CUB ENERGY INC

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Condensed consolidated interim financial Statements

For the three and six months ended June 30, 2015 and 2014

(Expressed in thousands of US Dollars, unless otherwise noted)

(Unaudited)

Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the consolidated interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The management of Cub Energy Inc. is responsible for the preparation of the accompanying unaudited condensed consolidated interim financial statements. The unaudited condensed consolidated interim financial statement have been prepared in accordance with International Financial Reporting Standards and are considered by management to present fairly the condensed consolidated interim financial position, operating results and cash flows of the Company.

The Company's independent auditor has not performed a review of these consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor. These unaudited condensed consolidated interim financial statements include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the condensed consolidated interim financial position, results of operations and cash flows.

Cub Energy Inc.
Condensed Consolidated Interim Statements of Financial Position
(Unaudited, expressed in thousands of US dollars)

As at	*Note*		June 30, 2015		December 31, 2014
Assets					
Current assets					
Cash		$	1,203	$	1,728
Trade and other receivables	*8*		80		423
Prepaid expenses and inventory			481		130
Dividend receivable	*5*		-		1,162
			1,764		3,443
Non-current assets					
Equity investment in KUB Holdings	*5*		15,666		17,586
Property, plant and equipment	*6*		9,675		12,147
Non-current receivables			38		38
			25,379		29,771
Total assets		$	27,143	$	33,214
Liabilities					
Current liabilities					
Trade and other payables		$	2,361	$	2,647
Interest payable	*10*		183		92
			2,544		2,739
Non-current liabilities					
Long term portion of line of credit	*10*		2,000		2,000
Deferred income tax liability			843		1,082
Provisions			163		198
			3,006		3,280
Total liabilities			5,550		6,019
Shareholders' equity					
Share capital			62,133		62,133
Warrants	*11*		281		281
Contributed surplus	*12*		4,567		4,502
Accumulated other comprehensive loss			(40,633)		(36,840)
Retained earnings (deficit)			(4,755)		(2,881)
Total shareholders' equity			21,593		27,195
Total shareholders' equity and liabilities		$	27,143	$	33,214

Nature of operations and going concern (Note 1)
Commitments and contingencies (Note 16)
Subsequent event (Note 22)

Approved by the Board "Mikhail Afendikov" Director **(Signed)** "Richard Stoneburner" Director **(Signed)**

Cub Energy Inc.
Condensed Consolidated Interim Statements of Operations and Comprehensive Income (Loss)
(Unaudited, expressed in thousands of US dollars, except per share data)

	Note	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Revenue		$ 856	$ 1,693	$ 2,632	$ 3,394
Royalty		397	344	1,481	783
Revenue, net of royalty		459	1,349	1,151	2,611
Income from equity investment	*5*	500	3,389	645	4,466
Operating expenses					
Selling and general administrative expenses	*14*	1,086	1,736	2,509	3,952
Depletion and depreciation	*6*	343	347	635	798
Cost of sales		117	158	260	386
Finance cost		60	28	219	7
Share-based payments	*12*	-	290	39	667
Accretion of decommissioning obligation		4	2	8	5
		1,610	2,561	3,670	5,815
Profit (loss) before tax		(651)	2,177	(1,874)	1,262
Income tax expense (recovery)		-	(15)	-	(15)
Net profit (loss)		(651)	2,192	(1,874)	1,277
Other comprehensive income (loss)					
Items that may be reclassified to profit or loss					
Foreign currency translation income (loss) on foreign operations		1,519	(2,226)	(3,793)	(23,542)
Comprehensive income (loss)		$ 868	$ (34)	$ (5,667)	$ (22,265)
Income (loss) per share					
Basic and diluted	*13*	(0.00)	0.01	(0.01)	0.00

See accompanying notes, which are an integral part of these condensed consolidated interim financial statements.

Cub Energy Inc.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Unaudited, expressed in thousands of US dollars)

	Note	**Number of shares**	**Share capital**	**Warrants**	**Contributed surplus**	**Accumulated other comprehensive income (loss)**	**Retained earnings (deficit)**	**Total**
Balances as at January 1, 2014		311,746,285	$ 62,133	$ 281	$ 3,521	$ (867)	$ 20,586	$ 85,654
Share-based payments	*12*	-	-	-	667	-	-	667
Currency translation adjustment		-	-	-	-	(23,542)	-	(23,542)
Net loss		-	-	-	-	-	1,277	1,277
Balances as at June 30, 2014		311,746,285	$ 62,133	$ 281	$ 4,188	$ (24,409)	$ 21,863	$ 64,056
Balances as at January 1, 2015		311,746,285	$ 62,133	$ 281	$ 4,502	$ (36,840)	$ (2,881)	$ 27,195
Share-based payments	*12*	-	-	-	65	-	-	65
Currency translation adjustment		-	-	-	-	(3,793)	-	(3,793)
Net loss		-	-	-	-	-	(1,874)	(1,874)
Balances as at June 30, 2015		311,746,285	$ 62,133	$ 281	$ 4,567	$ (40,633)	$ (4,755)	$ 21,593

See accompanying notes, which are an integral part of these condensed consolidated interim financial statements.

