Condensed Interim Consolidated Financial Statements

June 30, 2013

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim condensed consolidated financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim condensed consolidated financial statements by an entity's auditor.

Date: August 13, 2013

"Bradley Giblin"

Chief Financial Officer

ISKANDER ENERGY CORP.

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

Unaudited (thousands of United States dollars)

	Note	June 30, 2013	December 31, 2012
ASSETS			
Current assets			
Cash and cash equivalents		6,164	5,329
Accounts receivable and others		96	404
Assets held for sale	4	4,451	3,776
		10,711	9,509
Non-current assets			
Exploration and evaluation assets	5	3,619	2,913
Property, plant and equipment	6	130	1,891
Investment in joint ventures	7	13,269	19,606
		17,018	24,410
Total assets		27,729	33,919
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other payables	8, 11 (d)	1,237	1,499
Carried interest liabilities	9	857	2,479
		2,094	3,978
Non-current liabilities			
Long term loans & other liabilities	10	6,211	6,231
		6,211	6,231
Shareholders' equity			
Share capital	11 (a)	50,035	44,966
Contributed surplus	11 (b)	36,792	37,161
Warrants	11 (e)	2,730	1,285
Reserve for repurchase of shares	11 (f)	(380)	(380)
Accumulated other comprehensive income		(2,039)	64
Deficit		(67,714)	(58,381)
Equity attributable to Iskander shareholders		19,424	24,715
Non-controlling interest		-	(1,005)
Total equity		19,424	23,710
Total liabilities and shareholders' equity		27,729	33,919

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

Going concern	2
Commitments	16
Subsequent events	15

ISKANDER ENERGY CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Unaudited (thousands of United States dollars)

		Three months ended June 30		Six months ended June 30	
	Notes	**2013**	**2012**	**2013**	**2012**
Revenue					
Other income		12	22	23	91
Total revenue and other income		12	22	23	91
Administrative expenses	14	911	879	1,906	2,365
Share-based compensation	11 (c), (d)	775	108	1,087	445
Pre-license expense		89	-	146	-
Foreign exchange loss (gain)		(1,019)	(484)	(1,411)	(459)
Loss on investment	7	-	-	6,196	-
Asset impairment	4 (ii)	1,012	-	1,012	-
Finance expense and other		7	2	14	4
Share of loss from joint venture		48	64	113	63
Total expenses		1,823	569	9,063	2,418
Loss before tax		(1,811)	(547)	(9,040)	(2,327)
Net loss for the period		(1,811)	(547)	(9,040)	(2,327)
Items that may be reclassified subsequently to net income					
Foreign currency translation gain/(loss) of foreign operations		105	(1,294)	(528)	(1,294)
Items that will not be reclassified to net income					
Foreign currency translation gain/(loss) of parent company		(1,123)	-	(1,575)	-
Other comprehensive loss		(1,018)	(1,294)	(2,103)	(1,294)
Comprehensive loss from continuing operations		(2,829)	(1,841)	(11,143)	(3,621)
Comprehensive loss from discontinued operations		(213)	-	(293)	-
Comprehensive loss for the period		(3,042)	(1,841)	(11,436)	(3,621)
Loss attributable to non-controlling interest from discontinued operations		-	(179)	-	(118)
Loss and comprehensive loss attributable to Iskander shareholders		(3,042)	(2,020)	(11,436)	(3,739)
Basic and diluted loss per share		$ (0.05)	$ (0.04)	$ (0.18)	$ (0.06)

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

ISKANDER ENERGY CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EQUITY

For six months ended June 30, 2013 and June 30, 2012

Unaudited (thousands of United States dollars)

	2013	**2012**
Share Capital		
Balance, beginning of year	44,966	66,335
Shares issued net of issuance cost	4,905	3,445
Shares cancelled	-	(26,666)
Exercise of options and warrants	164	-
Repurchase of shares	-	(212)
Balance at June 30,	50,035	42,902
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)	-
Acquisition of additional interest in Poland subsidiary	(1,005)	-
Share-based compensation	671	345
Balance at June 30,	36,792	33,781
Broker Warrants		
Balance, beginning of year	1,285	1,185
Warrants issued	1,351	76
Warrants extension	138	-
Warrants exercised	(44)	-
Balance at June 30,	2,730	1,261
Reserve for Repurchase of Shares		
Balance, beginning of year	(380)	-
Balance at June 30,	(380)	-
Accumulated Other Comprehensive Income		
Balance, beginning of year	64	-
Foreign currency translation adjustment on foreign operations	(2,103)	(1,294)
Balance at June 30,	(2,039)	(1,294)
Deficit		
Balance, beginning of year	(58,381)	(44,916)
Net (loss) for the period	(9,333)	(2,327)
Repurchase of shares	-	(38)
Loss (gain) attributable to non-controlling interest	-	(118)
Balance at June 30,	(67,714)	(47,399)
Equity attributable to Iskander Energy Corp. shareholders	19,424	29,251
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	-	118
Balance at June 30,	-	1,131
Total Equity	19,424	30,382

