# 2011 Audited Financial Statements

# MANAGEMENT'S REPORT

Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the consolidated financial statements, and other financial information presented elsewhere in this annual report.

The consolidated financial statements were prepared by management in accordance with International Financial Reporting Standards. Since a precise determination of many assets and liabilities is dependent on future events, the timely preparation of financial statements requires that management make estimates and assumptions and use judgment. When alternative accounting methods exist, management has chosen those that it deems most appropriate in the circumstances.

PricewaterhouseCoopers LLP were appointed by the Company's shareholders to express an audit opinion on the consolidated financial statements. Their examination included such tests and procedures as they considered necessary to provide reasonable assurance that the consolidated financial statements are in accordance with International Financial Reporting Standards.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee. The Audit Committee recommends appointment of the external auditors to the Board, ensures their independence and approves their fees. The Audit Committee meets regularly with management and the external auditors to ensure that management's responsibilities are properly discharged, to review the consolidated financial statements and recommend that the consolidated financial statements be presented to the Board for approval. The external auditors have full and unrestricted access to the Audit Committee to discuss their audit and their findings.

"signed"

Wayne Thomson
Chief Executive Officer

"signed"

Bradley Giblin
Chief Financial Officer

July 3, 2012

## 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, 2011 and December 31, 2010 and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the year ended December 31, 2011 and the period from November 29, 2010 to December 31, 2010, 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, Chartered Accountants*
*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*

**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, 2011 and December 31, 2010 and its financial performance and cash flows for the year ended December 31, 2011 and the period from November 29, 2010 to December 31, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

**Chartered Accountants**

Calgary, Alberta

July 3, 2012

**ISKANDER ENERGY CORP.**
**CONSOLIDATED BALANCE SHEETS**
As at December 31,

| *(thousands of United States dollars)* | **Notes** | **2011** | | **2010** |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | **5** | 7,480 | | - |
| Short term investments | **6** | 6,777 | | - |
| Financial assets at fair value through profit and loss | **7** | 2,056 | | - |
| Accounts receivables | **8** | 1,544 | | - |
| | | 17,858 | | - |
| Non-current assets | | | | |
| Exploration and evaluation assets | **9** | 7,706 | | |
| Property, plant and equipment | **10** | 1,678 | | - |
| Investment in joint venture | **11** | 12,185 | | - |
| | | 21,569 | | - |
| Total Assets | | 39,427 | | - |
| **Liabilities** | | | | |
| Current liabilities | | | | |
| Trade and other payables | **14** | 2,349 | | 2 |
| | | 2,349 | | 2 |
| Non-current liabilities | | | | |
| Long term loans & other liabilities | **15** | 8,496 | | - |
| Decommissioning liabilities | **16** | 170 | | - |
| | | 8,666 | | - |
| Total liabilities | | 11,014 | | 2 |
| **Shareholders' Equity** | | | | |
| Share capital | **17a** | 66,335 | | 4,648 |
| Contributed surplus | **17b** | 4,796 | | - |
| Broker warrants | **17c** | 1,185 | | - |
| Deficit | | (44,916) | | (4,650) |
| Equity attributable to Iskander shareholders | | 27,400 | | (2) |
| Non-controlling interest | | 1,013 | | - |
| Total Equity | | 28,413 | | (2) |
| Total Equity & Liabilities | | 39,427 | - | 0 |

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

Commitments (Note 23)

On behalf of the Board:

"signed"

**Wayne Thomson**
**Director**

"signed"

**Kent Jespersen**
**Director**

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the year ended December 31, 2011 and period from November 29, 2010 to December 31, 2010

| *(thousands of United States dollars)* | **Notes** | | **2011** | | **2010** |
|---|---|---|---|---|---|
| Revenue | | | - | | - |
| Finance income | | | 178 | | - |
| Total revenue and finance income | | | 178 | | - |
| Administrative expenses | **21** | | 9,859 | | - |
| Share-based compensation | **17 a,b** | | 4,825 | | 4,650 |
| Transaction expense | **21** | | 21,717 | | - |
| Exploration expenses | **9** | | 1,041 | | - |
| Foreign exchange loss | | | 1,275 | | - |
| Loss on investment | **7** | | 1,700 | | |
| Finance expense | | | 56 | | - |
| Share of loss from joint venture | **11** | | 36 | | - |
| Total expenses | | | 40,509 | | 4,650 |
| Loss before tax | | | (40,331) | | (4,650) |
| Income tax expense(recovery) | **18** | | - | | - |
| Net loss and comprehensive loss for the year | | | (40,331) | | (4,650) |
| Loss attributable to non-controlling interest | | | 64 | | - |
| Loss and comprehensive loss attributable to Iskander shareholders | | | (40,267) | | (4,650) |
| Basic and diluted loss per share | **17d** | $ | (0.69) | $ | (0.26) |

