2012 Consolidated Financial Statements

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, 2012 and December 31, 2011 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.

PricewaterhouseCoopers LLP
111 5 Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825, www.pwc.com/ca

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

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, 2012 and December 31, 2011 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
Calgary, Alberta
April 9, 2013

ISKANDER ENERGY CORP.

CONSOLIDATED BALANCE SHEETS

(thousands of United States dollars)

	Note	December 31, 2012	December 31, 2011
ASSETS			
Current assets			
Cash and cash equivalents	6	5,329	7,480
Short term investments	7	-	6,777
Financial assets at fair value through profit and loss	8	-	2,056
Accounts receivable and others	9	404	1,545
Assets held for sale	10	3,776	-
		9,509	17,858
Non-current assets			
Exploration and evaluation assets	11	2,913	7,706
Property, plant and equipment	12	1,891	1,678
Investment in joint ventures	13	19,606	12,185
		24,410	21,569
Total assets		33,919	39,427
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other payables	14	1,499	1,997
Carried interest liabilities	15	2,479	351
		3,978	2,348
Non-current liabilities			
Long term loans & other liabilities	16	6,231	8,496
Decommissioning liabilities	17	-	170
		6,231	8,666
Shareholders' equity			
Share capital	18 (a)	44,966	66,335
Contributed surplus	18 (b)	37,161	4,796
Broker warrants	18 (c)	1,285	1,185
Reserve for repurchase of shares	18 (d)	(380)	-
Accumulated other comprehensive income		64	-
Deficit		(58,381)	(44,916)
Equity attributable to Iskander shareholders		24,715	27,400
Non-controlling interest		(1,005)	1,013
Total equity		23,710	28,413
Total liabilities and shareholders' equity		33,919	39,427

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

Going concern	2
Commitments	24
Subsequent events	23

Approved on behalf of the Board of Directors:

Kent Jespersen
Chairman of the Board

Michael Hibberd
Director

April 9, 2013

ISKANDER ENERGY CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(thousands of United States dollars)

		Year ended December 31	
	Notes	**2012**	**2011**
Revenue		-	-
Other income		78	178
Total revenue and other income		78	178
Administrative expenses	22	5,407	9,859
Share-based compensation	18 (a-iv), (b)	3,857	4,825
Transaction expense		-	21,717
Exploration expense		245	1,041
Foreign exchange loss (gain)		(56)	1,275
Loss on investment	8	223	1,700
Finance expense and other		12	56
Share of loss from joint venture		69	36
Total expenses		9,757	40,509
Loss before tax		(9,679)	(40,331)
Net loss		(9,679)	(40,331)
Foreign currency translation gain/(loss) of foreign operations		64	-
Other comprehensive loss		(64)	-
Comprehensive loss from continuing operations		(9,615)	(40,331)
Comprehensive loss from discontinued operations	10	(5,766)	-
Comprehensive loss		(15,381)	
Loss attributable to non-controlling interest from discontinued operations	10	2,018	64
Loss and comprehensive loss attributable to Iskander shareholders		(13,363)	(40,267)
Basic and diluted loss per share	18 (e)	$ (0.21)	$ (0.69)

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

ISKANDER ENERGY CORP.

CONSOLIDATED STATEMENTS OF EQUITY

For the year ended December 31, 2012 and December 31, 2011

(thousands of United States dollars)

	2012	2011
Share Capital		
Balance, beginning of year	66,335	4,648
Shares issued net of issuance cost	5,425	61,572
Shares cancelled	(26,666)	-
Repurchase of shares	(212)	-
Exercise of options and warrants	84	115
Balance, end of year	44,966	66,335
Contributed Surplus		
Balance, beginning of year	4,796	-
Shares cancelled	26,665	-
Shareholder’s contribution	2,005	-
Settlement of stock options	(30)	-
Share-based compensation	3,756	4,825
Stock options exercised	(31)	(29)
Balance, end of year	37,161	4,796
Broker Warrants		
Balance, beginning of year	1,185	-
Warrants issued	100	1,195
Warrants exercised	-	(10)
Balance, end of year	1,285	1,185
Reserve for Repurchase of Shares		
Balance, beginning of year	-	-
Additions to Reserves	(380)	-
Balance, end of year	(380)	-
Accumulated Other Comprehensive Income		
Balance, beginning of year	-	-
Foreign currency translation adjustment on foreign operations	64	-
Balance, end of year	64	-
Deficit		
Balance, beginning of year	(44,916)	(4,650)
Net (loss) for the year	(15,445)	(40,331)
Repurchase of shares	(38)	-
Loss attributable to non-controlling interest	2,018	64
Balance, end of year	(58,381)	(44,916)
Equity attributable to Iskander Energy Corp. shareholders	24,715	27,400
Non-controlling interest		
Balance, beginning of year	1,013	-
Corporate acquisition	-	1,077
(Loss)/Income attributable to non-controlling interest	(2,018)	(64)
Balance, end of year	(1,005)	1,013
Total Equity	23,710	28,413