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

ISKANDER ENERGY CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For three and six months ended June 30, 2013 and June 30, 2012

Unaudited (thousands of United States dollars)

	Three months ended June 30		Six months ended June 30	
	2013	**2012**	**2013**	**2012**
CASH FLOW FROM OPERATING ACTIVITIES				
Loss from continuing operations for the period	(1,811)	(547)	(9,040)	(2,327)
Adjustments for:				
Share of loss from joint venture	48	64	113	63
Loss on investment	-	-	6,196	-
Asset impairment	1,012	-	1,012	-
Share-based compensation	775	108	1,087	445
Depreciation and accretion	7	2	14	4
Unrealized foreign exchange (gain)/loss	(1,015)	(494)	(1,437)	(469)
Loss adjusted for non-cash items	(984)	(867)	(2,055)	(2,284)
(Increase)/Decrease in accounts receivables	125	2,025	308	(133)
(Decrease)/Increase in trade and other payables	(337)	1,158	(713)	317
Net cash from continuing operating activities	(1,196)	2,316	(2,460)	(2,100)
Net cash from discontinued operating activities	(44)	-	(82)	-
Net cash from operating activities	(1,240)	2,316	(2,542)	(2,100)
CASH FLOW FROM INVESTING ACTIVITIES				
Investment in joint ventures	(117)	(305)	(1,773)	(384)
Capital expenditures	(803)	(1,886)	(1,020)	(2,633)
Issuance of promissory notes	-	(53)	-	(681)
Short term investments	-	118	-	34
Net cash used in continuing investing activities	(920)	(2,126)	(2,793)	(3,664)
Net cash used in discontinued investing activities	(171)	-	(215)	-
Net cash used in investing activities	(1,091)	(2,126)	(3,008)	(3,664)
CASH FLOW FROM FINANCING ACTIVITIES				
Issuance of shares and units	-	1,627	6,966	3,631
Shareholder's contribution	-	-	-	2,005
Repurchase of shares	-	(250)	-	(250)
Repurchase of stock options	-	(31)	-	(31)
Warrants exercised	-	-	120	-
Share issue expense	-	(68)	(571)	(210)
Long term loans & other liabilities	-	(201)	-	502
Net cash used in continuing financing activities	-	1,077	6,515	5,647
Net cash used in discontinued financing activities	-	-	-	-
Net cash used in financing activities	-	1,077	6,515	5,647
Effect of exchange rate on cash and cash equivalents	(83)	(23)	(130)	(48)
Increase (decrease) in cash and cash equivalents	(2,414)	1,244	835	(165)
Cash and cash equivalents at beginning of period	8,578	6,071	5,329	7,480
Cash and cash equivalents at June 30,	6,164	7,315	6,164	7,315

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

1 Corporate Information

The condensed interim consolidated financial statements of Iskander Energy Corp. ("Iskander" or the "Company") for the three and six month periods ended June 30, 2013 and 2012 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, Bulgaria and Poland). As at June 30, 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 condensed interim 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, 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 June 30, 2013, the Company's cash position was $6.2 million which may not be sufficient to fund the exploration and development program over the next twelve months (see note 16). There are also significant exploration and development commitments in 2014 and 2015. In absence of additional funding, 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.

In March 2013, the Company completed private financing of CAD $7.1 million (see note 11). The Company will determine the optimal capital expenditures for the next 12 months. The Company 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 will continue to adjust the scope of its operations and anticipated expenditures in light of its working capital position. 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 condensed interim consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expense and the balance sheet classifications used, 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 condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting of International Financial Reporting Standards ("IFRS").