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31, 2011 and period from November 29, 2010 to December 31, 2010

| *(thousands of United States dollars)* | **2011** | **2010** |
|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Loss for the year | (40,331) | (4,650) |
| Adjustments for: | | |
| Share of loss from joint venture | 36 | - |
| Loss on investment | 1,700 | - |
| Share-based compensation | 4,825 | 4,648 |
| Non-cash transaction expense | 24,594 | - |
| Unrealized foreign exchange loss | 1,125 | - |
| Funds flow from operations before working capital changes | (8,050) | (2) |
| (Increase) in accounts receivables | (1,544) | - |
| (Decrease) in trade and other payables | 1,996 | 2 |
| Net cash from operating activities | (7,599) | - |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Acquisition of subsidiaries and joint ventures | (5,373) | - |
| Capital expenditures including exploration and evaluation assets | (5,818) | - |
| Issuance of promissory notes | (3,756) | |
| Short term investments | (6,777) | - |
| Net cash used in investing activities | (21,724) | - |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Issuance of shares | 39,743 | - |
| Share issue expense | (3,514) | |
| Long term loans & other liabilities | 1,699 | - |
| Net cash used in financing activities | 37,928 | - |
| Effect of exchange rate on cash and cash equivalents | (1,125) | |
| Increase in cash and cash equivalents | 7,480 | - |
| Cash and cash equivalents at beginning of year | - | - |
| Cash and cash equivalents at December 31 | 7,480 | - |

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

## CONSOLIDATED STATEMENTS OF EQUITY.

For the year ended December 31, 2011 and period from November 29, 2010 to December 31, 2010

| *(thousands of United States dollars)* | **2011** | **2010** |
|---|---|---|
| Balance, beginning of year | 4,648 | - |
| Shares issued net of issuance cost | 61,572 | 4,648 |
| Exercise of options and warrants | 115 | - |
| Balance, end of year | 66,335 | 4,648 |
| **Contributed Surplus** | | |
| Balance, beginning of year | - | - |
| Share-based compensation | 4,825 | - |
| Options exercised | (29) | - |
| Balance, end of year | 4,796 | - |
| **Broker Warrants** | | |
| Balance, beginning of year | - | - |
| Warrants issued | 1,195 | - |
| Warrants exercised | (10) | - |
| Balance, end of year | 1,185 | - |
| **Deficit** | | |
| Balance, beginning of year | (4,650) | - |
| Net (loss) for the year | (40,331) | (4,650) |
| Loss attributable to non-controlling interest | 64 | - |
| Balance, end of year | (44,916) | (4,650) |
| Equity attributable to Iskander Energy Corp. shareholders | 27,400 | (2) |
| | | |
| **Non-controlling interest** | | |
| Balance, beginning of year | - | - |
| Corporate acquisition (note 12) | 1,077 | - |
| Loss attributable to non-controlling interest | (64) | - |
| Balance, end of year | 1,013 | - |
| Total Equity | 28,413 | (2) |

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, 2011 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, 2011, 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 Basis of Presentation

### a) *Statement of compliance*

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board.

On July 3, 2012 the Board of Directors approved the consolidated financial statements.

### b) *Basis of measurement*

The consolidated financial statements have been prepared under the historical cost convention except for derivative financial instruments, share-based compensation and broker warrant transactions which are measured at fair value. The methods used to measure fair values are discussed in note 4 - Determination of Fair Values. The presentation currency is USD which is the functional currency of the Company and each of its subsidiaries.

### c) *Use of management estimates, judgments and measurement 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 groups 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") (note 9)

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 judgments of similar transactions and expectations associated with future reserve and resource exploitation.

#### (iii) Decommissioning liabilities (note 16)

Decommissioning and restoration costs will be incurred by the Company at the end of the operating life of certain of its assets. The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results. In the Company's judgment, the most appropriate discount rate to use is a risk free rate.

#### (iv) Share - based compensation and Broker warrants

The fair value of share based compensation is measured using the Black Scholes option pricing model. Use of this model requires management to apply significant judgment in the determination of various computational inputs, including the estimated volatility of the Company's share price and estimated forfeiture rates which are used to measure the fair value of share options and warrants. 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 17, Stock options and Broker warrants).

#### (v) Corporate acquisitions (note 11, 12, 13)

Corporate acquisitions which do not constitute a business are accounted for as asset acquisitions under the relevant IFRS. The cost of the transaction is allocated to the assets acquired and the liabilities assumed based on their relative fair values at the date of purchase.