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, 2012 and December 31, 2011
(thousands of United States dollars)

	Year ended December 31	
	2012	**2011**
CASH FLOW FROM OPERATING ACTIVITIES		
Loss from continuing operations for the year	(9,679)	(40,331)
Adjustments for:		
Share of loss from joint venture	69	36
Loss on investment	223	1,700
Share-based compensation	3,857	4,825
Depreciation and accretion	12	-
Non-cash transaction expense	-	24,594
Unrealized foreign exchange loss	52	1,125
Loss adjusted for non-cash items	(5,466)	(8,051)
(Increase)/Decrease in accounts receivables	280	(1,544)
(Decrease)/Increase in trade and other payables	908	1,996
Net cash from continuing operating activities	(4,278)	(7,599)
Net cash from discontinued operating activities	(110)	-
Net cash from operating activities	(4,388)	(7,599)
CASH FLOW FROM INVESTING ACTIVITIES		
Investment in joint ventures	(4,469)	(5,373)
Capital expenditures	(4,176)	(5,818)
Issuance of promissory notes	-	(3,756)
Short term investments	6,777	(6,777)
Net cash used in continuing investing activities	(1,868)	(21,724)
Net cash used in discontinued investing activities	(2,196)	-
Net cash used in investing activities	(4,064)	(21,724)
CASH FLOW FROM FINANCING ACTIVITIES		
Issuance of shares	4,692	39,743
Shareholder’s contribution	2,005	-
Options exercised	53	-
Share issue expense	(270)	(3,514)
Repurchase of shares	(250)	-
Settlement of stock options	(31)	-
Long term loans & other liabilities	-	1,699
Net cash used in continuing financing activities	6,199	37,928
Net cash used in discontinued financing activities	-	-
Net cash used in financing activities	6,199	37,928
Effect of exchange rate on cash and cash equivalents	102	(1,125)
Increase (decrease) in cash and cash equivalents	(2,151)	7,480
Cash and cash equivalents at beginning of year	7,480	-
Cash and cash equivalents at December 31	5,329	7,480

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

1 Corporate Information

The consolidated financial statements of Iskander Energy Corp. ("Iskander" or the "Company") for the year ended December 31, 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 December 31, 2012, 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.

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, 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, 2012, the Company's cash position was $5.4 million which was not sufficient to fund the exploration and development program over the next twelve months (see note 24). There are also significant exploration and development commitments in 2014 and 2015. 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 $7 million (see note 23 a). The Company's cash and additional $7 million financing in 2013 are expected to provide flexibility in determining 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 reported a loss of $13.4 million (2011 - $40.3 million) and cash outflow from operating activities of $4.4 million (2011 - $7.6 million) for the year ended December 31, 2012.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 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 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 April 9, 2013 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 notes 4 and 5.

c) Change in functional currency

During 2012, the functional currency of Company was changed from USD to Canadian dollars. The Company's presentation currency remains USD in order to facilitate a better comparison to other international oil and gas companies. The functional currency of the Company's Ukrainian subsidiaries and jointly controlled Bulgarian entity has been changed from USD to Ukrainian Hryvnia and Bulgarian Lev respectively. The change in functional currency has been adopted as the Company is of the opinion that changed functional currencies best reflect the primary economic environment in which the entities operate.

In accordance with IAS 21 this change has been applied prospectively from April 1, 2012. In preparing the Company's consolidated financial statements, the financial statements of each entity are translated directly into the presentation currency of the Company. The assets and liabilities of entities with functional currency other than the Company's presentation currency are translated into U.S. dollars at the period-end exchange rate. The income and expenses are translated using average foreign exchange rates for the period. Translation gains and losses are included in other comprehensive income.

d) 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 11).

(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 notes 8 and 10).

(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 18 b).

(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 21).

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

The consolidated financial statements include the accounts of Iskander and its subsidiaries. Inter-company balances and transactions are eliminated on consolidation.

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, 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 consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business. 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. Costs related to acquisitions are expensed as incurred.

Any excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired 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 the statement of comprehensive income. Goodwill is measured at cost less accumulated impairment losses.

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

The Company conducts certain of its activities through interests in jointly controlled assets and operations where it has a direct ownership interest in and jointly controls the assets and/or operations. The Company recognizes its proportionate share of the income, expenses, assets, and liabilities of these jointly controlled assets and/or operations in the consolidated financial statements.