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Cub Energy Inc.
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited, expressed in thousands of US dollars)

	Note	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Operating activities					
Net income (loss)		$ (651)	$ 2,192	$ (1,874)	$ 1,277
Adjustments for:					
Dividends from equity investment	*5*	-	3,060	1,279	4,095
Income from equity investment	*5*	(500)	(3,389)	(645)	(4,466)
Depletion and depreciation	*6*	343	347	635	798
Share-based payments	*12*	-	290	39	667
Accretion		4	2	8	5
		(804)	2,502	(558)	2,376
Changes in working capital	*9*	(624)	(141)	(40)	403
Changes in provisions		-	27	-	27
Cash flows provided by (used in) operating activities		(1,428)	2,388	(598)	2,806
Investing activities					
Additions to property, plant and equipment	*6*	(44)	(2,584)	(127)	(3,537)
Additions to exploration and evaluation assets	*7*	-	(450)	-	(571)
Restricted cash		-	-	-	574
Cash provided by (used in) investing activities		(44)	(3,034)	(127)	(3,534)
Financing activities					
Proceeds from line of credit	*10*	-	1,000	-	2,000
Cash provided by (used in) financing activities		-	1,000	-	2,000
Net increase (decrease) in cash		(1,472)	354	(725)	1,272
Effects of exchange rates changes on cash		89	(144)	200	(771)
Cash at beginning of period		2,586	1,908	1,728	1,617
Cash at end of period		$ 1,203	$ 2,118	$ 1,203	$ 2,118

See accompanying notes, which are an integral part of these condensed consolidated interim financial statements.

1 Nature of operations and going concern

Cub Energy Inc. (the "Company") is engaged in the exploration, development and production of petroleum and natural gas properties in the Black Sea Region with a current focus on Ukraine. The Company was incorporated pursuant to the provisions of the Business Corporations Act (Ontario) and continued under the Canadian Business Corporations Act in February 2012. The address of the Company's registered office is 4500 Bankers Hall East, 855 - 2nd Street SW, Calgary, Alberta, T2P 4K7, Canada. The Company is listed on the TSX Venture Exchange ("TSXV") under the trading symbol "KUB".

The Company, through its subsidiary Gastek LLC ("Gastek"), owns a 30% equity interest in KUBGAS Holdings Limited ("KUB Holdings") which in turn owns a 100% equity interest in KUB-Gas LLC ("KUB-Gas"). KUB Holdings is governed by a shareholders agreement amongst the two shareholders. KUB-Gas or its subsidiary owns and operates six licensed gas and gas condensate fields in the Dnieper-Donetsk Basin of eastern Ukraine (five operating under production licenses and one under exploration license). In addition, the Company, through its subsidiary Listren Holding Company ("Listren"), owns 100% of Technogasidustria LLC ("TGI"). TGI assets consist of three exploration licenses in eastern Ukraine.

The Company, through its subsidiary Tysagaz LLC, also owns a 100% working interest in four licenses in western Ukraine. The Rusko-Komarivske field is currently in production while the other three licenses are currently under exploration.

Ukraine's political and economic situation has been volatile since the former Government's decision not to sign the Association Agreement and the Deep and Comprehensive Free Trade Agreement with the European Union in late November 2013. Political and social unrest, which escalated into violent conflicts in February 2014, resulted in the Ukrainian parliament initiating the resignation of the former president (Victor Yanukovych), election of a new President (Petro Poroshenko) in June 2014, change of government and heads of key governing bodies, and parliamentary elections in October 2014. With the new government in place, President Poroshenko signed the Association Agreement with European Union, the same agreement that was rejected in November 2013. The International Monetary Fund committed to a $17 billion two-year aid program to help the country's economy recover conditioned upon comprehensive economic reforms by the new Ukraine government. IMF financing commenced in March 2015.

Violent clashes in eastern Ukraine between Ukraine military and Russian–backed rebels began in May 2014, after the annexation of Crimea. Russian-backed rebels moved into the Donetsk and Lughansk regions in an attempt to occupy and claim these territories from Ukraine. Over the next several months and continuing into 2015, violence escalated with approximately 6,400 total casualties and massive destruction to the regions' infrastructure. Due to this military conflict, the Company suspended its field development operations in eastern Ukraine from June 27, 2014 until October 2, 2014 to ensure the safety of its employees. Production continued uninterrupted during that period. The Vergunskoye and Krutogorovskoye fields at KUB-Gas, which are located in the area close to the city of Lugansk, have been shut in due to the conflict. The production from these fields represented approximately 2% of the Company's total production. The Company continues to monitor the conflict to make any necessary changes to its operations.

The political unrest and ongoing military conflicts has also led to the deepening of the ongoing economic crisis, widening of the state budget deficit, depletion of the National Bank of Ukraine's foreign currency reserves and, as a result, a further downgrading of the Ukrainian sovereign debt credit ratings. In February 2014, following the significant devaluation of the national currency, Ukraine implemented several changes, including: the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions that require Ukrainian companies to convert 50% of all incoming foreign transfers to the local Ukrainian currency; the National Bank of Ukraine imposed a restriction that US and other foreign denominated loans in Ukraine could not be repaid in advance of their maturity dates; the National Bank of Ukraine passed resolutions prohibiting the payment of dividends to foreign shareholders from September 22, 2014, through September 3, 2015; in August 2014, the Ukraine parliament increased the natural gas royalty rate to 55% for production at or above depth of 5,000 metres; on January 1, 2015, termination of reduced royalty rate (30.25%) for new wells; and, in November 2014, the Ukraine government issued a decree requiring the largest natural gas consumers to purchase their gas from the state-owned company, National Joint Stock Company, Naftogaz ("Naftogaz"), effective December 1, 2014 through February 28, 2015. On March 3, 2015, Parliament re-introduced the discounted rate of 30.25% for new wells.