On August 13, 2013 the Board of Directors approved the condensed interim consolidated financial statements.

b) Accounting policies and disclosures

In preparing these condensed interim consolidated financial statements, the management has applied the same accounting policies and estimates as outlined in the Company's consolidated financial statements for the year ended December 31, 2012, except as discussed in note 3 c). Certain information and disclosures normally included in the notes to the consolidated annual financial statements have been condensed or have been disclosed on an annual basis only. The condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2012, which have been prepared in accordance with IFRS as issued by the IASB.

c) 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 condensed interim consolidated financial statements for the three and six month period ended June 30, 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.

4 Assets Held for Sale and Discontinued Operations

(i) Assets in Poland

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. The current carrying value represents management's best estimate of the proceeds that would be received upon a sale to a willing third party. Fair value was determined based on an analysis of comparable data acquired from the surrounding region of recent transactions along with management estimates regarding the likelihood of similar such transactions being realized given the recent decrease in International investments in Poland.

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 11 b).

As at June 30, 2013 Assets held for sale included $1.1 million of VAT receivable which relates to recoverable amounts in Poland expected to be received in 2013.

(ii) Drilling rigs

Subsequent to June 30, 2013, the Company completed the sale of its two drilling rigs for net proceeds of $675,000. As such, drilling rigs were adjusted to its net realizable value and impairment loss of $1,012,000 was recorded in the consolidated statements of the comprehensive income for the six months period ended June 30, 2013.

5 Exploration and Evaluation Assets

Balance, December 31, 2011	7,706
Additions	840
Joint interest acquisition – South Donbass license	1,463
Joint interest acquisition – Kruto license	1,475
Assets transferred to Assets held for sale – note 4 (i)	(8,541)
Cumulative translation adjustment	(30)
Balance, December 31, 2012	2,913
Additions – South Donbass and Kruto license	368
Additions – equipment	345
Additions - other	86
Cumulative translation adjustment	(93)
Balance, June 30, 2013	3,619

6 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	-	40	40
Assets held for sale – note 4 (ii)	(1,687)	-	(1,687)
Cumulative translation adjustment	(95)	(6)	(101)
Balance, June 30, 2013	-	155	155
Accumulated Depreciation			
Balance, December 31, 2011	-	-	-
Depreciation expense	-	12	12
Balance, December 31, 2012	-	12	12
Depreciation expense	-	14	14
Cumulative translation adjustment	-	(1)	(1)
Balance, June 30, 2013	-	25	25
Net Book Value			
Balance, December 31, 2011	1,672	6	1,678
Balance, December 31, 2012	1,782	109	1,891
Balance, June 30, 2013	-	130	130

For the six months ended June 30, 2013, the Company determined that drilling rigs exceeded their recoverable amounts. The Company recorded a corresponding impairment loss on these assets totaling $1.0 million (see note 4 (ii)).

7 Investment in Joint Ventures

	June 30, 2013	December 31, 2012
RSG (Bulgaria) (i)	12,062	12,118
Non-current loan to RSG Bulgaria	866	788
Karbona Energo LLC (Ukraine) (ii)	701	6,846
Cumulative translation adjustment	(360)	(146)
	13,269	19,606

(i) Investment in RSG (Bulgaria)

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 discussion with government officials and public announcements, the Company currently expects that the moratorium is temporary in nature and that there is a reasonable likelihood of the ban being removed. The Company continues to discuss the implications of the fracking moratorium on the work commitments associated with its licenses but have not been able to obtain modification of its work commitments as at August 13, 2013.

As at June 30, 2013, the ban on fracking had not been removed or modified which was considered as an indicator of possible impairment. The investment in RSG was assessed for impairment as at December 31, 2012. During the six months period ended June 30, 2013, the impairment indicators remained the same as at December 31, 2012 when a detail impairment test was performed.

The Gradishte and Kilifarevo licenses have resource assessments in the form of independent NI 51-101 Resource Reports. The Corporation utilized internally estimated after-tax cash flows from preliminary economic assessments prepared in connection with the resource reports and developed a number of scenarios that considered the probability of the ban on fracking being removed, scenarios associated with low, best and high estimates of contingent resources, varying levels of capital investment and a range of discount rates.

Due to the ban on fracking, implemented in early 2012, there is a lack of market precedent transactions which limited the Corporation’s ability to obtain data for current license values.

The results of the assessment were that the Corporation’s Gradishte and Kilifarevo licenses, having an aggregate book value of $12.9 million were not impaired.