#### (vi) Income taxes (note 18)

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.

#### (vii) Financial asset at fair value through profit or loss (note 7)

Financial assets at fair value through profit or loss are presented within current assets due to their maturity within 12 months. Changes in fair values of financial assets through profit or loss are recorded in the statement of comprehensive income. The fair value of promissory notes designated as fair value through profit and loss is based on consideration of the face value of the loans and the amount recoverable from the conversion features. The determination of fair value is dependent on assumptions made of third party credit worthiness, fair value of the vendor's shares and valuation of the remaining interest in Eurogas Polska.

## 3 Summary of 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 recognise 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”.

*Trade and other receivables*

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) Capital assets***

**(i) Exploration and evaluation**

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 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.

***f) 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 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 proved plus probable reserves. Reserve estimates and expected future cash flows from production of reserves 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, reserve 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).

### *g) Share-based compensation*

The Company has an incentive stock option plan for employees, officers, directors and consultants as described in note 17. 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.

### *h) 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.

### *i) 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.

### *j) Finance income and expense*

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

### *k) 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.

### *l) 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.

### *m) 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.

### *n) 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.

### *o) 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 with earlier application permitted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

(i) IFRS 9, *Financial Instruments (effective for annual periods beginning on or after January 1, 2015),* was issued in November 2009 and 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.

(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*.

(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.

(iv) 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.

(v) 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.

(vi) 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.

## 4 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, 2011, 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 17.

### *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 (note11) included an option for the Company to acquire an additional 8% of the issued and outstanding shares, which expires on December 31, 2012. 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.

## 5 Cash and Cash Equivalents

| As at December 31, | **2011** | **2010** |
|---|---|---|
| Cash at bank | 7,480 | - |
| | **7,480** | **-** |

## 6 Short Term Investments

| As at December 31, | **2011** | **2010** |
|---|---|---|
| Term deposit receipt | 2,500 | - |
| Variable rate GIC | 4,277 | - |
| | **6,777** | **-** |

All short term deposits are more than three months duration.

## 7 Financial Assets at fair value through profit and loss

| As at December 31, | **2011** | **2010** |
|---|---|---|
| Due from Eurogas Inc. | 2,056 | - |
| | **2,056** | **-** |

As part of the Eurogas Polska acquisition (note 12), Iskander has the obligation to provide Eurogas Inc. (unrelated third party) with a series of convertible promissory notes (the "Promissory Notes"). As at December 31, 2011, Eurogas Inc. was indebted to the Company for $3.7 million which is secured by the Promissory Notes. Each of the Promissory Notes provide Iskander with the option to convert into either: i) the remaining 35% of issued and outstanding shares of Eurogas Polska or ii) common shares in Eurogas Inc. or its affiliated companies. The notes are charged 5% interest per annum and have a 12 month maturity date from time of grant.

| **Description** | **Maturity Date** | **Amount** |
|---|---|---|
| Promissory note #1 | April 21, 2012 | 2,406 |
| Promissory note #2 | November 2, 2012 | 845 |
| Promissory note #3 | December 1, 2012 | 505 |
| Loss on investment | | (1,700) |
| As at December 31, | | **2,056** |

As at July 3, 2012, Promissory note #1 was not repaid. The Company is reviewing its conversion rights under Promissory Note #1 to determine the best option to recover value from the Promissory note. In addition, the Company assessed the remaining conversion options available to Promissory notes #2 and #3. As a result of this assessment which included estimation of the carrying value of Eurogas Polska and an analysis of stock price and volume trading patterns of Eurogas Inc. and affiliated companies common shares, a loss on investment on the consolidated statements of comprehensive income of $1.7 million was recorded during the period representing the decrease in fair value attributable to the Promissory notes.

## 8 Accounts Receivable

| As at December 31, | 2011 | 2010 |
|---|---|---|
| Due from RSG (Bulgaria) | 440 | - |
| Trade receivables | 112 | - |
| VAT receivables | 862 | - |
| Prepayments | 130 | - |
| | **1,544** | **-** |

As at December 31, 2011 VAT receivable relates to 2012 recoverable amounts in Poland totaling $862,000.

## 9 Exploration and Evaluation Assets

| As at December 31, | 2011 | 2010 |
|---|---|---|
| At January 1 | - | - |
| Additions | 4,140 | - |
| Abandonment costs | 170 | - |
| Corporate acquisition - note 12 | 3,397 | - |
| | **7,706** | **-** |

In 2011, the Company incurred pre-license costs amounting to $1.1 million in relation to potential exploration opportunities in Ukraine. These amounts were recognized under Exploration expenses in the consolidated statement of comprehensive Income.