The Company also has interests in entities where joint control exists. Joint control exists when the Company does not have the power, directly or indirectly, to solely govern the financial and operating policies of an entity. In assessing control, potential voting rights that currently are exercisable are taken into account. Interests in jointly controlled entities are accounted for using the equity method, whereby Iskander's share of net income (loss) is included in the statement of comprehensive income in a single line under "Share of loss from joint venture".

The Company determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Company calculates the amount of impairments as the difference between the recoverable amount of the joint venture and its carrying value and recognize the amount adjacent to "Share of loss from joint venture" in the income statement.

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 "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 to sell ("FVLCTS").

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. FVLCTS 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 18 b). 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.

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) New standards and interpretations not yet adopted

Unless otherwise noted, the following revised standards and amendments are effective for annual periods

beginning on or after January 1, 2013.

(i) IFRS 9, *Financial Instruments* addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through net income (loss) or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in net income (loss) to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through net income (loss) are generally recorded in other comprehensive income.

This standard is effective for annual periods on or after January 1, 2015, with earlier adoption permitted. The Company will not be early adopting this standard as it has not yet assessed the impact of this standard on the consolidated financial statements and condensed interim consolidated financial statements.

(ii) IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces *SIC-12, Consolidation—Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*. The Company is currently evaluating the impact of this standard but on its Consolidated Financial Statements to be material.

(iii) IFRS 11, *Joint Arrangements*, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non- monetary Contributions by Venturers. The Company is currently evaluating the impact of this standard but on its Consolidated Financial Statements to be material.

(iv) IFRS 12, Disclosures of Interests in Other Entities, sets out certain disclosures that are required relating to interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The impact on adoption requires the Company to provide more in-depth disclosure about its investments in its subsidiaries as well as interest in jointly controlled assets, although adoption of the standard will not affect Iskander's results for the period or equity.

(v) IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. The Company is currently evaluating the impact of this standard but on its Consolidated Financial Statements to be material.

(vi)There have been amendments to existing standards, including IAS 27, *Separate Financial Statements* (IAS 27), and IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 12. The Company is currently evaluating the impact of this standard but on its Consolidated Financial Statements to be material.

(vii) IAS 12, *Income Taxes,* was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendment, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale when considering the expected manner or recovery or settlement. SIC 21*, Income Taxes - Recovery of Revalued Non-Depreciable Assets*, will no longer apply to investment

properties carried at fair value. The amendment also incorporates into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The Company prospectively adopted the standard on January 1, 2012. These amendments did not have a material impact on the Consolidated Financial Statements.

5 Determination of Fair Values

A number of the Company's accounting policies and disclosures require the determination of fair value, for financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

a) Cash and cash equivalents, accounts receivable and accounts payable

The fair value of cash and cash equivalents, accounts receivable and accounts payable is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2012, the fair value of these balances approximated their carrying value due to their short term to maturity.

b) Stock options and Broker warrants

The fair value of stock options and broker warrants are measured using the Black-Scholes option pricing model. Measurement inputs include the share price on measurement date, exercise price of the option, expected future share price volatility, weighted average expected life of the instruments (based on historical experience and general option-holder behavior), expected dividends and the risk-free interest rate (based on Government of Canada Bonds) for the relevant expected life as described in note 18.

c) Acquisitions

In the acquisition of assets the fair value of exploration and evaluation assets and property, plant and equipment are assessed by management with help from third party advisors when required. The judgments applied are based on management's experience and the estimates used are based on available information at that time.

d) Investment in joint venture

The acquisition of 75% of the joint venture in Bulgaria (note13) included an option for the Company to acquire an additional 8% of the issued and outstanding shares, which expired on December 31, 2012. The fair value of this option was measured using the Black-Scholes option pricing model. Measurement inputs include the estimated fair value of the joint venture on measurement date, exercise price of the option, expected future volatility of the joint ventures fair value and the risk-free interest rate (based on Government of Canada Bonds) for the term of the option.

6 Cash and cash equivalents

	2012	2011
Cash in bank	5,329	7,480
	5,329	7,480

7 Short Term Investments

	2012	2011
Term deposit receipt	-	2,500
Variable rate GIC	-	4,277
	-	6,777

In 2012, all short term investments matured and were closed.