Key assumptions used to develop discounted after tax cash flows to consider the impairment of the Gradishte and Kilifarevo licenses included natural gas prices, ranges of possible prospective and contingent resources as per the Independent Resource Reports and discount rates. The Corporation used an after-tax discount rate of 20%. Natural gas prices in Bulgaria were based on publicly available information that identifies current prices of gas available for sale to industrial users in Bulgaria as approximately $12/mcf. It is assumed that prices would then remain constant over the anticipated life of the licenses.

The Corporation recalculated the after-tax discounted cash flows for the Gradishte and Kilifarevo licenses to test their sensitivity to a 10% decrease in average natural gas prices, a 5% increase in the pre-tax discount rate, and a range of assumptions on the removal of the ban on fracking. The individual movements would not result in an impairment charge based on the analysis completed at December 31, 2012.

In the event of a permanent moratorium on fracture stimulations or an unsuccessful approval of a modified work program, future oil and gas investment in Bulgaria would be limited and the carrying value of the Company’s investment would be reassessed for impairment at that time. Based on technical analysis completed to date, Management believes that hydrocarbons cannot be economically produced from the reservoirs without fracking technology and therefore a permanent or extended ban on fracking would likely result in a full impairment of its investment in Bulgaria. In addition, the terms of the investment contain a potential penalty of $3 million payable if the entire work program is not fulfilled.

(ii) Investment in Karbona Energo LLC (Ukraine)

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. The Company has renegotiated agreement for an extension of up to 1 year to its obligation to drill a second well in order to earn a 51% working interest in Karbona Energo, the holder of the Krasno license. The Company is currently revaluating its further options. Because of this uncertainty, the Company has recorded $6.2 million impairment of its investment together with

the carried interest liability associated with its obligation to drill second well (note 9 (i)). The remaining investment of $0.6 million relates to equipment which has a fair value equal to its carry value and will be utilized in the 2013 capital program.

8 Trade and Other Payables

	June 30, 2013	December 31, 2012
Trade payables	211	490
Accrued liabilities	1,026	1,009
	1,237	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 5) and $439,000 liability associated with issued and outstanding Deferred Share Units (see note 11d).

9 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.

	June 30, 2013	December 31, 2012
Current portion of carried interest liability in Karbona (i)	-	1,481
Current portion of carried interest liability in Bulgaria (ii)	857	998
	857	2,479

(i) Current portion of carried interest liability in Karbona

During the six months ended June 30, 2013, the Company has reduced its initial obligation for investment in Karbona to nil as result of new terms within the renegotiated agreement (note 7 (ii)).

(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
Settlement of liability	(141)
Balance, June, 2013	857

10 Long Term Loans and Other Liabilities

	June 30, 2013	December 31, 2012
Carried interest liability – note 9 (ii)	5,851	5,851
Long term provision for shares repurchase	360	380
	6,211	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 recognized at a net present value using a 15% discount rate and a share price of $1.00 which was based on the most recent share issuance (note 11 a, f).

11 Share Capital

a) Issued and outstanding common shares

	Number of shares	Amount
Balance, January 1, 2011 (i)	19,000,100	4,648
Issued for cash via subscription agreements (ii)	44,052,415	39,668
Issued for services and transactions (iii)	23,083,333	24,594
Issued for investment in joint venture	1,333,333	2,019
Issued for cash – exercise of options and warrants	176,666	76
Allocation of fair value – exercise of options and warrants	-	39
Share issuance costs	-	(4,709)
Balance, December 31, 2011	87,645,847	66,335
Issued for cash via subscription agreements (ii)	2,375,000	4,692
Issued for investment	500,000	1,003
Issued for consulting services (iv)	50,000	100
Issued for nil consideration	996,076	-
Issued for cash – exercise of options	70,000	53
Allocation of fair value – exercise of options	-	31
Cancelled shares (v)	(31,333,434)	(26,666)
Repurchased shares (vi)	(250,000)	(212)
Share issuance costs	-	(370)
Balance, December 31, 2012	60,053,489	44,966
Issued for cash via subscription agreements (ii)	7,100,000	5,666
Issued for cash – exercise of warrants	492,000	164
Share issuance costs	-	(761)
Other	2,625	-
Balance, June 30, 2013	67,648,114	50,035

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

(i) Founders shares

During 2010, the Company issued 19,000,100 founders shares with fair value of $0.25 per share (see note 11 a) (v)).

