Dear fellow shareholders,

Quarterly and annual reports present me with a golden opportunity to communicate directly with the investor community. Since I became CEO of UAT Three years ago and Chairman of UATG six months ago, enhancing the company’s transparency and predictability has been on the forefront of my agenda. With the introduction of a quarterly Chairman’s Letter, I wish to take this process a step further and share with you some of our observations on the developments in UATG’s portfolio.

The first quarter, since becoming a publicly traded company, presented UAT with bright spots, as well as some challenges. Quarterly earnings in our portfolio were mixed. UAT, a cornerstone of Umbra Applied Technologies Group (UATG) holdings portfolio, delivered results below market expectations, mainly due to execution issues. The CDIS project bid was rescheduled for a 2015 window release to streamline corporate focus on specific initiatives. On the other hand, Intrepid Innovations (I2) expanded its portfolio and delivered solid results, setting the company on track for the next growth phase. Intrepid Energy doubled quarterly revenues and swung into profit clearing the way for new products in the oil industry.

**UATG’s quarterly performance**

UATG’s net asset value nearly doubled to exceed $7.7 million posting an impressive 206.79 per cent gain in the first quarter, giving a per-share Net Asset Value (NAV) of 0.59 USD, an increase from year end 2013. As a result of business model foundational expenditures in the areas of research & development, exploration, supply chain management and product delivery infrastructure our cash holdings were reduced by $170,000 USD. UATG maintains a sufficient cash position to counter cyclical downturns and
maintains financial flexibility to support corporate operations. Our book equity ratio stands at 1.5 per cent.

UATG’s total return was an increase in the first quarter, compared to a per share loss reflected in last year’s year end, which corresponds to an improved yield based on UATG’s closing share price at year end 2013. UAT sees significant value potential in its portfolio and expects to grow NAV, which in turn will generate higher returns to shareholders.

The share traded at an improved net asset value discount, estimated at 47.2 percentage point improvement from year end. A challenge UATG faces lies in how best to assist the market in setting a fair value on our unlisted assets. This is an issue that has moved up on UATG’s agenda given the shift in our portfolio towards more privately-held companies. Book value is currently applied for our unlisted holdings when determining UATG’s gross asset value, but we are considering the introduction of a “private equity valuation method” or other suitable measurements for assessing a fair value on these.

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UATG’s ownership perspective

UATG offers first and foremost energy sector exposure, with 48.77 per cent of its investments related to oil and gas. The change from the previous quarter is primarily due to the restructuring of I2’s energy business model and asset entry under main holding company.

Overall, the macro drivers for the energy market remain positive, with global liquid fuels consumption reaching new peaks of around 90 million barrels per day at the start of 2013, driven by transport and power generation demand from growing economies such as India and China. Based on these trends, we expect the oil price to remain at current levels in the long term. A portion of the global Exploration & Production (E&P) spending is forecast to gain by a compound aggregate growth rate of 8-10 per cent long term, according to Rystad Energy data.

Still, the market sentiment has in the past six months turned against the European oil services industry amid weaker oil and gas prices, project delays and cancellations. Recent profit warnings have raised
questions regarding the quality of order backlogs in terms of margins, and companies’ ability to deliver projects on time and on budget. The concerns are not unfounded. UATG has as in the past warned of the risks related to high activity levels combined with cost inflation and shorter execution timeframes. UATG has begun to initiate operations in not only exploration but in secondary oil recovery of previously unusable oil reserves.

“We remain fundamentally convinced of the long-term growth potential for the oil service companies in our portfolio.”

UATG had a slow start to 2014. Its first quarter results surprised the market negatively, which reduced the share price some 47 per cent. Results fell mainly due to three specific issues: acceleration costs tied to ensuring timely delivery of prototypes, which are a necessary component of R&D and ultimately sales process; a loss in the UAT’s GreenTech segment due to actions taken by the management team to streamline operations and narrow existing business model; and a loss in the Oilfield Services and Exploration Assets (OEA) segment due to management restructuring and idle equipment that are expected to commence operations this summer. These are all issues that UATG expects to resolve in the near term.