The political and economic uncertainty in Ukraine has contributed to a significant devaluation of the Ukrainian currency, Hryvnya ("UAH"), against major currencies. During the year ended December 31, 2014, the UAH went from approximately 8.2 UAH/USD to 16.4 UAH/USD representing an approximate 50% devaluation and to 21.0 UAH/USD as at June 30, 2015, for a further 22% devaluation from yearend but a 12% recovery from the first quarter of 2015.

During the six months ended June 30, 2015, the Company received $1,279 (2014 - $4,095) in dividends from KUB-Gas which represented the largest source of cash for the Company during the respective periods. The Company and its partner are reviewing alternatives for issuance of dividends in light of the dividend restrictions. Pelicourt Limited ("Pelicourt"), a significant shareholder of the Company which the Company's CEO is a principal of, and also the provider of a line of credit (see Note 10), notified the Company that it will not provide any further funding under the line of credit during 2015. The line of credit has $3,000 undrawn funds as of June 30, 2015.

As of June 30, 2015, the Company had a working capital deficit of $780 (December 31, 2014 – working capital of $704) and accumulated deficit of $4,755 (December 31, 2014 – $2,881) since its inception and may incur future losses in the development of its business. With the current cash resources, no further funding in 2015 under the existing Pelicourt line of credit, dividend restrictions, currency fluctuations, reliance on a single customer, and impact on carrying values, the Company may not have sufficient cash to continue the exploration and development activities. These matters raise significant doubt about the ability of the Company to continue as a going concern and meet its obligations as they become due. Continuing operations are dependent on the ability to obtain adequate funding to finance existing operations, receiving funds from Ukraine (including dividends), stability in Ukraine and attaining future profitable operations in Ukraine. Additional financing is subject to the global financial markets and economic conditions, and volatility in the debt and equity markets. These factors have made, and will likely continue to make it challenging to obtain cost effective funding or any at all. There is no assurance this capital will be available and, if it is not, the Company may be forced to curtail or suspend all planned activity.

(Unaudited, expressed in thousands of US dollars)

The continued operations of the Company and the recoverability of amounts shown for its petroleum and natural gas properties is dependent upon the existence of economically recoverable reserves and future profitable production, or upon the Company's ability to recover its costs through a disposition of its properties. The amount shown for petroleum and natural gas properties does not necessarily represent present or future value of those properties. Changes in future conditions could require a material change in the amount recorded for the petroleum and natural gas properties.

The Company is exposed to commodity price risk with respect to natural gas and oil commodity prices and foreign exchange rate risk with respect to its foreign assets. A significant decline in any one of these commodity prices or foreign exchange rates may affect the Company's ability to obtain capital for the exploration and development of its petroleum and natural gas properties.

2 Basis of preparation

(a) Statement of compliance

The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and their interpretations as issued by the International Accounting Standards Board ("IASB"). The condensed consolidated interim financial statements have been prepared in conformity with IAS 34 *Interim Financial Reporting* and do not include all the information required for full annual consolidated financial statements in accordance with IFRS and should be read in conjunction with the audited consolidated financials for the year ended December 31, 2014. The condensed consolidated financial statements for the period ended June 30, 2015, were approved by the board of directors of the Company on August 11, 2015. Certain prior period financial statement amounts have been reclassified to conform to current period presentation (Note 21).

(b) Basis of consolidation

(i) Subsidiaries and functional and reporting currencies

The following table describes the Company's subsidiaries and equity accounted investment, their place of incorporation, continuance or formation and the percentage of securities beneficially owned, controlled or directed by the Company as at June 30, 2015:

Name of Subsidiary/ Equity Accounted Investment	Percentage of Voting Securities Owned	Jurisdiction of Incorporation, Continuance or Formation	Functional Currency
Gastek LLC	100%	California	US
KUBGAS Holdings Limited	30%	Cyprus	US
KUB-Gas LLC	30%	Ukraine	Hryvnia
KUB-Gas Borova LLC	30%	Ukraine	Hryvnia
3P International Energy Limited	100%	Cyprus	US
Tysagaz LLC	100%	Ukraine	Hryvnia
Listren Holding Company	100%	Cyprus	US
Technogasidustria LLC (TGI)	100%	Ukraine	Hryvnia
Cub Energy Inc.	100%	Texas	US
Galizien Energy Corp.	100%	Ontario	Canadian
Anatolia Energy Corp.	100%	Alberta	Canadian
Anatolia Energy Inc.	100%	Alberta	Canadian
Anatolia Energy Holdings Inc.	100%	Cayman Islands	US
Anatolia Energy (Turkey) Inc.	100%	Cayman Islands	US

The Company accounts for its 30% indirect ownership in KUB Holdings as an investment in associate subject to significant influence under the equity method.

The functional currency of the parent company is the Canadian dollar. The presentation currency of the condensed consolidated interim financial statements is the US dollar. All financial information herein is presented in US dollars and is rounded to the nearest thousand except as noted. Financial information in Canadian dollars is noted as “CAD”.

(c) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized gains arising from intercompany transactions, are eliminated in preparing the condensed consolidated interim financial statements. Unrealized gains arising on transactions with equity accounted investee are eliminated against the investment to the extent of the Company’s interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(d) Basis of measurement

The condensed consolidated interim financial statements are prepared on the historical cost basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy.

(e) Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these condensed consolidated interim financial statements in conformity with IFRS. Actual results could differ from those estimates. Significant estimates include:

- To value the equity investment in KUB Holdings, management obtains financial information from the majority owner and adjusts the carrying value of the investment. The equity investment in KUB Holdings is subject to all estimates included in the financial information from the majority owner as well as estimates of impairment losses and subject to the ability of Kub Holdings to generate future dividends and ability to repatriate funds from Ukraine due to dividend restrictions discussed in Note 1.