(ii) Issued for cash via subscription agreements

The following offerings of shares were completed via subscription agreements.

	Number of shares	Price per share (CAD)	Proceeds (USD)
March 2011	6,020,000	$0.25	1,537
April 2011	25,603,917	$0.75	18,286
August 2011[(1)]	9,960,998	$1.50	15,056
November 2011	2,467,500	$2.00	4,789
Balance, December 31, 2011	44,052,415		39,668
January – December 2012	2,375,000	$2.00	4,692

Balance, December 31, 2012	46,427,415		44,360
March 2013 [(2)]	7,100,000	$0.81	5,666
Balance, June 30, 2013	53,527,415		50,026

[(1)] Shares issued under subscription agreement in August 2011 included a provision for additional 10% common shares, if an Initial public offering was not completed by February 2012. As a result of the Company not completing an initial public offering, 996,076 common shares were issued during the first quarter of 2012 for no additional proceeds.

[(2)] 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 $1.50 for a period of 18 months following the closing date. 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.

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 $1.00 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.

(iii) Issued for services and transactions

The following offerings of shares were issued for services and as compensation for acquisitions:

	Number of shares	Transaction expense
Bulgaria assets	6,500,000	10,117
Ukraine assets	11,500,000	10,810
Consulting Services	5,083,333	3,667
Balance, December 31, 2011	23,083,333	24,594

During the year ended December 31, 2012, the terms of transactions and services were adjusted (see note 11 a) (v) – cancelled shares).

(iv) Share based compensation

During the year ended December 31, 2012, 50,000 common shares were issued for nil consideration as part of board and management change which was completed in December 2011. Shares were issued at fair value of CAD $2.00 per share and $100,000 was recorded as share based compensation on the statement of comprehensive income.

(v) 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.

(vi) 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.

b) Contributed surplus

	June 30, 2013	December 31, 2012
Opening balance	37,161	4,796
Share-based payment transactions	671	3,756
Cancelled shares	-	28,640
Forfeited options	(35)	-
Options exercised	-	(31)
Acquisition of additional interest in subsidiary – note 4 (i)	(1,005)	-
Closing balance	36,792	37,161

The Company has a stock option plan which provides for the issuance of options to the Company's 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	250,000	$1.00
Forfeited	(66,667)	$2.00
Balance, June 30, 2013	11,471,667	$1.23

For the three and six months ended June 30, 2013, the Company recorded $359,000 and $671,000, respectively (2012 –$108,000 and $345,000, respectively) as share-based compensation on the consolidated statement of comprehensive income related to the outstanding stock options.

Stock options outstanding and the weighted average remaining life of the stock options at June 30, 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	2.74	$0.25	750,000
$0.75	3,663,334	3.08	$0.75	3,663,334
$1.00	250,000	4.57	$1.00	83,333
$1.50 - $2.00	6,808,333	3.48	$1.61	4,575,001
	11,471,667	3.30	$1.23	9,071,668

d) Deferred Share Unit Plan

On May 27, 2013, the Company established the Deferred Share Unit ("DSU") Plan to provide a compensation system for the members of the Board of Directors and senior executives which is compatible with shareholder interests and designed to reward significant performance achievements. 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 June 30, 2013, there were 462,000 DSU's outstanding, with a mark-to-market liability of $439,000, which is included in trade and other payables (see note 8). 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 11 a) (i))	79,688	$1.50
Granted	146,900	$2.00
Balance, December 31, 2012	3,742,137	$0.97
Warrants issued on financing – (note 11 a) (i) [(2)])		
Granted to brokers	284,000	$1.50
Granted to shareholders	7,100,000	$1.50
Exercised	(492,000)	$0.25
Balance, June 30, 2013	10,634,137	$1.37

For the three and six months ended June 30, 2013, the Company recorded $190,000 and $138,000, respectively (2012 - $25,000 and $76,000, respectively) 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 June 30, 2013 are as follows:

	Warrants outstanding		
	Number of warrants	Weighted average remaining life (years)	Weighted average exercise price (CAD)
$0.75	2,048,269	0.42	$0.75
$1.50 - $2.00	8,585,868	1.11	$1.64
	10,634,137	0.98	$1.37

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.

