December 21, 2013

Dear Shareholders,

Georgian Light Oil

We continue to be very encouraged by our Georgian success. We have successfully cased our first Georgia light oil well a couple of weeks ago, ready to do a 5 stage frac starting mid-February when frac equipment is scheduled to arrive in the country. We spudded our second well in Georgia last weekend after running surface casing and as planned we suspended drilling until around January 10th, after Orthodox holidays.

The log results on our first well are much better than we had expected; we had previously only had logs from wells drilled by the Soviets in the 50's and 60's. Modern logs show 90m of oil pay above 15% porosity; at that porosity there should be lots of permeability (flow capacity).

With success our first two wells will be on production in the first half of March, two weeks after our last frac. Our share of cash flow from just these first two wells is estimated at over $500,000 per month. We have another 16 wells to drill on just this first development field in Georgia.

As you know Georgia remains very stable, recent democratic elections saw an orderly transfer of power. We received approval from the government within four months recognizing Iskander as a party to the revised Production Sharing Agreement (PSA), such a short time frame unheard of in most of the world. A couple of weeks ago Georgia signed the Association Agreement with the EU, clearly sending the message they will continue to move towards Europe. Our strategy of diversifying from both a geographical and commodity (light oil vs gas) point of view is paying off.

Ukraine CBM Drilling

We successfully fraced 12 coals seams with 7 separate fracs in our first Coal Bed Methane (CBM) well in November. We were very pleased that Schlumberger got all the frac sand fully into the coal seams. We expect to start pumping water next week; we have over 1000 m^3 of frac water in the coal zones. Allowing time for the gas flow to build, it will be well into January before we can get an idea of the well productivity.

We are particularly encouraged by the results of an injectivity test we performed following drilling on this well to assist in designing our fracs. The results from the injectivity test indicate that the permeability estimates are higher than we had expected which would result in higher gas rates.

We are making good progress on our application for a production license on this our first CBM license. We are expecting to retain all of the productive lands, only giving back land tied up with villages, etc.

We remain committed to Ukraine; the scale of our CBM opportunity is very compelling with room for some 2000 wells on our two blocks.

Developments in Ukraine

Political events in Ukraine recently have certainly been exciting. On my last visit to Ukraine in late November I walked through Independence Square on the way to our office every morning, watching the number of pro-Western protestors build.

The details of the recently signed gas pricing agreements with Russia have not yet been disclosed. Various press reports note that the price of natural gas will be reduced from approximately $430/1000 m^3 ($12.20/mcf) to $268.50/1000 m^3 ($7.60/mcf) beginning January 1, 2014 and that this price will be reviewed each quarter. It is rumored that this reduction in the price will remain until the presidential elections scheduled for some time early in 2015; the reason being that if a new president is elected that is not accommodating to the Russians, then the price reduction will likely be cancelled. While this Russian gas price reduction is credible in the short term, we do not believe it is sustainable in the medium to longer term since such a dramatic reduction will seriously impact Russia's export revenues (Ukraine is still the largest customer for Russian natural gas) which in turn will impair the Russian already weak budget outlook for next year and beyond. And, in view of the very low popularity of President Yanukovych and his party and government, as evident by the ongoing peaceful demonstrations, it is unlikely that he would be re-elected. In fact, he announced that he would not run for re-election if his popularity does not markedly improve, currently at about 16%.

So we believe that this gas price reduction will not last but even if it or some lesser reduction did remain in the longer term, we had previously run gas price sensitivities down to $6/mcf and our CBM development can still be economically very attractive depending on our well productivity. In all our economic cases, we had also conservatively assumed we had to pay a 25% royalty legislated in 2013 on our CBM production even though there is a tax and royalty holiday until 2020 in the earlier CBM legislation. We and our partner have been having discussions to build support to confirm that the new royalty law would not apply to CBM. A royalty holiday with a $7.60/mcf gas price would leave us with similar economics as paying a 25% royalty with the old gas price.

Financing Update

We have incurred some additional costs on drilling our first Georgian well and have to pay for a larger portion of our Georgian frac costs up front that we had previously assumed, so we now estimate we are approximately $1.5m short to drill and frac two Georgian oil wells and complete testing of our Ukraine CBM well. In addition to continuing discussions to sell our interests in Poland and Bulgaria and our rigs, we plan to approach key existing investors early in 2014.

Sincerely,

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