8 Financial Assets at fair value through profit and loss

	2012	2011
Due from Eurogas Inc.	-	2,056
	-	2,056

On December 13, 2012, the Company exercised its right to acquire the remaining 35% interest in Eurogas Polska Sp. Z.o.o. ("Eurogas Polska") from Eurogas Inc. ("Eurogas") for a price of $10 as a result of Eurogas' failure to fulfill its obligations with regards to the payment of cash calls owing to the PGNiG, the operator of the Bieszcady block in Poland. The registration in Poland of this acquisition of shares in Eurogas Polska occurred in 2013 and therefore is not reflected in these statements (see note 23). The shares acquired have a nominal fair value. As a result of the acquisition of the remaining 35% interest in Eurogas Polska and the delisting of Eurogas AG shares, a subsidiary of Eurogas, from the Frankfurt first quotation board on December 15, 2012, the remaining conversion rights associated with the Eurogas Promissory notes were assessed for impairment, which resulted in a $2.8 million provision. This provision was offset by the removal of a $2.6 million liability recognized by Eurogas Polska to Eurogas Inc. which had been previously set up for payments made to fund operations. The net result of this was a $0.2 million recorded as loss in investment.

9 Accounts Receivable and others

	2012	2011
Due from RSG (Bulgaria)	-	440
VAT receivables – note 10	-	863
GST/HST receivables	241	89
Other receivables	42	23
Prepayments	121	130
	404	1,545

10 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 cost 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. The Company expects to sell its assets in Poland within next 6-12 months. 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.

Balance, December 31, 2011	-
Exploration and evaluation assets	8,541
Cash	57
VAT receivable	1,127
Trade payables and accruals	(308)
Decommissioning liability	(177)
Impairment of Assets held for sale	(5,464)
	3,776

As at December 31, 2012 VAT receivable relates to 2012 recoverable amounts in Poland.

Analysis of the result of discontinued operations, and the result recognized on the re-measurement of assets for the year ended December 31, 2012, is as follows:

Revenue	-
Expenses	302
	(302)
Impairment loss recognized on the re-measurement of assets held for sale	(5,464)
Loss after tax of discontinued operations	(5,766)
Loss from discontinued operations attributable to non-controlling interest	2,018
Loss from discontinued operations attributable to Iskander shareholders	(3,748)

Analysis of the net cash flow attributable to the operating, investing and financing activities of discontinued operations for the year ended December 31, 2012, is as follows:

Operating cash flows	(110)
Investing cash flows	(2,196)
Financing cash flows	-
Total cash flows	(2,306)

11 Exploration and Evaluation Assets

Balance at January 1, 2011	-
Additions	4,140
Abandonment costs	170
Corporate acquisition	3,396
Balance, December 31, 2011	7,706
Additions	840
Joint interest acquisition – South Donbass license (i)	1,463
Joint interest acquisition – Krutolicense (ii)	1,475
Assets transferred to Assets held for sale – note 10	(8,541)
Cumulative translation adjustment	(30)
Balance, December 31, 2012	2,913

a) Acquisition of Joint Interest – Ukraine

(i) South Donbass License

On March 20, 2012 the Company acquired a joint interest in the South Donbass license, as the Operator, from Industrial Union of Donbas Corporation ("IUD"), through a Joint Activity Agreement (JAA) as licenses are non-transferrable in Ukraine until such time that a production license is granted in the name of the Operator, which is Iskander.

The terms of the deal are to complete and fund a work program including new wells and work-overs. As a result of committing to the above work program and payments, the Company earned a 95% interest in the license (see also Note 11 a) (iii). During the year ended December 31, 2012, the Company incurred $400,000 as part of the agreement with a further $500,000 payable in subsequent periods upon obtaining a production license.

(ii) Kruto License

On June 21, 2012, the Company signed a joint activity agreement on the Kruto license. The terms of the deal are to complete and fund a work program including new wells and cash payments which are split between closing of the agreement and upon obtaining a production license. As at December 31, 2012, the Company has paid $612,500 with an additional $250,000 to be paid upon obtaining a production license. As a result of committing to the above

work program and payments, the Company earned a 90% interest in the license (see also Note 11 a) (iii).

(iii) Renegotiation of South Donbass License and Kruto License Terms

During the year ended December 31, 2012, the Company was able to renegotiate key terms of the South Donbass and Kruto agreements with an unrelated third party. The Company was able to increase its earned interest in the South Donbass and Kruto licenses from 61.75% to 95% and 58.5% to 90% respectively. The renegotiated terms of the agreements included staged payments totaling $750,000 and the issuance of 500,000 common shares of Iskander which occurred in the fourth quarter of 2012.

12 Property, Plant and Equipment

	Drilling rigs	Furniture, fixtures and other	Total
Cost			
Balance at January 1, 2011	-	-	-
Additions	1,672	6	1,678
Balance, 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
Accumulated Depreciation			
Balance, December 31, 2011	-	-	-
Depreciation expense	-	12	12
Balance, December 31, 2012	-	12	12
Net Book Value			
Balance, December 31, 2011	1,672	6	1,678
Balance, December 31, 2012	1,782	109	1,891

The Company plans to use its two drilling rigs for shallow wells within the South Donbass and Kruto licenses in Ukraine. The rigs are not yet being depreciated as they are currently not in use.