- The determination of Cash Generating Units (“CGU”) 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. The Company views exploration and evaluation assets to be a separate CGU from its producing assets.

- Amounts recognized for depletion and depreciation and amounts used for impairment calculations are based on estimates of petroleum and natural gas reserves. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows, are subject to measurement uncertainty.

- There are a number of inherent uncertainties associated with estimating reserves. Reserves estimates are dependent upon variables including the recoverable quantities of hydrocarbons, the cost of the development of the required infrastructure to recover the hydrocarbons, production costs, estimated selling price of the hydrocarbons produced, royalty payments and taxes. Changes in these variables could significantly impact the reserves estimates which would affect the impairment test and depreciation, depletion and amortization expense of the Company’s crude oil and natural gas assets. The Company’s crude oil and natural gas reserves are evaluated annually and reported to the Company by independent qualified reserves evaluators.

- Amounts recognized for decommissioning obligations, if any, and the related accretion expense requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

- Charges for share-based payment and the value of warrants are based on the fair value at the date of issuance. These instruments are subject to the estimation using pricing models such as the Black-Scholes option pricing model, which is based on assumptions such as volatility, dividend yield, risk free rate of return and expected term. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

- Allocation of the purchase price of acquisitions requires estimates as to the fair market value of the assets acquired and judgment is required in determination if the transaction constitutes a business or an asset acquisition.

- Tax interpretations, regulations and legislations in the jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

- Judgment is required to determine the functional currency of the parent and its subsidiaries. These judgments are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances.

- The Company applies judgment in assessing its ability to continue as a going concern for at least 12 months. In making this assessment, the Company considered its ability to obtain future financing and curtail its spending. The Company concluded that there is a material uncertainty that may cast doubt on its ability to continue as a going concern.

3 Significant accounting policies

These condensed consolidated interim financial statements are prepared in accordance with IFRS and follow the same accounting policies and methods of their application as the most recent audited financial statements for the year ended December 31, 2014. These financial statements should be read in conjunction with those consolidated financial statements.

4 New standards and interpretations not yet adopted in 2015

A number of new accounting standards, amendments to accounting standards and interpretations are effective for annual periods beginning on or after January 1, 2016 and have not been applied in preparing the condensed consolidated interim financial statements for the three and six months ended June 30, 2015. The standards applicable to the Company are as follows and will be adopted on their respective effective dates:

Revenue recognition

On May 28, 2014, the IASB issued IFRS 15, "*Revenue From Contracts With Customers*" ("IFRS 15") replacing International Accounting Standard 11, "*Construction Contracts*" ("IAS 11"), IAS 18, "*Revenue*" ("IAS 18"), and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded.

(Unaudited, expressed in thousands of US dollars)

The new standard is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the condensed consolidated interim financial statements.

Financial instruments

On July 24, 2014, the IASB issued the final version of IFRS 9, "*Financial Instruments*" ("IFRS 9") to replace IAS 39, "*Financial Instruments: Recognition and Measurement*" ("IAS 39").

IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements; however, where the fair value option is applied to financial liabilities, the change in fair value resulting from an entity's own credit risk is recorded in OCI rather than net earnings, unless this creates an accounting mismatch. In addition, a new expected credit loss model for calculating impairment on financial assets replaces the incurred loss impairment model used in IAS 39. The new model will result in more timely recognition of expected credit losses. IFRS 9 also includes a simplified hedge accounting model, aligning hedge accounting more closely with risk management. The Company does not currently apply hedge accounting.

IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS 9 on the condensed consolidated interim financial statements.

5 Equity investment in KUB Holdings

The Company's share of the consolidated income from its 30% ownership interest in KUB Holdings for the six months ended June 30, 2015 was $645 (2014 – $4,466). As of June 30, 2015, the Company's 30% ownership investment was $15,666 (December 31, 2014 - $17,586). The continuity of the Company's investment in KUB Holdings is as follows:

Investment in KUB Holdings as at January 1, 2014	$	30,518
Income from Equity investment		4,466
Dividends received		(4,095)
Currency translation adjustment		(6,402)
Investment in KUB Holdings as at June 30, 2014	$	24,487
Investment in KUB Holdings as at January 1, 2015	$	17,586
Income from Equity investment		645
Dividends received		(185)
Currency translation adjustment		(2,380)
Investment in KUB Holdings as at June 30, 2015	$	15,666

As at June 30, 2015 and December 31, 2014, KUB Holdings on a gross basis includes the following:

(Unaudited, expressed in thousands of US dollars)

		June 30, 2015		**December 31, 2014**
Current assets	$	10,089	$	13,353
Non-current assets		59,183		71,173
Current liabilities		(13,034)		(19,455)
Non-current liabilities		(4,017)		(6,452)
Net assets	$	52,221	$	58,619

Six months ended June 30,		**2015**		**2014**
Capital expenditures	$	2,678	$	12,586
Revenues		32,553		52,818
Royalty expense		19,777		12,737
Net income		2,151		14,862
Other comprehensive income (loss)	$	(7,933)	$	(21,950)

Three months ended June 30,		**2015**		**2014**
Capital expenditures	$	1,155	$	5,425
Revenues		15,527		29,372
Royalty expense		8,905		6,443
Net income		1,669		11,271
Other comprehensive income (loss)	$	2,934	$	(1,958)

During the six months ended June 30, 2015, KUB Holdings recorded $7,933 in other comprehensive losses (2014 – $21,950) as a result of the Ukrainian currency devaluation.