Furthermore, it is important to keep in mind that UATG’s long term trend is still developing according to our ambitions. Margins are expected to improve in the second half of 2014, and sustained revenue growth is forecast for the coming years. In order to unlock further value potential, we expect UAT to focus on sales and flawless project execution, finding a strategic solution for the OEA business segment, and carefully review which businesses to prioritize to ensure profitable growth.

At Intrepid Energy, the focus is on developing a more cost-competitive delivery model, notably through new partnerships and greater use of low cost subcontractors. We remain fundamentally convinced of the long-term growth potential for the oil service companies in our portfolio. Both UAT and Intrepid Energy benefit from solid order backlogs, close working relationships with key national and international oil companies, and over 20 years of experience of the energy professionals working within Intrepid Innovations.

We plan to work more closely with the manufacturers and subcontractors going forward. The new Board of Directors should follow the expansion of the exploration segment closely, to early be able to identify possible delays or cost overruns, and implement relevant mitigating actions. This is to ensure that the
development goes according to schedule and doesn’t hamper the financing of the Intrepid Energy. Intrepid Energy is I2’s core asset and UATG will assist the company in obtaining attractive financing, so as to participate in the field’s development with an undiluted equity share. We support the company in its decision to raise capital through asset sales, in addition to debt and equity issuance. The search for a new CEO is underway. UATG is eager to see a CEO who can build Intrepid Energy from an exploration company into a fully integrated E&P company, with expanding operatorship.

Intrepid Energy reported solid first quarter results, with a doubling of the Mississippi Lime in the Cherokee Basin oil sales. UATG will provide industrial and financial support to enable the company to reach its full potential, and extended a guarantee for a new loan facility.

I2 continues to perform strongly, with good operational results and portfolio growth. The purchase and mineral rights agreements entered into in the Mississippi Lime, a strong counterparty, for its energy subsidiary represented another milestone for the company. A year into its establishment, I2 has projected to invest $500,000.00 USD in 4 leases and related equipment and boasts an average remaining contract tenor of up to 20 years. Further growth is expected to be funded by third party capital.

UATG remains confident about its interests in the Mississippi Lime formation as do many of its competitors. As many of you may have heard Chesapeake Energy Corp. recently announced the closing of its $1 billion joint venture with China's Sinopec International Petroleum Exploration and Production Corp with some of their leases being less than 100 miles away from UATG’s I2 oil interests. Assets associated with the joint venture in the Mississippi Lime region produced about 9,600 barrels of liquids and 54 million cubic feet of natural gas a day in the first quarter. Chesapeake has been selling assets for much of the past two years to pay off debt and fill a budget shortfall. The company, which hopes to bring in as much as $7 billion this year, now has raised $2.3 billion. This is indicative of the opportunity UATG intends to capitalize on in the Mississippi Lime formation.

We see continued recovery in the U.S. Jones Act market, as refinery shut downs on the U.S. East Coast and increased products output from refineries on the Gulf Coast spur trade growth. The rising time charter rates and full fleet employment in this market are benefitting several companies owned by UATG: Intrepid Innovations (I2), Intrepid Energy and ChaseDown. The favorable market conditions are reflected in the increase of UATG’s share trading volume, which has demonstrated consistent growth respectively.

UATG’s goal of realizing 1 billion in financial assets over the next three years, as announced at our capital markets day in January, stands firm. We continue to work actively with our investments, to establish long-term profitable growth, competitive market positions and sound organizational cultures.
Our goal is quite simply, that our companies become best-in-class. This is the foundation of UATG’s continued generation of competitive returns.

Respectfully,

Alexander L. Umbra
Chairman & Chief Executive Officer
Umbra Applied Technologies Group, Inc.

About Umbra Applied Technologies Group, Inc.

Umbra Applied Technologies Group, Inc. is a diversified, cutting-edge technology holding company with interests in the fields of alternative energy, conventional energy, medical innovation, environmental remediation, weapons systems, and compound recognition technologies that are related to homeland security. These segments support research, design, development, manufacture, integration, and sustainment of advanced technology systems, products, and services for defense, civil, and commercial applications in United States and internationally. It also provides management, engineering, technical, scientific, logistic, and information services.

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