13 Investment in Joint Ventures

	2012	2011
RSG (Bulgaria) (i)	12,118	12,185
Non-current loan to RSG Bulgaria	788	-
Karbona Energo LLC (Ukraine) (ii)	6,846	-
Cumulative translation adjustment	(146)	-
	19,606	12,185

(i) Investment in RSG (Bulgaria)

Subsequent to the investment in joint venture in RSG, the Government of Bulgaria introduced a temporary 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 high likelihood of the ban being removed during the next 12 months. 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 an approved modification of its work commitments as at April 9, 2013.

As at December 31, 2012, the ban on fracking had not been removed or modified which was considered as an indicator of possible impairment and therefore the investment in RSG was assessed for impairment as at December 31, 2012.

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 in RSG contain a penalty payable to its partner of $3 million if the entire work program were not fulfilled.

Iskander's share of the aggregated financial information of equity accounted joint venture is set out below. The amounts for the year ended December 31, 2012 include the share in RSG from August 22, 2011, at which time Iskander acquired its interest in the joint venture.

As at December 31,	2012	2011
Cash and cash equivalents	389	929
Other current assets	46	42
PP&E assets	4	-
E&E assets	12,697	12,307
Share of total assets	13,136	13,278
Current liabilities	529	495
Long-term liabilities	594	598
Share of total liabilities	1,123	1,093
Share of equity shareholders' funds in joint venture	12,013	12,185
Share of revenue	-	-
Share of financial results	(66)	(36)
	(66)	(36)

(ii) Investment in Karbona Energo LLC (Ukraine)

On April 27, 2012, the Company agreed to enter into a shareholder agreement as part of the transaction to acquire 51% of Karbona Energo LLC, a company registered in Ukraine which holds the Krasno license. The terms of the deal are to drill two shallow wells to earn 51% with an option, to the Company, to earn an additional 9% by completing the drilling of a third deep well. The fair value of this option is measured using the Black-Scholes option pricing model. Measurement inputs include the estimated fair value of the joint venture on measurement date, exercise price of the option, expected future volatility of the joint ventures fair value and the risk-free interest rate (based on Government of Canada Bonds) for the term of the option. The fair value of this option was determined to be nominal and therefore it was not recognized as a financial asset as at December 31, 2012.

The acquisition of Karbona includes rights granted to the vendor which require their agreement on key business decisions. As a result of these rights, Iskander's ownership of Karbona was accounted for as a jointly controlled entity by applying equity method of accounting as at December 31, 2012.

During the year, the Company invested an additional $5.3 million to fund the capital program of Karbona which increased the initial investment by $3.6 million and reduced the obligation for investment by $1.7 million (see also note 15). Subsequent to December 31, 2012, the Company completed testing of its first well drilled in Karbona. Since testing did not result in economic quantities of gas, the investment and associated liabilities will be written down to nil in 2013 (see note 23 d).

Iskander's share of the aggregated financial information of equity accounted joint venture is set out below. The amounts for the year ended December 31, 2012 include the share in Karbona from April 27, 2012, at which time Iskander acquired its interest in the joint venture.

As at December 31,	2012	2011
Current assets	102	-
Long-term assets	5,822	-
Current liabilities	2,794	-
Long-term liabilities	-	-
Income	66	-
Expense	56	-

14 Trade and Other Payables

	2012	2011
Trade payables	490	1,467
Accrued liabilities	1,009	530
	1,499	1,997

Accrued liabilities related primarily to obligation to fund $375,000 as part of acquisition of interests in the South Donbass and Kruto licenses (Note 11 a) iii) and $200,000 of fees associated with the equity financing which resulted in the raise of $7 million during the first quarter of 2013.

15 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.

	2012	2011
Current portion of carried interest liability in Karbona (i)	1,481	-
Current portion of carried interest liability in Bulgaria (ii)	998	351
	2,479	351

(i) Current portion of carried interest liability in Karbona

During the year ended December 31, 2012, the Company has reduced its initial obligation for investment in Karbona as some work commitments were fulfilled. The terms of the agreement related to the obligations in Karbona require this to be fulfilled within 12 months and therefore all classified as current.