The Company received dividends of $1,279 (2014 - $4,095) during the six months ended June 30, 2015, of which $1,162 (2014 - $Nil) was recorded as a dividend receivable at December 31, 2014 from KUB Holdings and $185 was declared in 2015 but the Company received $117 as a result of the Ukrainian currency devaluation between declaration and payment dates.

6 Property, plant and equipment

Cost		**Petroleum and Natural Gas Interests**		**Equipment, Furniture and Fixtures**		**Total**
Balance as at January 1, 2014	$	25,407	$	1,477	$	26,884
Additions and acquisition		4,951		230		5,181
Impairment of petroleum and natural gas interests		(3,035)		-		(3,035)
Effect of movements in exchange rates		(14,077)		(282)		(14,359)
Balance as at December 31, 2014		13,246		1,425		14,671
Additions		-		127		127
Effect of movements in exchange rates		(2,314)		(146)		(2,460)
Balance as at June 30, 2015	$	10,932	$	1,406	$	12,338

(Unaudited, expressed in thousands of US dollars)

Accumulated depletion and depreciation		**Petroleum and Natural Gas Interests**		**Equipment, Furniture and Fixtures**		**Total**
Balance as at January 1, 2014	$	1,310	$	400	$	1,710
Depletion and depreciation for the year		1,277		128		1,405
Effect of movements in exchange rates		(630)		39		(591)
Balance as at December 31, 2014		1,957		567		2,524
Depletion and depreciation for the period		551		84		635
Effect of movements in exchange rates		(417)		(79)		(496)
Balance as at June 30, 2015	$	2,091	$	572	$	2,663

Carrying amounts						
Balance as at December 31, 2014	$	11,289	$	858	$	12,147
Balance as at June 30, 2015	$	8,841	$	834	$	9,675

As at June 30, 2015, $Nil (December 31, 2014 - $1,271) of additions to property, plant and equipment are non-cash working capital items and included in trade and other payables on the consolidated statements of financial position.

Management assessed whether there were indications of impairment of the Company's property, plant and equipment assets as at June 30, 2015. While impairment indications exist, such as the carrying value of its petroleum and natural gas assets exceeding the Company's total market capitalization, the Company believes no impairment is warranted as at June 30, 2015 as the net present value of expected future cash flows supports the carrying value. During the year ended December 31, 2014, the Company determined that the carrying value of its petroleum and natural gas assets exceeded the net present value of expected future cash flows (value in use) using a discount rate of 28%. As a result, the Company recorded an impairment of $3,035 during the year ended December 31, 2014. Factors that lead to the discount rate of 28% to be used in the value in use calculation included but not limited to the associated risks with the operating environment in Ukraine.

7 Exploration and evaluation assets

		Six months ended June 30, 2015		**Year ended December 31, 2014**
Net carrying amount, beginning of the period	$	-	$	33,510
Additions		-		2,410
Impairment of exploration and evaluation assets		-		(22,344)
Effect of movements in exchange rates		-		(13,576)
Net carrying amount, end of the period	$	-	$	-

Exploration and evaluation assets consist of the Company's intangible exploration projects which are pending the determination of proved or probable reserves.

Management assessed whether there were indications of impairment of the Company's exploration and evaluation assets as at December 31, 2014 as per IFRS 6 Exploration for and Evaluation of Mineral Resources. The Company determined that it would not be committing any material capital over the next twelve months on its exploration and evaluation assets in eastern Ukraine (TGI) which are situated in or near rebel held territory and recorded an impairment of $9,566 during the year ended December 31, 2014. In addition, the Company recorded an impairment of $12,778 during the year ended December 31, 2014 reflecting the total carrying value of the exploration and evaluation assets in western Ukraine (Tysagaz) where it is uncertain when the Company will have sufficient capital to continue exploration and evaluation efforts.

(Unaudited, expressed in thousands of US dollars)

8 Trade and other receivables

		June 30, 2015		December 31, 2014
Trade receivables	$	59	$	147
VAT receivable		17		274
HST receivables		4		2
	$	80	$	423

The Valued Added Tax ("VAT") is a tax imposed on goods and services in Ukraine. The VAT paid is recoverable against future VAT collected on sales and will be carried forward to the future reporting periods when the Company could elect to offset all or part of the VAT receivable against its future VAT liabilities.

9 Changes in working capital

	Three months ended June 30,				Six months ended June 30,			
		2015		2014		2015		2014
Cash flows relating to:								
Decrease (increase) in trade and other receivables	$	184	$	(272)	$	250	$	(98)
Decrease (increase) in prepaid expenses and inventory		(353)		(211)		(361)		(160)
Increase (decrease) in trade and other payables		(501)		356		(20)		661
Increase (decrease) in interest payable		46		(14)		91		-
	$	(624)	$	(141)	$	(40)	$	403

The working capital cashflows shown above may differ from the statement of financial position due to the additional trade and other payables that are included in property, plant and equipment (Note 6) and effects from currency fluctuations.

10 Line of credit

During the year ended December 31, 2013, the Company extended and increased the line of credit with Pelicourt, a significant shareholder of the Company and a related party to the CEO of the Company. The extended and amended line of credit is for $5,000 and bears interest at 9% per annum and interest is payable semi-annually. The principal of the line of credit is due in full on September 30, 2016. During the year ended December 31, 2014, the Company drew down $2,000 of the facility. During the six months ended June 30, 2015, the Company accrued interest of $91 (2014 - $58). The outstanding balance as at June 30, 2015 was $2,000 (December 31, 2014 - $2,000) in principal and $183 (December 31, 2014 - $92) in accrued interest. On November 14, 2014, an amending agreement was signed that deferred interest payments due until December 27, 2015.