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:

	June 30, 2013	June 30, 2012
Risk-free interest rate (%)	1.0%	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 six months ended June 30, 2013 was CAD $0.19 per warrant (June 30, 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:

	Three months ended		Six months ended	
	June 30, 2013	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**
Loss for the period	(3,042)	(2,020)	(11,436)	(3,739)
Weighted average number of common shares	67,647	58,375	64,515	68,563
Basic and diluted loss per share	(0.05)	(0.04)	(0.18)	(0.06)

As at June 30, 2013, the weighted average number of common shares does not include potentially dilutive instruments of 11,471,667 stock options and 10,634,137 warrants.

12 Capital Management

The Company's policy is to maintain a strong capital base in order to provide flexibility in the future development of the business and maintain the confidence of investors and capital markets.

The Company manages its capital to achieve the following:

- Maintain balance sheet strength in order to meet the Company's strategic growth objectives; and
- Ensure financial capacity is available to fund the Company's exploration commitments.

As at June 30, 2013, the Company's net working capital was $5.7 million (December 31, 2012 – $2.6 million), largely attributable to the equity offerings. The working capital of $5.7 million does not include $2.9 million associated with exploration and evaluation assets which are a part of assets held for sale, as these assets would become liquid only if sold. As at June 30, 2013, the Company's cash position was $6.2 million which was not 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.

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.

13 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 June 30, 2013 and December 31, 2012:

	Fair value through profit & loss	Fair value through OCI	Loans and receivables	Financial liabilities	Total carrying value
As at June 30, 2013					
Assets					
Cash and cash equivalents	-	-	6,164	-	6,164
Accounts receivable	-	-	96	-	96
	-	-	6,260	-	6,260
Liabilities					
Trade and other liabilities	-	-	-	1,237	1,237
Carried interest liabilities	-	-	-	857	857
Long term loans & other liabilities	-	-	-	6,211	6,211
	-	-	-	8,305	8,305

	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 $630,000 at June 30, 2013. In addition, the Company held $320,000 of cash in Bulgaria through its investment

in RSG and $32,000 in Ukraine through its investment in Karbona which is accounted for as an equity investment and therefore not included in the cash and cash equivalents of the Company. Bulbank is the largest in Bulgaria in terms of deposits and loans. Bulbank's credit rating is BBB given Bulgaria's high risk operating environment and narrow-based economy. The Company has exposure to the banking system in Cyprus through its subsidiaries. The Company does not hold funds in these accounts as these are utilized to fund operations via loans to its operating subsidiaries in Ukraine and Bulgaria.

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, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

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
2013	2,094
2014	5,170
2015	1,041
	8,305

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) 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 June 30, 2013, the Companies 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	2,077	4,040	2	-	45	6,164
Accounts receivables	54	8	-	-	34	96
Assets held for sale	-	3,602	-	849	-	4,451
Total current assets	2,131	7,650	2	849	79	10,711
Trade and other payables	783	400	31	-	23	1,237
Carried interest liabilities	-	857	-	-	-	857
Total current liabilities	783	1,257	31	-	23	2,094
Net working capital	1,348	6,393	(29)	849	56	8,617

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	(14)
EUR/USD	-
PLN/USD	(28)
UAH/USD	(5)
	(47)

14 Segmented information

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

As at and for the three months ended June 30, 2013

	Canada	***Ukraine***	***Bulgaria***	***Total***
Revenue	-	-	-	-
Salaries and wages	284	152	-	436
Consulting fees	60	101	-	161
Travel expenses	49	(2)	-	47
Professional and legal fees	105	(8)	4	101
Miscellaneous	113	51	2	166
Administrative expenses	611	294	6	911
Share-based compensation	775	-	-	775
Pre-license expenses	89	-	-	89
Loss on investment	-	-	-	-
Asset impairment	1,012	-	-	1,012
Foreign exchange (gain)/losses	(991)	(31)	3	(1,019)
Share of loss from joint venture	-	13	35	48
Finance income	(6)	-	(6)	(12)
Finance expense and other	6	1	-	7
Net income (loss)	(1,496)	(277)	(38)	(1,811)
Non-current assets	493	3,938	12,587	17,018
Total assets[(1)]	7,388	4,536	12,600	24,031

[(1)] Total assets exclude the assets allocated to discontinued operations in Poland (see note 4).