	Total liability
Balance, December 31, 2011	-
Obligation for investment in Karbona	3,168
Settlement of liability	(1,687)
Balance, December 31, 2012	1,481

(ii) Current portion of carried interest liability in Bulgaria

	Total liability
Balance, January 1, 2011	-
Current obligation for investment in RSG – Bulgaria	351
Balance, December 31, 2011	351
Reclassification from Long term carried interest liability	946
Settlement of liability	(299)
Balance, December 31, 2012	998

16 Long Term Loans and Other Liabilities

	2012	2011
Carried interest liability – note 14 (ii)	5,851	6,797
Long term provision for shares repurchase	380	-
Long term loan	-	1,699
	6,231	8,496

The company has recognized a provision for a potential share repurchase based on the terms negotiated as part of South Donbass and Kruto agreement (see also note 11 a) (iii). 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 23 a).

Long-term loans represent the loans made by the non-controlling partner to Eurogas Polska. In 2012, the loans were settled with the outstanding receivable balance from the same partner as described in note 8.

17 Decommissioning Liabilities

	2012	2011
Balance, beginning of year	170	-
Provisions for new wells	-	170
Accretion	7	-
Assets transferred to Assets held for sale – note 10	(177)	-
Balance, end of year	-	170

The total decommissioning liability is estimated based on the Company's net ownership in wells drilled as at December 31, 2012, the estimated costs to abandon and reclaim the wells and the estimated timing of the costs to be paid in future periods. The total undiscounted amount of cash flows required to settle the Company's decommissioning liability is approximately $216,000 as at December 31, 2012 (December 31, 2011 - $216,000) with

the costs anticipated to occur in 2023 or later. An inflation rate of 2 percent was used to determine the future undiscounted cash outflows associated with decommissioning and a risk-free discount rate of 4 percent was then used to present value these future outflows.

18 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 - note 11 a) (iii)	500,000	1,003
Issued for consulting services (iv)	50,000	100
Issued for nil consideration (ii)	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

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.

(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 – March 2012	1,012,500	$2.00	2,004
April - June 2012	827,500	$2.00	1,627
July – December 2012	535,000	$2.00	1,061
Balance, December 31, 2012	46,427,415		44,360

[(1)] Shares issued under subscription agreement 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.

(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 18 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 and stock options

	December 31, 2012	December 31, 2011
Opening balance	4,796	-
Share-based payment transactions	3,756	4,796
Cancelled shares	28,640	-
Options exercised	(31)	-
Closing balance	37,161	4,796

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.

	Number of options	Weighted average exercise price (CAD)
Balance, December 31, 2010	-	-
Granted	16,975,000	$0.97
Exercised	(66,666)	$0.75
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

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 18 a) (v), and remaining 2.7 million were cancelled or were forfeited due to termination of employment or consulting arrangements.

During 2012, the Company recorded $3.8 million (2011 –$4.8 million) as share-based compensation on the consolidated statement of comprehensive income related to the granting of 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, 2012	December 31, 2011
Risk-free interest rate (%)	1.5%	1.7%
Expected life (years)	5	4.9
Expected volatility (%)	70%	70%
Expected dividends	-	-

The weighted average fair value of at the grant date for the year ended December 31, 2012 was CAD $1.71 per option (2011 CAD $0.56).

Stock options outstanding and the weighted average remaining life of the stock options at December 31, 2012 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	3.23	$0.25	750,000
$0.75	3,663,334	3.57	$0.75	3,163,334
$1.50 - $2.00	6,875,000	3.99	$1.61	4,575,001
	11,288,344	3.80	$1.24	8,488,335

c) Broker warrants

The Company raised funds throughout 2012 via subscription agreements which provided for finder's fee compensation in the form of cash and warrants. The warrants have a two year life and have an exercise price equal to that of the shares which they relate to.

	Number of warrants	**Weighted average exercise price (CAD)**
Balance, December 31, 2010	-	-
Granted	3,625,549	$0.90
Exercised	(110,000)	$0.25
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

During the year ended December 31, 2012, the Company recorded $100,000 (2011 - $1.2 million) as share issue costs which are shown as a net adjustment to share capital on the consolidated balance sheet.

Broker warrants outstanding and the weighted average remaining life of the broker warrants at December 31, 2012 are as follows:

	Warrants outstanding		
	Number of warrants	Weighted average remaining life (years)	Weighted average exercise price (CAD)
$0.25	492,000	0.23	$0.25
$0.75	2,048,269	0.50	$0.75
$1.50 - $2.00	1,201,868	0.84	$1.64
	3,742,137	0.58	$0.97

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:

	December 31, 2012	**December 31, 2011**
Risk-free interest rate (%)	1.0%	1.4%
Expected life (years)	2	2
Expected volatility (%)	65%	65%
Expected dividends	-	-

The weighted average fair value at the grant date for the year ended December 31, 2012 was CAD $0.34 per warrant (December 31, 2011 - $0.32). Broker warrants are recorded as share issue expense based on the estimated fair value at the grant date.

d) 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 (see also note 11 a) (iii). 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.

e) Loss per share

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

	December 31, 2012	December 31, 2011
Loss for the period	(13,363)	(40,267)
Weighted average number of common shares	63,958	58,781
Basic and diluted loss per share	(0.21)	(0.69)

As at December 31, 2012, the weighted average number of common shares does not include potentially dilutive.instruments of 11,288,334 stock options and 3,742,137 broker warrants.