## 10 Property, Plant and Equipment

| | 2011 | 2010 |
|---|---|---|
| Cost | | |
| At January 1 | - | - |
| Additions | 1,678 | - |
| At December 31 | 1,678 | - |
| Depreciation, depletion and amortization, including impairments | | |
| At January 1 | - | - |
| Charge for the year | - | - |
| At December 31 | - | - |
| Net carrying amount at December 31 | **1,678** | **-** |

During 2011, the Company purchased two rigs capable of drilling the Company's shallow gas wells in Ukraine. The rigs are not yet being depreciated as they are not in use.

## 11 Investment in Joint Venture - Bulgaria

| As at December 31, | 2011 | 2010 |
|---|---|---|
| Initial investment | 11,249 | - |
| Add: Additional investment during the year | 973 | - |
| | 12,221 | - |
| Less: Share of loss from joint venture | (36) | - |
| Investment in joint venture | 12,185 | - |
| | **12,185** | **-** |

On August 22, 2011, Iskander acquired 75% of the issued and outstanding shares of Scientific Research and Service Group AD ("RSG") a privately held company incorporated in Bulgaria. RSG holds exploration licenses over the 1,900 sq. km Gradishte block and 20 sq. km Kilifarevo block, located in Bulgaria. The 75% interest in RSG was acquired in exchange for: US $2.0 million cash, issuance of 1.3 million shares of Iskander, a contractual obligation to fund 100% of the work program commitments associated with the Gradishte and Kilifarevo blocks and a long-term service agreement with the vendor. The assets in Bulgaria, did not meet the definition of a business under IFRS 3. The purchase price was fully allocated to intangible E&E assets. In addition, the Company issued 6.5 million common shares and $200,000 of cash payments as finder's fee compensation (note 17 a) iii)

Iskander is the registered operator of the Bulgarian exploration blocks and holds a majority of seats of the Board of Directors. The acquisition of RSG includes rights granted to the vendor which require their agreement on key business decisions. As a result of these rights, Iskander's ownership of RSG was accounted for as a jointly controlled entity as at December 31, 2011. Iskander has applied the equity method of accounting for its 75% ownership of RSG during 2011 but has plan to re-negotiate the share structure with their joint venture partner regarding rights associated with various share class structures during 2012.

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, 2011 include the share of results in RSG from August 22, 2011, at which time Iskander acquired its interest in the joint venture.

| As at December 31, | **2011** | **2010** |
|---|---|---|
| Cash and cash equivalents | 929 | - |
| Other current assets | 42 | - |
| E&E assets | 12,307 | - |
| Share of total assets | 13,278 | - |
| Current liabilities | 495 | - |
| Long-term liabilities | 598 | - |
| Share of total liabilities | 1,093 | - |
| Share of equity shareholders' funds in joint venture (i) | **12,185** | **-** |

(i) includes a contractual obligation of Iskander to fund 100% of the work program commitments amounting to $7.1 million.

| | | |
|---|---|---|
| Share of revenue | - | - |
| Share of financial results | (36) | - |
| | (36) | - |

## 12 Corporate Acquisition - Poland

On April 21, 2011, Iskander acquired a 15.6% working interest in the Bieszczady exploration permits in Poland through the purchase of 65% of the issued and outstanding shares of Eurogas Polska, a private company registered in Poland, from Eurogas Inc. (the "Vendor"). Eurogas Polska has a 24% interest in a 3,250 sq. km Bieszczady exploration block in South-Eastern Poland. The interest in Eurogas Polska was acquired in exchange for US $2 million cash and a commitment to provide the Vendor with US $4.3 million of Convertible Promissory Notes which are classified as financial assets through profit and loss (note 7). The assets in Poland, did not meet the definition of a business under IFRS 3.

The statement of comprehensive income (loss) includes Eurogas Polska’s results of operation since the Acquisition date April 21, 2011 and expensed transaction costs associated with the acquisition of $200,000.

This transaction has been accounted for as an asset acquisition whereby the assets acquired and the liabilities assumed, are recorded at fair values. The following table summarizes the recognizable assets acquired and consideration transferred pursuant to the acquisition:

| **Assets acquired and liabilities assumed** | **2011** |
|---|---|
| E&E assets | 3,397 |
| Current assets acquired | 242 |
| Current liabilities assumed | (561) |
| Non-controlling interest | (1,077) |
| | **2,000** |

| Consideration for the acquisition | |
|---|---|
| Cash paid | 2,000 |
| **Total consideration paid net of cash acquired** | **2,000** |

