November 29, 2010

Dear Lord Rothschild,

Thank you for sharing the email you received from your cousin, David de Rothschild, concerning IEI's oil shale project in Israel. We appreciate the opportunity to address many of the arguments that were made in the misinformed letter that was addressed to David in the greenprophet.com website.

Like you, we are deeply aware of the serious environmental issues that need to be addressed for the project to be environmentally acceptable. As a result, we have designed our project around the concept of sustainable development. Moreover, we are devoting inordinate amounts of time, effort, and money to ensure that we address all relevant environmental concerns and regulations so that upon commercial deployment, oil shale can fulfill its potential to free Israel from dependence on oil imports from countries not friendly to its interests.

The IEI project has been designed based upon several prior successful field tests that were conducted in Colorado and Canada to prove that the process is technically viable and environmentally responsible. Furthermore, in connection with our planned Pilot Test, the company commissioned an environmental impact assessment. This EIS was reviewed by your technical team, and we would be happy to share it with David de Rothschild. The EIS has been submitted to the Ministry of Environment Protection, all the other regulatory authorities in Israel as well as a number of environmental NGO's and is in the public domain.

As you know, the company has adopted a staged development plan. Each stage has benchmarks and technical criteria that must be successfully met before proceeding to the next stage. The first step, the Appraisal Phase, is almost complete. The purpose of this phase is to have a thorough understanding of the geology, chemical composition and hydrology of our licensed area so that we can design the process specifically to the local conditions in the Shfela basin. At the outset of the project, the company guaranteed that each site we worked on would be reclaimed and returned to its previous state at the completion of the work. The company has received confirmation from the Ministry of Infrastructures that it has stood by its commitment. Critical to one of the principal concerns raised by environmentalists,

this Appraisal Phase confirmed that the local aquifer in the region is confined several hundred meters below the targeted oil shale layer and geologically isolated from the oil shale by a thick, impermeable rock formation. Furthermore, there is no danger of leaking as the in-situ technology works at low pressures, well below the pressure required to crack the rock. Our hydrologist, who was on sabbatical leave from the Israeli Geological Institute, confirmed this fact.

We are employing a laboratory at Ben-Gurion University, where we are currently conducting testing and simulations using shale rock extracted from several appraisal wells. The shale specimens from different areas and depths undergo geo-mechanical stress testing, chemical analysis and actual heating and oil extraction to project results for the pilot stage. This data is part of the basis for our confidence in the process, and is being used to design the field lab test called the "Pilot Test".

The small scale Pilot Test, which will be conducted on about 2 acres and is designed to last about 2 years, is intended to validate many of our underlying assumptions about the efficacy and environmental sustainability of the technology as it is applied to the local geology in the Shfela basin. Seven similar pilots have been successfully demonstrated in the past decade. We are coordinating our plan of operations for the Pilot Test with the Ministry of Environmental Protection and will be complying with all relevant regulations. Throughout this test we will monitor air and ground emissions, as well as the local water sources to identify and address any potential environmental issues should they arise. We will not advance to commercial operations until both we and the regulatory authorities are fully satisfied that the process is totally sound and has no material negative environmental impacts.

While the technology has yet to be deployed on a large scale commercially, each individual aspect of the process is used elsewhere on a commercial scale. With our in-situ process, there is no mining involved. The technology utilizes heaters, which are inserted in 6-inch diameter well bores that heat the subsurface. The letter refers to trenches 5 kilometers in length, which is completely inaccurate. In fact, the commercial project envisions subsurface wells that are first drilled 300 meters vertically and then 1 km horizontally.

The letter also refers to 3-5 Gigawatts of electricity being required for the process, equal to ½ of Israel's current electricity production. The fact is that the process is energy self-sufficient as gas is co-produced in the process. In the Commercial Phase, we will utilize this gas to generate our own non-electric heat for the production of oil and gas from shale. The Pilot test requires only 300kws of electric power and commercial operations will utilize minimal amounts, if any, of electricity from the grid.

You may hear critics of oil shale say that it consumes more energy than it produces. This is not true. In fact, the oil shale is so rich and the process so energy efficient, that we will have a net energy balance of approximately 5:1, meaning we will produce 5 units of energy output for every unit of energy input.

Using horizontal drilling, a well-established technique in the industry, we will minimize surface impact, utilizing one square kilometer of surface over 20 years for a 50,000 barrel per day project. The liquid and gaseous hydrocarbons which are produced require limited on site processing. Most processing facilities will be located elsewhere and finished products will be transported via pipeline to a refinery.

From a CO2 emissions standpoint, on a full life cycle wells to wheels basis, the process being deployed will reduce CO2 emissions by 5% when compared to shipping, importing and refining crude oil from Russia or other countries which currently supply Israel.

The letter also claims that Israel's oil shale resource is poor to medium in quality. In fact, our resource appraisal program has confirmed that the oil shale in the Shfela region is a world-class resource that is rich, thick, and homogeneous.

The letter refers to the fact that the fuel produced is rich in sulfur. As you may know, all conventional oil has various amounts of sulfur. We will not emit any sulfur into the atmosphere. The sulfur produced in the process will be captured during the refining and will eventually be sold as a commodity to the fertilizer industry, one of Israel's top commodity exports.

Finally, the letter claims that the shale oil extraction process requires significant amounts of water (up to 3 barrels of water for every barrel of oil produced). On the contrary, we will be net producers of water due to the pore space water contained in the Israeli oil shale.

Lord Rothschild, as you know, Israel imports all of its oil from foreign countries and gas from offshore rigs. Producing fuels from oil shale is an opportunity to secure Israel's energy security and independence. It is imperative that we look into its viability by conducting a Pilot Test. If successful, this project could revolutionize the geo-political climate in the region and allow for cooperation between Israel and its neighbors who are also looking to develop their own oil shale resources.

Any enterprise which uses new technology to explore new frontiers faces potential risks of all sorts. This is inescapable. However, progress is not possible without taking such risks, and those that are willing to do so using their own capital and reputation in that process expose themselves to the possibility of loss of both. As our critics know, we are people for whom our reputation is of primary concern. Moreover, while no one would claim solely nationalistic motivations, we know that relative to most investments made in this world the motivations here are far more ennobled than most any other we know. We will do everything humanly possible to minimize environmental and other risks, as we have up until now, conducting ourselves in a way which we can truly be proud.

We appreciate your interest and investment in the project and want to work with you to keep decision makers and the public informed and to dispel false claims by third parties. We welcome the opportunity to meet with your cousin David, and will make our entire scientific and technical team available to discuss the process, the environmental safeguards we are taking and the cautious, stepwise approach we are following.

As always, if you have any further questions please do not hesitate to contact us.

Sincerely,

Relik Shafir
Chief Executive Officer
Israel Energy Initiatives, Ltd.

Harold Vinegar
Chief Scientist
Israel Energy Initiatives, Ltd.

cc: Michael Steinhardt
Howard Jonas