As at and for the three months ended June 30, 2012

	Canada	Poland	Ukraine	Bulgaria	Total
Revenue	-	-	-	-	-
Salaries and wages	311	-	134	-	445
Consulting fees	38	-	4	-	42
Travel expenses	88	-	3	-	91
Professional and legal fees	141	1	4	-	146
Miscellaneous	100	1	54	-	155
Administrative expenses	678	2	199	-	879
Share-based compensation	108	-	-	-	108
Foreign exchange (gain)/losses	86	(559)	(11)	-	(484)
Share of loss from equity investment	-	-	1	63	64
Finance income	(22)	-	-	-	(22)
Finance expense and other	-	1	1	-	2
Net income (loss)	(850)	556	(190)	(63)	(547)
Non-current assets	1,811	8,277	6,073	11,344	27,505
Total assets	19,199	9,276	6,132	11,371	45,978

As at and for the six months ended June 30, 2013

	Canada	*Ukraine*	*Bulgaria*	*Total*
Revenue	-	-	-	-
Salaries and wages	643	363	-	1,006
Consulting fees	60	191	-	251
Travel expenses	100	15	-	115
Professional and legal fees	189	5	18	212
Miscellaneous	211	106	5	322
Administrative expenses	1,203	680	23	1,906
Share-based compensation	1,087	-	-	1,087
Pre-license expenses	146	-	-	146
Loss on investment	-	6,196	-	6,196
Asset impairment	1,012	-	-	1,012
Foreign exchange (gain)/losses	(1,375)	(14)	(22)	(1,411)
Share of loss from joint venture	-	57	56	113
Finance income	(17)	-	(6)	(23)
Finance expense and other	11	3	-	14
Net income (loss)	(2,067)	(6,922)	(51)	(9,040)
Non-current assets	493	3,938	12,587	17,018
Total assets(1)	6,895	4,536	12,600	24,031

As at and for the six months ended June 30, 2012

	Canada	Poland	Ukraine	Bulgaria	Total
Revenue	-	-	-	-	-
Salaries and wages	845	-	383	-	1,228
Consulting fees	38	-	88	-	126
Travel expenses	184	-	3	-	187
Professional and legal fees	330	45	22	-	397
Miscellaneous	332	2	93	-	427
Administrative expenses	1,729	47	589	-	2,365
Share-based compensation	445	-	-	-	445
Foreign exchange (gain)/losses	(37)	(420)	(2)	-	(459)
Share of loss from equity investment	-	-	1	62	63
Finance income	(91)	-	-	-	(91)
Finance expense and other	-	3	1	-	4
Net income (loss)	(2,046)	370	(589)	(62)	(2,327)
Non-current assets	1,811	8,277	6,073	11,344	27,505
Total assets	19,199	9,276	6,132	11,371	45,978

15 Subsequent Events

a) Sale of drilling rigs

Subsequent to June 30, 2013, the Company sold its two drilling rigs. The carrying value of these assets exceeded the recoverable amount, and as such, the Company recorded $1.1 million impairment loss on these assets for the period ended June 30, 2013 (see note 4 (ii)).

b) Memorandum of understanding – assets in Georgia

During the six months period ended June 30, 2012, the Company has signed a farm-in transaction with a private company covering existing producing asset in Georgia. The transaction contemplates earning a 50% working interest in a producing 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 primarily be carried out during 2013. The closing of such transaction is expected in August upon receipt of the new PSA issued by the Georgian Ministry of Justice.

16 Commitments

The Company's commitments represent work commitments in Bulgaria, Poland, and Ukraine.

a) Bulgaria

In Bulgaria, the Company's exploration commitments are in respect the Gradishte and Kilifarevo blocks and are estimated to be as follows:

		Gradishte		Kilifarevo
2013	$	1,874	$	1,705
2014	$	16,072	$	9,338
2015	$	5,721	$	277
	$	23,667	$	11,320

b) Poland

In Poland, the Company has a commitment to participate in the drilling of an exploration well and acquire additional seismic data which is expected to be approved as part of the 4 year extension which will be applied for by the operator during 2013 as per the Bieszczady license terms. Based on the successful extension, the Company's work commitments are then estimated at $10.0 million by 2017.

c) Ukraine

In Ukraine, the commitments are associated with licenses in Krasno, South Donbass 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.

Under the terms of South Donbass license, the Company is committed to work over up to 3 wells, drill up to 6 new wells subject to successful results of work overs and initial 2 wells. The initial 2 wells and work-overs are estimated at $6.2 million with total costs to increase to $16.2 million if additional 4 wells are drilled.

The Company's work commitments in Kruto area associated with seismic studies of $0.2 million and drilling of one wells 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.