**13 Asset acquisitions - Ukraine**

During 2011, the Company entered into agreements to farm-in on three coal-bed methane exploration licenses in South-eastern Ukraine via its wholly owned subsidiaries in Cyprus. Exploration activity on these licenses commenced in early 2012 with first drilling operations expected for August 2012. As part of the agreements, the Company issued shares totaling 11.5 million.

| | Number of shares | Transaction expense |
|---|---|---|
| South Donbass license ("IUD license") | 4,500,000 | 3,530 |
| Krutoyarivska license ("EcoMethan license") | 4,500,000 | 3,530 |
| Kranoarmeysk license ("Karbona license") | 2,500,000 | 3,750 |
| Total shares issued | 11,500,000 | 10,810 |
| Cash payments | - | 392 |
| Total consideration | 11,500,000 | 11,202 |

Subsequent to December 31, 2011, the Company completed the transactions associated with the three licenses noted above (note 22- Subsequent events).

**14 Trade and Other Payables**

| As at December 31, | 2011 | 2010 |
|---|---|---|
| Trade payables | 1,453 | - |
| Other payables | 366 | - |
| Accruals | 530 | 2 |
| | **2,349** | **2** |

**15 Long Term Loans and Other Liabilities**

| As at December 31, | 2011 | 2010 |
|---|---|---|
| Carried interest liability (note 11, Investment in joint venture) | 6,797 | - |
| Long term loan | 1,699 | - |
| | **8,496** | **-** |

Long-term loans represent the loans made by the non-controlling partner to Eurogas Polska with a five year term and 5% per annum interest.

**16 Decommissioning Liabilities**

| As at December 31, | 2011 | 2010 |
|---|---|---|
| Balance, beginning of year | - | - |
| Additions | 170 | - |
| 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, 2011, 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, 2011 (December 31, 2010 –nil) 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.

## 17 Share Capital

### *a) Issued and outstanding common shares*

| | Number of shares | Amount |
|---|---|---|
| Balance, November 29, 2010 | 100 | - |
| Founders shares (i) | 19,000,000 | 4,648 |
| Balance, December 31, 2010 | 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 (note 11) Issued for | 1,333,333 | 2,019 |
| cash – exercise of options and warrants Allocation of fair | 176,666 | 75 |
| value – exercise of options and warrants Share issuance | - | 39 |
| costs | - | (4,709) |
| Balance, December 31, 2011 | 87,645,847 | 66,335 |

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

**(i) Founders shares**

During 2010, the Company issued founders shares with fair value of $0.25 per share.

**(ii) Issued for cash via subscription agreements**

Throughout 2011, 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 |

(1) Shares issued under subscription agreement have a provision for an additional 10% common shares, if an Initial public offering is not completed by February 2012 (note 22 c)

**(iii) Issued for services and transactions**

Throughout 2011, the following offerings of shares were issued for services and as compensation for acquisitions:

| | Number of shares | Transaction expense |
|---|---|---|
| Bulgaria assets (Note 11 - Investment in joint venture) | 6,500,000 | 10,117 |
| Ukraine assets (note 13 - Asset Acquisitions - Ukraine) | 11,500,000 | 10,810 |
| Consulting Services | 5,083,333 | 3,667 |
| Balance, December 31, 2011 | 23,083,333 | 24,594 |

Subsequent to December 31, 2011 terms of transactions and services were adjusted (see note 22 - subsequent events

***b) Stock options***

The Company has a stock option plan which provides for the issuance of options to the Company's directors, officers, certain employees and certain consultants to acquire common shares. The options have vesting schedules that either vest immediately or over a two-year period and expire between 3 - 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 |

During the period ended 2011, the Company recorded $4.8 million (2010 -nil) as share-based compensation on the consolidated statement of comprehensive income related to the granting of stock options.

Stock options outstanding and the weighted average remaining life of the stock options at December 31, 2011 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 | 3,000,000 | 4.24 | $0.25 | 3,000,000 |
| $0.75 | 7,483,334 | 4.28 | $0.75 | 5,250,000 |
| $1.50 - $2.00 | 6,425,000 | 4.94 | $1.58 | 2,425,003 |
| | 16,908,334 | 4.52 | $0.98 | 10,675,003 |

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:

| For the year ended December 31, | **2011** | **2010** |
|---|---|---|
| Risk-free interest rate (%) | **1.7%** | - |
| Expected life (years) | **4.9** | - |
| Expected volatility (%) | **70%** | - |
| Expected dividends | **-** | - |

The weighted average fair value at the grant date for the year ended December 31, 2011 was CAD $0.56 per option (December 31, 2010 - Nil).

