	240	240
Long term loans & other liabilities	-	-	-	3,375	3,375
	-	-	-	5,194	5,194

	Fair value through profit & loss	Fair value through OCI	Loans and receivables	Financial liabilities	Total carrying value
As at December 31, 2012					
Assets					
Cash and cash equivalents	-	-	5,329	-	5,329
Accounts receivable	-	-	404	-	404
	-	-	5,733	-	5,733
Liabilities					
Trade and other payables	-	-	-	1,499	1,499
Carried interest liabilities	-	-	-	2,479	2,479
Long term loans & other liabilities	-	-	-	6,231	6,231
	-	-	-	10,209	10,209

b) Credit risk

Credit risk is the risk of loss associated with the inability of a third party to fulfill its payment obligations. The Company is exposed to the risk that third parties that owe it money do not meet their obligations. The Company assesses the financial strength of its joint venture partners and marketing counterparties in its management of credit exposure.

From time to time the Company may hold cash in accounts located in Cyprus, Ukraine, Poland and Bulgaria, and funds these accounts as required to meet payment obligations. The cash balance of all foreign subsidiaries was $211,000 at December 31, 2013. In addition, the Company held $283,000 of cash in Bulgaria through its investment in RSG which is accounted for as an equity investment and therefore not included in the cash and cash equivalents of the Company.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due.

The Company was formed in 2010 and has not established cash flows from active operations. The Company is considering an operating and capital budget for the next fiscal year with which it manages spending on various initiatives, including the hiring of staff, exploratory and development drilling and the payment of exploration, professional and other costs. This excludes the potential impact of circumstances that cannot be predicted.

Until the Company establishes cash flows from operating activities, it is dependent on its ability to periodically raise funds from the issuance of new equity or debt financing (see note 2) or from the sale of assets. Due to the nature of financial capital markets, funds may not be available when desired or required by the Company, which would severely impact the liquidity available to the Company.

Following table shows the maturities of the financial liabilities mainly associated with capital program commitments by year:

Maturities	Financial Liabilities
2014	1,819
2015	3,375
	5,194

d) Foreign currency risk

The Company is exposed to foreign currency risk as various portions of its cash balances are held in Canadian dollars (CAD), Ukraine Hryvnia (UAH), Polish Zloty (PLN) and Bulgarian Lev (BGN) while its committed capital expenditures are expected to be primarily denominated in US dollars. The Company has not entered into any foreign currency hedges or swaps.

As at December 31, 2013, the Company's components of working capital, shown in US dollar equivalents, were denominated in the following currencies:

	CAD	USD	EUR	PLN	UAH	Total (USD)
Cash and cash equivalents	103	1,031	-	37	7	1,178
Accounts receivables	64	128	-	20	25	237
Total current assets	167	1,159	-	57	32	1,415
Trade and other payables	629	436	36	17	461	1,579
Carried interest liabilities	-	223	-	-	-	223
Total current liabilities	629	659	36	17	461	1,802
Net working capital	(462)	500	(36)	40	(429)	(387)

The table below summarizes the sensitivities of the Company's net income to changes in the fair value of financial instruments only and do not represent the impact of a change in the variable on the operating results for the Company taken as a whole.

The following depicts the impact on net loss for the period had the exchange rate changed by 1 cent:

	Impact on net loss
CAD/USD	5
EUR/USD	-
PLN/USD	(1)
UAH/USD	36
	40

19 Income Tax

The Canadian corporate income tax rate for 2013 was 25.0 percent. The following is a reconciliation of income taxes calculated at the Canadian corporate tax rate to the tax expense for 2013 and 2012:

For the year ended December 31,	**2013**	**2012**
Income (loss) before tax	(28,587)	(9,679)
Income (loss) before tax multiplied by the standard rate of Canadian corporate tax of 25.0% (2012 – 25.0%)	(7,147)	(2,420)
Effects of:		
Income taxes recorded at rates different from the Canadian tax rate	2,427	84
Share based compensation	466	964
Deferred tax assets not recognized and other	4,254	1,372
Total tax expense	-	-

Management has estimated that the deductible temporary differences for which no deferred tax assets have been recognized were as follows::

For the year ended December 31,	**2013**	**2012**
PP&E and E&E assets	6,200	847
Cumulative eligible capital	158	310
Share issuance costs	2,603	3,377
Non-capital losses carried forward and other	18,948	14,974
	27,909	19,508