Pelicourt notified the Company that it will not provide any further funding under the line of credit in 2015. This raises significant doubt about the ability of the Company to continue as a going concern and meet its obligations as they become due.

(Unaudited, expressed in thousands of US dollars)

11 Warrants

A summary of the common share purchase warrants is presented below.

	Number of Warrants		Amount
Balance as at January 1, 2014	11,040,306	$	281
Expiry of warrants	(1,854,743)		-
Balance as at December 31, 2014 and June 30, 2015	9,185,563	$	281

There were no fair value measurements of warrants during the six months ended June 30, 2015 and 2014.

Issuance Date		Exercise price (CAD)	Outstanding	Expiry Date
June 26, 2013	$	3.77	1,109,688	March 15, 2016
June 26, 2013	$	3.77	761,875	March 21, 2016
June 26, 2013	$	1.42	7,314,000	July 19, 2015
Total			9,185,563	

12 Share-based payments

(a) Stock options

The Company has a stock option plan under which it is authorized to grant options to its directors, officers, employees and consultants for the purchase of up to 10% of the issued and outstanding common shares. The term of options under the plan shall not exceed 10 years, have an exercise price not less than the current market price and may be subject to vesting terms as determined by the board of directors.

There were no stock options granted during the six months ended June 30, 2015 and 2014. Options expire five years from the date of grant and vest 12.5% every three months, and are fully vested two years after the date of grant. The Company uses a graded vesting methodology to expense the options over the vesting period. During the six months ended June 30, 2015, officers, directors, employees and consultants voluntarily canceled 16,130,000 stock options for no consideration and a further 3,089,000 stock options expired. There were no stock options outstanding as at June 30, 2015. The Company recorded share based payments of $39 during the six months ended June 30, 2015 (2014 – $667). Weighted average exercise price for options exercisable as of June 30, 2015 was CAD $Nil (2014 – CAD $0.44).

	Number of Options		Weighted Avg Exercise Price (CAD)
Balance as at January 1, 2014	22,509,000	$	0.47
Options cancelled or expired	(3,290,000)		0.40
Balance at December 31, 2014	19,219,000	$	0.41
Options cancelled or expired	(19,219,000)		0.41
Balance at June 30, 2015	-	$	-

(Unaudited, expressed in thousands of US dollars)

(b) Restricted stock units

The Company approved a restricted share unit (“RSU”) plan in 2014 under which it is authorized to grant RSUs to its directors, officers, employees and consultants of up to 10% of the issued and outstanding common shares. The term of RSUs under the plan shall not exceed 10 years, have an grant price not less than the current market price and are subject to a three-year vesting term with 1/3 vesting on the first, second and third anniversaries from the date of issuance. Upon vesting, the holder will receive common shares issued by the Company or cash. The recipient of the RSU is also entitled to receive dividends associated with the underlying common shares.

During the six months ended June 30, 2015, the Company issued 3,673,642 RSUs to the CEO of the Company as settlement of $158 of his 2014 compensation with a third of the RSUs vesting on each of January 23, 2016, January 23, 2017, and January 23, 2018. On the vesting date, common shares will be issued by the Company. During the six months ended June 30, 2015, the Company recorded share based payments of $26 (2014 – $Nil) which represents the graded vesting methodology of the RSUs over the vesting period. This amount is offset against the accrued payable to the CEO.

13 Income (loss) per share

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Numerator				
Income (loss) for the period - basic and diluted	$ (651)	$ 2,192	$ (1,874)	$ 1,277
Denominator (in 000's)				
Weighted average shares - basic and diluted	311,746	311,746	311,746	311,746
Basic and diluted income (loss) per share	$ (0.00)	$ 0.01	$ (0.01)	$ 0.00

14 Selling and general administrative expenses

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Salaries	$ 590	$ 862	$ 1,493	$ 1,799
Travel	48	270	78	609
Professional fees	155	198	282	489
Consulting fees	96	141	246	320
Office and administration	140	173	305	386
Business development and investor relations	6	25	24	71
Exploration expenses	51	67	81	278
	$ 1,086	$ 1,736	$ 2,509	$ 3,952

(Unaudited, expressed in thousands of US dollars)

15 Operating segments

The Company defines its reportable segments based on geographical locations as follows:

	Ukraine	Canada	USA	Turkey	Total
Three months ended June 30, 2015					
Revenue	$ 856	$ -	$ -	$ -	$ 856
Royalty	(397)	-	-	-	(397)
Income from equity investment	500	-	-	-	500
Selling and general administrative expenses	(242)	(352)	(485)	(7)	(1,086)
Depletion and depreciation	(320)	-	(23)	-	(343)
Cost of sales	(117)	-	-	-	(117)
Finance cost	(13)	(45)	(2)	-	(60)
Accretion and decommissioning obligation	(4)	-	-	-	(4)
Net profit (loss)	$ 263	$ (397)	$ (510)	$ (7)	$ (651)

	Ukraine	Canada	USA	Turkey	Total
Six months ended June 30, 2015					
Revenue	$ 2,632	$ -	$ -	$ -	$ 2,632
Royalty	(1,481)	-	-	-	(1,481)
Income from equity investment	645	-	-	-	645
Selling and general administrative expenses	(562)	(679)	(1,260)	(8)	(2,509)
Depletion and depreciation	(587)	-	(48)	-	(635)
Cost of sales	(260)	-	-	-	(260)
Finance cost	(44)	(171)	(4)	-	(219)
Share-based payments	-	(39)	-	-	(39)
Accretion and decommissioning obligation	(8)	-	-	-	(8)
Net profit (loss)	$ 335	$ (889)	$ (1,312)	$ (8)	$ (1,874)