### *c) Broker warrants*

The Company raised funds throughout 2011 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 |

During the period ended 2011, the Company recorded $1.2 million (2010 -nil) 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, 2011 are as follows:

| | **Warrants Outstanding** | | |
|---|---|---|---|
| Exercise price CAD$ | **Number of warrants** | **Weighted average remaining life (years)** | **Weighted average exercise price (CAD)** |
| $0.25 | 492,000 | 1.23 | $0.25 |
| $0.75 | 2,048,549 | 1.54 | $0.75 |
| $1.50 - $2.00 | 975,000 | 1.77 | $1.59 |
| | 3,515,549 | 1.54 | $0.91 |

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:

| For the year ended December 31, | **2011** | **2010** |
|---|---|---|
| Risk-free interest rate (%) | **1.4%** | - |
| Expected life (years) | **2** | - |
| Expected volatility (%) | **65%** | - |
| Expected dividends | **-** | - |

The weighted average fair value at the grant date for the year ended December 31, 2011 was CAD $0.32 per warrant (December 31, 2010 - Nil). Broker warrants are recorded as share issue expense based on the estimated fair value at the grant date.

### *d) Loss per share*

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

| For the year ended December 31, | **2011** | **2010** |
|---|---|---|
| Loss for the period | (40,267) | (4,650) |
| Weighted average number of common shares | 58,781 | 17,813 |
| Basic and diluted loss per share | (0.69) | (0.26) |

## 18 Income Tax

The Canadian corporate income tax rate for 2011 was 26.5 percent. The following is a reconciliation of income taxes calculated at the Canadian corporate tax rate to the tax expense for 2011 and 2010:

| For the year ended December 31, | **2011** | **2010** |
|---|---|---|
| Income (loss) before tax | (40,267) | (4,650) |
| Income (loss) before tax multiplied by the standard rate of Canadian corporate tax of 26.5% (2010 – 28%) | (10,687) | (1,302) |
| Effects of: | | - |
| Income taxes recorded at rates different from the Canadian tax rate | 105 | - |
| Share based compensation | 1,279 | - |
| Non-cash transaction expense | 5,545 | |
| Deferred tax assets not recognized | 3,758 | 1,302 |
| **Total tax expense** | - | - |

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 uncertain. 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 $446,000 of non-capital losses in Poland and $10.9 million of non-capital losses in Canada. Amounts denominated in foreign currency have been translated at the December 31, 2011 exchange rate.

## 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, 2011, the Company's net working capital was $15.5 million (December 31, 2010 – nil), largely attributable to the equity offerings completed via subscription agreements during 2011 which provided approximately $39.7 million.

Iskander has the ability to adjust its capital structure by issuing new equity, utilizing farm-out arrangements and making adjustments to its capital expenditure program to the extent the capital expenditures are not committed. The Company's working capital is in excess of its 2012 commitments and the Company has no bank debt. The Company 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. This note represents information about the Company's exposure to these risks, the Company's objectives, policies and processes for measuring and managing risk. Further quantitative 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, analyze 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 year 2011 and decommissioning liabilities. Carried interest liabilities have been recognized at their present values 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 Company's Promissory Notes (note 7) are classified as fair value through profit and loss and is receivable from an unrelated third party. The fair value of the investment approximate its carrying amount due to its short term maturity.

The following table summarizes Iskander's financial instruments as at December 31, 2011 and December 31, 2010:

| | **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 receivables | - | - | 1,544 | **-** | **1,544** |
| | **2,056** | **-** | **15,801** | **-** | **17,858** |
| **Liabilities** | | | | | |
| Trade and other payables | - | - | - | 2,349 | **2,349** |
| Long term loans & other liabilities | - | - | - | 8,496 | **8,496** |
| Decommissioning liabilities | - | - | - | 170 | **170** |
| | **-** | **-** | **-** | **11,014** | **11,014** |

| | **Fair value through profit & loss** | **Fair value through OCI** | **Loans and receivables** | **Financial liabilities** | **Total carrying value** |
|---|---|---|---|---|---|
| For the year ended December 31, 2010 | | | | | |
| **Liabilities** | | | | | |
| Trade and other payables | - | - | - | 2 | **2** |
| | **-** | **-** | **-** | **2** | **2** |

### *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 at December 31, 2011 was $51,000. In addition, the Company held $1.2 million 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 5). 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

Loans and receivables balance at December 31, 2011 is substantially made up of convertible promissory notes, $2.1 million which is net of a $1.7 million loss on investment. The remaining balance is considered to be recoverable or carries conversion features which secure its recorded value. The maximum credit risk exposure associated with loans and receivables is the total carrying value.