The Company has losses available to reduce future taxable income, as well as other cumulative tax deductions in excess of book value in Canada, Ukraine, Poland, Bulgaria and Georgia. The tax benefit associated with these pools have not been recognized in the financial statements since the recoverability of the tax benefit in each jurisdiction is not probable, and losses and deductible temporary differences from certain jurisdictions may be subject to change.. Losses can be carried forward for a period of five years in Poland, Bulgaria and Georgia and indefinitely in Ukraine, while in Canada they expire in 20 years. The Company had $17.6 million of non-capital losses in Canada of which $9.0 million will expire in 2031 with $8.6 million expiring between 2032 - 2033. The remaining non-capital losses $1.3 million were incurred in Ukraine. Amounts denominated in foreign currency have been translated at the December 31, 2013 exchange rate..

20 Segmented information

The Company has foreign subsidiaries and the following segmented information is provided:

As at and for the year ended December 31, 2013

	Canada	Georgia	Ukraine	Bulgaria	Total
Revenue	-	-	-	-	-
Salaries and wages	1,196	-	670	-	1,866
Consulting fees	1	-	274	-	275
Travel expenses	186	-	59	-	245
Professional and legal fees	262	57	30	25	374
Miscellaneous	544	3	219	6	772
Administrative expenses	2,189	60	1,252	31	3,532
Share-based compensation	1,923	-	-	-	1,923
Pre-license expenses	-	162	-	-	162
Loss on investment	-	-	7,004	8,026	15,030
Foreign exchange (gain)/losses	(1,848)	(5)	(17)	(341)	(2,211)
Share of (gain)/loss from equity investment	-	-	(30)	1,030	1,000
Finance income	(47)	-	-	-	(47)
Depreciation and asset impairment	1,714	-	7,484	-	9,198
Net income (loss)	(3,931)	(217)	(15,693)	(8,746)	(28,587)
Non-current assets	54	4,169	342	-	4,565
Total assets (1)	1,100	4,170	642	11	5,923

(1) Total assets exclude the assets allocated to discontinued operations in Poland (see note 7).

As at and for the year ended December 31, 2012

	Canada	Ukraine	Bulgaria	Total
Revenue	-	-	-	-
Salaries and wages	1,555	846	-	2,401
Consulting fees	49	324	-	373
Travel expenses	464	123	2	589
Professional and legal fees	740	225	141	1,106
Miscellaneous	614	321	3	938
Administrative expenses	3,422	1,839	146	5,407
Share-based compensation	3,857	-	-	3,857
Pre-license expenses	245	-	-	245
Loss on investment	223	-	-	223
Foreign exchange (gain)/losses	7	(85)	22	(56)
Share of loss from equity investment	-	3	66	69
Finance income	(78)	-	-	(78)
Finance expense and other	10	2	-	12
Net income (loss)	(7,686)	(1,759)	(234)	(9,679)
Non-current assets	94	11,507	12,809	24,410
Total assets (1)	5,638	11,648	12,857	30,143

21 Subsequent Events

a) Share issuance

In March 2014, $4.1 million was raised, issuing 5.4 million common shares at a price per unit of $0.75, which included one common share and one warrant with an exercise price of $1. The subscription agreements included the right to have the number of shares issued to the subscriber adjusted if a subsequent financing was completed at a lower price, during the following 12 month period and an additional 10% penalty if the Company had not completed a transaction which resulted in the shares becoming publicly traded within a 12 month period.

During September and October 2014 a modified auction process was completed which resulted in the establishment of a price per share of $0.01. The significantly lower price was primarily a reflection of the challenging geopolitical events occurring in Eastern Europe. A series of financings and exercise of warrants was conducted for a total of totaling CAD $5 million and in and the issuance of approximately 400 million shares. As at December 1, 2014 $4.5 million of the financing was completed with the remaining $500,000 committed, awaiting a final closing to be completed by December 5, 2014.

Due to the down-round pricing protection and liquidity penalties included in certain 2013 financings and March 2014 financings, subscribers in those financings were issued 423.0 million shares which included the adjustment to the lower price and liquidity penalties associated with the October 2013 financing.

In October 2014, the Company entered into a memorandum of understanding with a third party to assist in the process of introducing and negotiating a potential transaction with a publicly listed entity. As a result of this transaction, the Company issued 76.6 million common shares.