	Ukraine	Canada	USA	Turkey	Total
Three months ended June 30, 2014					
Revenue	$ 1,693	$ -	$ -	$ -	1,693
Royalty	(344)	-	-	-	(344)
Income from equity investment	3,389	-	-	-	3,389
Selling and general administrative expenses	(374)	(326)	(1,025)	(11)	(1,736)
Depletion and depreciation	(340)	(2)	(5)	-	(347)
Share-based payments	-	(290)	-	-	(290)
Cost of sales	(158)	-	-	-	(158)
Accretion and decommissioning obligation	(2)	-	-	-	(2)
Finance cost	-	(19)	(9)	-	(28)
Income tax recovery	-	-	-	15	15
Net profit (loss)	$ 3,864	$ (637)	$ (1,039)	$ 4	$ 2,192

	Ukraine	Canada	USA	Turkey	Total
Six months ended June 30, 2014					
Revenue	$ 3,394	$ -	$ -	$ -	3,394
Royalty	(783)	-	-	-	(783)
Income from equity investment	4,466	-	-	-	4,466
Selling and general administrative expenses	(735)	(863)	(2,322)	(32)	(3,952)
Depletion and depreciation	(754)	(4)	(40)	-	(798)
Share-based payments	-	(667)	-	-	(667)
Cost of sales	(386)	-	-	-	(386)
Accretion and decommissioning obligation	(5)	-	-	-	(5)
Finance cost	-	(1)	(6)	-	(7)
Income tax recovery	-	-	-	15	15
Net profit (loss)	$ 5,197	$ (1,535)	$ (2,368)	$ (17)	$ 1,277

(Unaudited, expressed in thousands of US dollars)

	Ukraine	Canada	USA	Turkey	Total
As at June 30, 2015					
Total current assets	$ 646	$ 911	$ 206	$ 1	$ 1,764
Total non-current assets	$ 24,259	$ 803	$ 317	$ -	$ 25,379
Total liabilities	$ 1,530	$ 3,205	$ 815	$ -	$ 5,550
As at December 31, 2014					
Total current assets	$ 732	$ 2,608	$ 93	$ 10	$ 3,443
Total non-current assets	$ 28,543	$ 376	$ 852	$ -	$ 29,771
Total liabilities	$ 2,936	$ 2,373	$ 708	$ 2	$ 6,019

Revenue and the related accounts receivable are represented by one or two customers, respectively, during the six months ended June 30, 2015 and 2014.

16 Commitments and contingencies

Ukraine

The Company has an obligation to incur certain capital expenditures to comply with the Ukrainian exploration license requirements. Under these license maintenance commitments, the Company is required to explore its licensed fields. Although these commitments are not binding and may be modified based on results of exploration work, the Company’s potential capital expenditures relating to qualifying activities on gas and gas condensate fields will be material during the period from 2015 to 2016 as part of the planned exploration and development program. Justified deviation from the capital expenditures is permitted and should be agreed with the licensor, while failure to commit exploration works and substantiate the different capital expenditure schedule may result in termination of the exploration license. The Company has applied to extend the expenditure periods, including force majeure, although there are no assurances any extension will be provided.

Office Space

The Company has a lease agreement for office space in Houston, Texas which expires in May 2020. The commitment is approximately $166 per year for the term of the lease.

Lawsuit

During the six months ended June 30, 2015, a lawsuit was initiated against TGI, a Ukrainian subsidiary of the Company whose assets are located in territory occupied by Russian-backed rebels. The suit claims that TGI owes the contractor for work performed on a seismic contract performed in 2013 and is seeking payment of the contract plus interest and special costs totalling approximately $330 (using exchange rate as of June 30, 2015). TGI continues to defend itself vigorously. Included in trade and other payables at June 30, 2015 was $269 (December 31, 2014 - $345) related to this matter. The decrease in the liability from December 31, 2014 is a result of the devaluation of the UAH between periods.

17 Related party transactions

Transactions with related parties are incurred in the normal course of business. During the six months ended June 30, 2015 and 2014, there were no related party transactions other than the Pelicourt line of credit (Note 10).

(Unaudited, expressed in thousands of US dollars)

18 Key management compensation

Key management personnel include executive officers and non-executive directors. Executive officers are paid a salary and participate in the Company's stock option and RSU plans. Non-executive directors also participate in the Company's stock option and RSU plans. Key management personnel compensation is comprised of the following:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Director fees	$ 50	$ 112	$ 135	$ 243
Director share-based compensation	-	32	4	92
Management wages	317	343	634	676
Management share-based compensation	-	125	17	297
Total	$ 367	$ 612	$ 790	$ 1,308

As at June 30, 2015, $296 or CAD $368 was accrued and owing to directors for their 2015 and 2014 directors fees (December 31, 2014 - $172 or CAD $200) and included in trade and other payables.

Pursuant to an employment agreement with the CEO of the Company, the Company is to compensate the CEO $550 annually which is paid $75 in cash and the remaining $475 may be paid in RSUs (vesting over three years) or cash at the discretion of the Board of Directors. During the six months ended June 30, 2015, the Company issued 3,673,642 RSUs (2014 - Nil) to the CEO at a price of CAD $0.05/per share with a total value $158 or CAD $184. As at June 30, 2015, $681 (December 31, 2014 - $475) was included in trade and other payables owing to the CEO for his accrued compensation.