### *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. 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 by year:

| ***Maturities*** | | **Financial Liabilities** |
|---|---|---|
| 2012 | $ | 2,349 |
| 2013 | $ | 946 |
| 2014 | $ | 4,810 |
| 2015 | $ | 1,041 |
| 2016 | $ | 1,699 |
| | $ | 10,844 |

### *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 (LEV) 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, 2011, the Companies components of working capital, shown in US dollar equivalents, were denominated in the following currencies:

| | CAD | USD | Euro | PLN | Total (USD) |
|---|---|---|---|---|---|
| Cash and cash equivalents | 7,186 | 294 | - | - | 7,480 |
| Short term investments | 4,277 | 2,500 | - | - | 6,777 |
| Financial assets at fair value through profit and loss | - | 2,056 | - | - | 2,056 |
| Accounts receivables | 242 | - | 440 | 862 | 1,544 |
| Total current assets | 11,706 | 4,851 | 440 | 862 | 17,858 |
| Total current liabilities | 471 | 476 | - | 1,402 | 2,349 |
| Net working capital | 11,234 | 4,375 | 440 | (540) | 15,510 |

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/US | $ | 113 |
| PLN/US | $ | (5) |
| EURO/US | $ | 3 |
| | $ | 111 |

## 21 Segmented Information

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

***a) 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 | 198 | 21,717 |
| Exploration expenses | | - | 1,041 | - | 1,041 |
| Loss on investment | 1,700 | | | | 1,700 |
| Foreign exchange (gain)/losses | 1,230 | 11 | 33 | - | 1,275 |
| Share of loss from equity investment | - | - | - | 36 | 36 |
| | 38,291 | 325 | 1,602 | 235 | 40,453 |
| Finance income | (178) | (0) | - | - | (178) |
| Finance expense | - | 56 | - | - | 56 |
| | (178) | 56 | - | - | (122) |
| Net income (loss) | 38,113 | 381 | 1,602 | 235 | 40,331 |
| Non-current assets (end of year) | 1,672 | 7,706 | 7 | 12,184 | 21,569 |
| Capital expenditures | 1,672 | 4,140 | 6 | - | 5,818 |
| Total assets (end of year) | 18,608 | 8,569 | 32 | 12,218 | 39,427 |

(i) Settlement

During the year, 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) Transaction costs

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. Compensation for services is summarized below:

| | | Transaction Expenses | | |
|---|---|---|---|---|
| | Number of shares granted | Fair value of granted Shares | Cash Payments | Total Transaction Expense |
| Corporate acquisition - Bulgaria | 6,500,000 | 10,117 | 198 | 10,315 |
| Corporate acquisition - Poland | - | - | 199 | 199 |
| Ukraine property acquisitions | 11,500,000 | 10,810 | 393 | 11,203 |
| | 18,000,000 | 20,927 | 790 | 21,717 |

Subsequent to December 31, 2011, the Company was able to renegotiate the terms of certain of these transactions (See Note 22 - Subsequent events). The impact of these new terms are not reflected in the consolidated financial statements as at December 31, 2011.

***b) For the period from November 29, 2010 to December 31, 2010***

During the 2010 period, the Company incurred $4.6 million of share-based expenses related to the issuance of founder shares in Canada.

## 22 Subsequent Events

### a) Change of Board of Directors and senior executives

Effective December 16, 2011, the Company introduced a new Board of Directors and senior executives. Subsequently, 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 (Notes 11, 12, 13, 21). As a result, 31.3 million common shares will be returned to the Company along with an injection of capital of $2.0 million. 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.

This subsequent event will be recorded in 2012 as a share repurchase, using the weighted average price of the shares outstanding to determine the value of the transaction. Accordingly, the share capital of Iskander will be reduced by $26.6 million, its contributed surplus will be increased by $28.6 million and its working capital will be increased by $2.0 million.

As part of the introduction of the new Board of Directors and senior executives, the Company, subsequent to December 31, 2011, agreed with the former Chief Executive Officer to sever the previous employment agreement and cancel 500,000 stock options in exchange for a cash payment of $200,000.

### b) Asset acquisitions - Ukraine

(i) IUD block - Subsequent to December 31, 2011, the Company agreed to farm-in on the IUD license. The terms of the deal are to complete a work program including new wells and work-overs along with $750,000 of cash payments which is split between closing of the agreement and upon obtaining a production license. As a result of fulfilling the above work program and payments, the Company will earn a 95% interest in the license (see also Note 22 (b) iv).

(ii) EcoMethan block - Subsequent to December 31, 2011, the Company agreed to farm-in on the EcoMethan license. The terms of the deal are to complete a work program including new wells and cash payments of $750,000 which is split between closing of the agreement and upon obtaining a production license. As a result of fulfilling the above work program and payments, the Company will earn a 90% interest in the license (see also Note 22 (b) iv).