19 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 December 31, 2012, the Company's net working capital was $2.6 million (December 31, 2011 – $15.5 million), largely attributable to the equity offerings completed via subscription agreements during 2011 and 2012. The working capital of $2.6 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 December 31, 2012, the Company's cash position was $5.4 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 in light of its working capital position.

In March 2013, the Company completed private financing of $7 million (see note 23 a). The Company's cash and additional $7 million financing in 2013 are expected to provide flexibility in determining the optimal capital expenditures for the next 12 months. 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.

20 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. Further qualitative disclosures are included throughout these financial statements.

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, provision for shares purchase and decommissioning liabilities. Carried interest liabilities have been recognized at their present values using a 15% discount rate, provision for share purchase has been recognized at their present value using a 15% discount rate and decommission liabilities at their present values by using risk free discount rate of 4% and accordingly the fair market value approximates the present value.

The following table summarizes Iskander's financial instruments as at December 31, 2012 and December 31, 2011:

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

	Fair value through profit & loss	Fair value through OCI	Loans and receivables	Financial liabilities	Total carrying value
For the year ended December 31, 2011					
Assets					
Cash and cash equivalents	-	-	7,480	-	7,480
Short term investments	-	-	6,777	-	6,777
Financial assets at fair value through profit and loss	2,056	-	-	-	2,056
Accounts receivable	-	-	1,545	-	1,545
	2,056	-	15,802	-	17,858
Liabilities					
Trade and other payables	-	-	-	1,997	1,997

Carried interest liabilities	-	-	-	351	351
Long term loans & other liabilities	-	-	-	8,496	8,496
	-	-	-	10,844	10,844

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 $184,000 at December 31, 2012. In addition, the Company held $520,000 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 (note 13 (i)). 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.

The Company's accounts receivable relate primarily to taxes recoverable from the Government of Canada of which $191,000 was recovered prior to April 9, 2013 and the remaining is expected to be recovered in accordance with the terms of the associated agreements.

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 a cash flow 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). 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	3,978
2014	5,190
2015	1,041
	10,209

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 December 31, 2012, the Companies components of working capital, shown in US dollar equivalents, were denominated in the following currencies:

	CAD	USD	EUR		UAH	Total (USD)
Cash and cash equivalents	55	5,228	3		43	5,329
Accounts receivables	315	72	-		17	404
Assets held for sale	-	2,900	-	876	-	3,776
Total current assets	370	8,200	3	876	60	9,509
Trade and other payables	988	450	25	-	36	1,499
Carried interest liabilities	-	2,479	-	-	-	2,479
Total current liabilities	988	2,929	25		36	3,978
Net working capital	(618)	5,271	(22)	876	24	5,531

The table below summarizes the annualized 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	6
EUR/USD	-
PLN/USD	(27)
UAH/USD	(2)
	(23)

21 Income Tax

The Canadian corporate income tax rate for 2012 was 25.0 percent. The following is a reconciliation of income taxes calculated at the Canadian corporate tax rate to the tax expense for 2012 and 2011:

For the year ended December 31,	**2012**	**2011**
Income (loss) before tax	(9,679)	(40,331)
Income (loss) before tax multiplied by the standard rate of Canadian corporate tax of 25.0% (2011 – 26.5%)	(2,420)	(10,687)
Effects of:		
Income taxes recorded at rates different from the Canadian tax rate	84	105
Share based compensation	964	1,279
Non-cash transaction expense	-	5.545
Deferred tax assets not recognized	1,325	3,764
Other	47	(6)
Total tax expense	-	-

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

For the year ended December 31,	2012	2011
PP&E and E&E assets	847	929
Cumulative eligible capital	310	159
Share issuance costs	3,377	3,697
Non-capital losses carried forward and other	14,974	9,421
	19,508	14,206

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 and Bulgaria. The tax benefit associated with these benefits have not been recognized in the financial statements since the recoverability of the tax benefit in each jurisdiction is not probable. Losses can be carried forward for a period of five years in Poland and Bulgaria and indefinitely in Ukraine, while in Canada they expire in 20 years. The Company had $14.7 million of non-capital losses in Canada of which $9.6 million will expire in 2031 and $5.1 million in 2032. The remaining non-capital losses $0.3 million were incurred in Ukraine. Amounts denominated in foreign currency have been translated at the December 31, 2012 exchange rate.