19 Financial risk management

(a) Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- foreign exchange risk
- interest risk
- commodity price risk

This note presents information about the Company's exposure to each of these risks, the Company's objectives, policies and processes for managing and measuring risk, and the management of capital.

Management has overall responsibility for the establishment and oversight of the risk management framework.

The risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from cash, dividends receivable and trade and other receivables, excluding sales tax.

(Unaudited, expressed in thousands of US dollars)

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. The Company manages its credit risk by holding its cash with high credit quality Canadian, US, Turkish and Ukrainian financial institutions.

The following table identifies the Company's maximum exposure to credit risk:

		June 30, 2015		December 31, 2014
Cash	$	1,203	$	1,728
Trade and other receivables		63		149
Non-current receivables		38		38
Dividend receivable		-		1,162
	$	1,304	$	3,077

The Company, through its wholly owned subsidiary and owner of the 30% interest in KUB Holdings, has provided a cross-indemnity of up to 30% to KUB Holdings' majority shareholder with respect to a guarantee provided by KUB Holdings' majority shareholder to the European Bank for Reconstruction and Development ("EBRD") for a loan facility advanced to KUB-Gas. As at June 30, 2015, KUB-Gas had approximately $2,462 (December 31, 2014 - $2,385) of loan proceeds outstanding with EBRD. The Company's maximum guarantee exposure as at June 30, 2015, amounts to $739 (December 31, 2014 - $716). Subsequent to the quarter ended June 30, 2015, a scheduled repayment of $1,800 was made, resulting in $600 ($180 net to the Company) left outstanding to be repaid in January 2016, at which time the loan will be repaid in its entirety.

(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 manages its liquidity risk by forecasting cash flows and anticipated investing and financing activities. Officers of the Company are actively involved in the review and approval of planned expenditures.

The Company ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters and the ability of the Company to get funds from Ukraine due to uncertainties in Ukraine related to dividend restriction policies.

The Company was notified in 2014 by Pelicourt that it will not provide any further funding under the line of credit in 2015. The line of credit has $3,000 undrawn funds as at June 30, 2015. See Note 10. As at June 30, 2015, the Company had current assets of $1,764 and had the following financial liabilities:

	As at June 30, 2015					
		Carrying Amount		Contractual Cash Flows		< 1 year
Trade and other payables	$	2,361	$	2,361	$	2,361
Interest payable		183		183		183
Line of credit		2,000		2,000		-
Provisions		163		-		-
	$	4,707	$	4,544	$	2,544

(Unaudited, expressed in thousands of US dollars)

(d) Foreign exchange risk

The Company is exposed to foreign exchange risk primarily related to operating and capital expenditures, denominated in currencies other than the US Dollar, which is primarily Canadian dollars and Ukrainian Hryvnia. The following financial instruments are shown in US Dollars:

		As at June 30, 2015 UAH		CAD		Total
Cash	$	51	$	30	$	81
Trade and other receivables		76		3		79
Trade and other payables		(471)		85		(386)
Provisions		(163)		-		(163)
	$	(507)	$	118	$	(389)
Effect of +/- 10% change in foreign exchange rate	$	(51)	$	12	$	(39)

(e) Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company includes equity, comprised of issued share capital, contributed surplus, warrants, accumulated other comprehensive income (loss) and retained earnings (deficit) in the definition of capital. As at June 30, 2015, the Company has total shareholders' equity of $21,593 (December 31, 2014 - $27,195). The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund the identification and evaluation of potential acquisitions. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity, debt or by securing strategic partners.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the six months ended June 30, 2015.

(f) Commodity price

The Company is exposed to risks due to fluctuations in the price of natural gas in the Ukraine and the market price of brent crude oil. The domestic gas price within Ukraine is set by the National Electricity Regulatory Commission of Ukraine by reference to the Russian imported gas price, while the market price of brent crude oil is impacted by market risk factors. The Company has no commodity hedge program in place which could potentially mitigate the price risk.

20 Financial instruments

The Company's financial instruments consist of cash, restricted cash, dividend receivable, trade and other receivables (excluding sales tax), line of credit, interest payable trade and other payables. The fair values of financial instruments other than cash approximate their carrying values because of their current nature.

(Unaudited, expressed in thousands of US dollars)

		June 30, 2015		December 31, 2014
Fair value through profit or loss (i)	$	1,203	$	1,728
Loans and receivables (ii)	$	101	$	1,349
Other financial liabilities (iii)	$	4,544	$	4,739

The preceding table summarizes the carrying values of the Company's financial instruments:

(i) Cash and restricted cash
(ii) Trade and other receivables, dividends receivable and non-current trade and other receivables (excludes sales tax)
(iii) Trade and other payables, interest payable and line of credit

The Company classifies its fair value measurements in accordance with the three levels fair value hierarchy as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and
- Level 3 – Inputs that are not based on observable market data.

The Company's financial instruments measured at fair value on a recurring basis are as follows:

		Level 1		Level 2		Level 3		Total
As at June 30, 2015								
Cash	$	1,203	$	-	$	-	$	1,203
As at December 31, 2014								
Cash	$	1,728	$	-	$	-	$	1,728

21 Comparative figures

The Company has reclassified certain prior period comparative figures to conform to the current period's presentation. Net income (loss) previously reported was not affected by this reclassification.

22 Subsequent event

Subsequent to the six months ended June 30, 2015, the Company's wholly owned Ukrainian subsidiary, Tysagaz, entered into an unsecured non-interest bearing loan agreement with KUBGAS, whereby KUBGAS has agreed to lend Tysagaz approximately $450 (UAH $9,473) for general working capital. The loan is due and payable on December 31, 2016.