(iii) Karbona block - Subsequent to December 31, 2011, the Company agreed to enter into a shareholder agreement as part of the transaction to acquire 51% - 60% of Karbona Energo LLC, a company registered in Ukraine which holds the Karbona 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.

(iv) Renegotiation of IUD and EcoMethan MOU's - Subsequent to December 31, 2011, the Company was able to renegotiate key terms of the IUD and EcoMethan farm-in agreements with an unrelated third party. In exchange for staged payments totaling $750,000 and the issuance of 500,000 common shares of Iskander, the Company was able to increase its earned interest the IUD and EcoMethan license from 61.75% to 95% and 58.5% to 90% respectively.

### c) 2012 Share Issuance

Subsequent to December 31, 2011, the Company has raised CAD $4.7 million and issued 2.35 million shares via subscription agreements at CAD $2 per share. In addition, 991,000 common shares were issued for nil consideration as part of the provisions associated with certain 2011 subscription agreements which included a 10% increase in common shares, if the Company failed to complete an initial public offering by February 2012.

**23 Commitments**

***a) Bulgaria***

On August 22, 2011, Iskander acquired 75% of the issued and outstanding shares of RSG a privately held company incorporated in Bulgaria. As part of the consideration of the acquisition, Iskander made a contractual obligation to fund 100% of the work program commitments associated with the Gradishte and Kilifarevo blocks and a long-term service agreement with the vendor for $240,000 per annum until the end of the work program.

The value of the Company's exploration commitments remaining at December 31, 2011 in respect of the Gradishte and Kilifarevo blocks are estimated to be as follows:

| | | Gradishte | | Kilifarevo |
|---|---|---|---|---|
| 2012 | $ | 202 | $ | 202 |
| 2013 | $ | 1,874 | $ | 1,705 |
| 2014 | $ | 16,072 | $ | 9,338 |
| 2015 | $ | 5,721 | $ | 277 |
| | $ | 23,869 | $ | 11,522 |

***b) Poland***

On April 21, 2011, Iskander acquired 65% of the issued and outstanding shares of a private company registered in Poland, Eurogas Polska from Eurogas Inc. Eurogas Polska has a 24% interest in a 3,250 sq. km Bieszczady Exploration Blocks in South-Eastern Poland. The Bieszczady Exploration Blocks consist of eight areas and are currently in year three of a five year exploration permit. The Exploration Permit provides the holder with the ability to apply for two additional 5 year exploration permits. The current commitments of Eurogas Polska's 24% interest in the Bieszczady Exploration Blocks are as follows:

| | | 2D Seismic | | Wells |
|---|---|---|---|---|
| 2012 - acquire 200 km 2D seismic and 1 shallow well | $ | 500 | $ | 1,405 |
| 2013 - acquire 280 km 2D seismic, 1 shallow and 1 deep well | $ | 460 | $ | 6,324 |
| | $ | 960 | $ | 7,729 |

**24 Related Party Transactions**

***a) Significant Subsidiaries***

The consolidated financial statements include the financial statements of Iskander Energy Corp. at December 31, 2011. The following is a list of significant subsidiaries of the Company.

| Significant Subsidiaries | Country of Incorporation | Principal Activities | Ownership Interest |
|---|---|---|---|
| IEC Iskander Cyprus Ltd. | Cyprus | Holding Company | 100% |
| IEC Ukraine I | Ukraine | Operating Company | 100% |
| IEC Ukraine II | Ukraine | Operating Company | 100% |
| Tzilkaf Investments Ltd | Cyprus | Holding Company | 100% |
| Eurogas Polska Z.o.o. | Poland | Operating Company | 65% |

Transactions between subsidiaries are eliminated upon consolidation.

***b) Compensation of Key Management Personnel***

Effective December 16, 2011, the Company changed the composition of the Board of Directors and Executive Officers which included the appointment of a new Chief Executive Officer, Chief Operating Officer and Chief Financial Officer. Prior to December 16, 2011, the Key Management personnel were the Directors, Chief Executive Officer and other key members of the Company's subsidiaries.

The compensation paid to key management and any related parties or parties which likely meet the definition of a related party under IFRS is as follows:

| For the year ended December 31,2011 | **Cash-based Transactions** | **Share-based Transaction** |
|---|---|---|
| Salaries, directors fees and other benefits (i) | 2,099 | 14,406 |
| Financing activities (ii) | 2,742 | 2,946 |
| | **4,841** | **17,352** |

(i) Cash-based transactions are related to salaries, consulting payments and success fees paid on corporate acquisitions. Share-based transactions relate to the granting of stock options and shares associated with asset acquisitions.

(ii) 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 have been recorded as share issue costs.