22 Segmented information

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

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
Exploration expenses	245	-	-	245
Loss on investment	223	-	-	223
Foreign exchange (gain)/losses	7	(85)	22	(56)
Share of loss from joint venture	-	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

[1] Total assets exclude the assets allocated to discontinued operations in Poland (see note 10).

As at and for the year ended December 31, 2011	Canada	Poland	Ukraine	Bulgaria	Total
Revenue	-	-	-	-	-
Salaries and wages	697	-	53	-	750
Consulting fees	4,800	-	-	-	4,800
Travel expenses	852	-	-	-	852
Professional and legal fees	2,195	75	68	-	2,338
Miscellaneous	70	40	13	-	123
Settlement (i)	996	-	-	-	996
Administrative expenses	9,610	115	134	-	9,859
Share-based compensation	4,825	-	-	-	4,825
Transaction costs (ii)	20,926	199	393	199	21,717
Exploration expenses	-	-	1,041	-	1,041
Loss on investment	1,700	-	-	-	1,700
Foreign exchange (gain)/losses	1,230	11	34	-	1,275
Share of loss from equity investment	-	-	-	36	36
Finance income	(178)	-	-	-	(178)
Finance expense and other	-	56	-	-	56
Net income (loss)	(38,113)	(381)	(1,602)	(235)	(40,331)
Non-current assets	1,672	7,706	7	12,184	21,569
Total assets	18,608	8,569	32	12,218	39,427

(i) In 2011, the Company was involved in a claim which was settled and resulted in the issuance of shares and cash consideration of which the total fair value was $996,000.

(ii) During 2011, Iskander entered into Memorandum of Understandings (“MOU”) and Corporate acquisitions which were facilitated by consultants and third parties. Compensation for services to these consultants, that likely meet the definition of a related party under IFRS and third parties was made in the form of issued shares and cash payments which have been expensed.

23 Subsequent Events

a) 2013 Share Issuance

Subsequent to December 31, 2012, the Company has raised CAD $7 million for exchange of 7 million units, whereas each unit comprises of one share priced at $1.00 per share and one warrant exercisable for 18 months at $1.50. The Company closed on this first tranche at the end of March 2013 and continues fund raising activities to raise an additional $13 million of which a portion is already committed, subject to meeting various conditions.

b) Memorandum of understanding – assets in Georgia

Subsequent to December 31, 2012, the Company has signed a memorandum of understanding (“MOU”) with a private company covering existing producing asset in Georgia. The MOU contemplates earning a 50% working interest in a producing light oil field, which is governed by a Production Sharing Agreement, 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 Due diligence is expected to be completed with potential closing of such transaction in April 2013.

c) Change in share ownership in Eurogas Polska Sp. Z.o.o.

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 change in ownership was registered with the Polish regulatory authorities on March 27, 2013.

d) Impairment of investment in Ukraine

Subsequent to December 31, 2012, the Company completed testing of its first well drilled in the Krasno license. The economic quantities of gas were not recovered and the well was temporarily suspended. The Company has

renegotiated agreement for a one year extension 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 operations options. Because of this uncertainty, subsequent to year-end, the Company has recorded an impairment of its investment together with the carried interest liability associated with its obligation to drill second well, to nil.

24 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 Biesczady 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 Dobass and Kruto area.

In Krasno, the Company's 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 workovers are estimated at $3.4 million with total costs to increase to $6.0 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 $1.5 million with additional 5 wells subject to successful results of the first well which would then result in total estimated commitments of $6 million by 2015.

25 Related Party Transactions

a) Significant Subsidiaries

The consolidated financial statements include the financial statements of Iskander Energy Corp. at December 31, 2012. 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%
Iskander Management	Ukraine	Operating Company	100%
Ybaca Investments Limited	Cyprus	Holding Company	51%
Tzilkaf Investments Limited	Cyprus	Holding Company	100%
Eurogas Polska Sp. Z.o.o. (i)	Poland	Operating Company	65%

(i) See subsequent events note 23 c) for post 2012 change relating to 100% ownership.

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, three executive officers and its president in Ukraine. As at December 31, 2012, there is a $2.0 million commitment relating to change of control of which approximately $1.1 million, related to the CEO, COO and CFO, and requires both a change of control and a material change in responsibilities of those executive officers. In the event of termination there is or 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,	2012	2011
Cash-based transactions	2,144	2,099
Share-based transactions	3,946	14,406
	6,090	16,505

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.

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

For the year ended December 31,	2012	2011
Cash-based transactions	128	2,742
Share-based transactions	51	2,946
	179	5,688

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