As at December 1, 2014 the Company has approximately 926 million shares outstanding.

b) Developments in the economic and operating environment in Ukraine

During the month of November 2013, the Ukrainian government made a decision not to sign the association agreement with the European Union, which resulted in a significant deterioration of the economic and political environment subsequent to December 31, 2013. The political system experienced instability, resulting in violent demonstrations against the government which then led to parliament voting in favor for resignation of the president, change of the government, and return to 2004 Constitution. As result of March 2014 Referendum which was held in Crimea, Crimea's regional parliament declared its independence and joined the Russian Federation.

Due to the political and economic instability, the foreign currency reserves of the National Bank of Ukraine reached the historic low and it resulted in devaluation of Ukrainian Hryvnia against other foreign currencies. In order to protect the country from further depletion of foreign currency reserves, the Ukrainian Government has introduced temporary restrictions on foreign currency transactions.

The final resolution and the effects of the political and economic crisis are difficult to predict but they may have further severe effects on the Ukrainian economy and the Company's business.

c) Divestiture of Polish Assets

On July 28, 2014, the Company closed a transaction to divest of all its assets in Poland in exchange for $1 million. The transaction included three payments of which $760,000 has been received to date in accordance with the terms and the remaining $240,000 due by the end of December 2014. The final payment has contingencies related to the amount which could decrease if the approved 2014 budget exceeded an agreed to amount. It is not expected that the final payment will be adjusted based on the budget approved.

22 Commitments

The Company's commitments represent work commitments in Ukraine and Georgia.

a) Ukraine

In Ukraine, the commitments are associated with licenses in Krasno and Kruto area.

In Krasno, the obligation is to drill and complete 5 wells, conduct geological studies and determine production characteristics for coal beds and sandstone by 2015 with an estimated cost of $3.0 million per well. The Company plans to submit a modified work program in 2014 to extend the license.

The Company's work commitments in Kruto area associated with seismic studies of $0.2 million and drilling of one well estimated at $2.0 million with additional 5 wells subject to successful results of the first well which would then result in total estimated commitments of $12 million by 2015. The Company plans to submit a modified work program in early 2015. The application of the license will depend on the geopolitical situation in Ukraine at that time. .

b) Georgia

In Georgia, the Company has a commitment to participate in the drilling and fracing of three production wells by the end of 2014. Subsequent to December 31. 2013, the Company completed drilling and fracing two of the three wells for a total of $6.5 million. The costs associated with drilling and completion of the third well are estimated at $3.8 million.

23 Related Party Transactions

a) Significant Subsidiaries

The consolidated financial statements include the financial statements of Iskander Energy Corp. at December 31, 2013. The following is a list of significant subsidiaries of the Company:

Significant Subsidiary	Country of Incorporation	Principal Activity	Ownership Interest
IEC Iskander Cyprus Limited	Cyprus	Holding Company	100%
IEC Ukraine Limited	Ukraine	Operating Company	100%
IEC Ukraine II Limited	Ukraine	Operating Company	100%
Ybaca Investments Limited	Cyprus	Holding Company	100%
Tzilkaf Investments Limited	Cyprus	Holding Company	100%
Iskander Energy (Georgia) Limited	Cyprus	Operating Company	100%
Eurogas Polska Sp. Z.o.o.	Poland	Operating Company	100%

Transactions between subsidiaries are eliminated upon consolidation**.**

b) Compensation of Key Management Personnel

The compensation paid to key management and any related parties or parties which likely meet the definition of a related party under IFRS. Key management personnel are comprised of the Company's directors and four executive officers. As at December 31, 2013, there is a $1.4 million commitment relating to change of control of which requires both a change of control and a material change in responsibilities of those executive officers. In the event of termination there is a $1.6 million commitment associated with key management personnel contracts.

The following amounts represent expense that was recognized during the year to key management personnel:

For the year ended December 31,	2013	2012
Cash-based transactions	1,190	2,144
Share-based transactions	1,890	3,946
	3,080	6,090

Cash-based transactions are related to salaries, consulting payments, severance payments and success fees paid on corporate acquisitions. Share-based transactions relate to the granting and vesting of stock options and deferred share units.

The following table discloses the payments to key management personnel in respect to financing activities:

For the year ended December 31,	2013	2012
Cash-based transactions	-	128
Share-based transactions	-	51
	-	179

In 2012, the Company raised equity via subscription agreements which resulted in cash based and share-based compensation to finders' which included related parties. Fair value of transactions has been recorded as share issue costs.