CUB ENERGY INC

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015 AND 2014

Introduction

The following management discussion and analysis ("MD&A") is a review of operations, current financial position and outlook for Cub Energy Inc. (the "Company" or "Cub") and should be read in conjunction with the audited consolidated financials for the years ended December 31, 2014 and 2013 and the unaudited condensed consolidated interim financials for the three and six months ended June 30, 2015 and 2014. Amounts are reported in United States dollars, unless otherwise stated, based upon the financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A is dated as of August 13, 2015.

This MD&A provides management's view of the financial condition of the Company and the results of its operations for the reporting periods indicated. Additional information related to the Company and risk factors is available in the Company's Annual Information Form ("AIF") as filed on the Canadian Securities Administrators' website at www.sedar.com or on the Company's website at www.cubenergyinc.com.

Corporate Overview and Strategy

The Company is a publicly-traded, international energy company engaged in exploration and development of onshore oil and gas properties in the Black Sea region of Europe. The Company aims to bring modern technologies (including dual-completions, hydraulic fracturing and horizontal drilling) to deliver new production and reserves on existing under-developed fields, while identifying new conventional and unconventional prospects for future exploration and appraisal. Key to success in this region is the Company's strong local relationships, key operating partnerships and a history of management experience operating in-country.

Current production is driven by a 30% interest in KUB-Gas LLC ("KUB-Gas") in eastern Ukraine and the Company's 100% operated interest in western Ukraine in Tysagaz LLC ("Tysagaz").

Barrels of Oil Equivalent Conversion

A barrel of oil equivalent ("boe") or units of natural gas equivalents ("Mcfe") are calculated using the conversion factor of 6 Mcf (thousand cubic feet) of natural gas being equivalent to one barrel of oil. A boe conversion ratio of 6 Mcf:1 bbl (barrel), or a Mcfe conversion ratio of 1 bbl:6 Mcf, is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and is not based on either energy content or current prices. While the boe ratio is useful for comparative measures, it does not accurately reflect individual product values and might be misleading, particularly if used in isolation. As well, given that the value ratio, based on the current price of crude oil to natural gas, is significantly different from the 6:1 energy equivalency ratio, using a 6:1 conversion ratio may be misleading as an indication of value.

Forward Looking Information

This MD&A contains "forward-looking information" which may include, but is not limited to, statements with respect to the future financial or operating performance of the Company, its petroleum and natural gas projects, the future price of resources, the estimation of reserves, the realization of resource estimates, the timing and amount of estimated future production, costs of production, capital, operating and exploration expenditures, costs and timing of development, costs and timing of future exploration, requirements for additional capital, government regulations, environmental risks, reclamation expenses, title disputes or claims and limitations of insurance coverage. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

Forward-looking statements are based on the opinions and estimates of management as of the date such statements are made and are based on assumptions. They involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and/or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, general business, economic, competitive, fluctuations in currency, political and social uncertainties; the actual results of current exploration activities; actual results of reclamation activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of resources; possible variation recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labor disputes and other risks of the industry; political instability; delays in obtaining governmental approvals or financing or in the completion of development or construction activities, as well as those factors discussed in the section entitled "Risk Factors" in the Company's AIF. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results, except as may be required by applicable securities laws. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

Reported Results and Equity Investment

The Company has an effective 30% ownership interest in KUB-Gas, a Ukrainian company which owns assets representing a substantial portion of the Company's core operating properties, income and cashflow and also owns 100% ownership of Tysagaz, whose producing assets are in western Ukraine.

All of the KUB-Gas shares are held through KUBGAS Holdings Limited ("KUB Holdings"), a private company incorporated in Cyprus, which is 30% owned by the Company and 70% owned by Serinus Energy Inc. ("Serinus"). The Company does not control KUB Holdings and is required under IFRS to record its investment under the equity method of accounting. In doing so, it reports none of the revenues, royalties or production expenses for KUB Holdings within its consolidated statements of operations and cash flows. Similarly the Company does not report the individual assets and liabilities of KUB Holdings and KUB-Gas on its consolidated statements of financial position.

The 30% share of the net assets of KUB Holdings and KUB-Gas attributable to the Company is presented as an "Equity investment in KUB Holdings" within non-current assets on the consolidated statement of financial position. Net profits from the 30% interest are presented as a single line item "income from equity investment" on the consolidated statements of operations.

A substantial portion of the financial analysis in this MD&A does not reflect the Company's interest in the results of KUB Holdings and KUB-Gas. The table below summarizes the results reported by the Company in accordance with IFRS, then deducts the single line item "income from equity investment" and adds the 30% share allocable to its equity investment to reflect the gross results of operations attributable to the Company's 30% economic interest and finally the pro-rata net to Cub results which is a non-IFRS measure.

Six months ended June 30, 2015	As Reported	Deduct Equity Investment	Add 30% Allocated from Equity Investment	Pro-rata Net to Cub
Average Daily Production (boe/d)	326	-	1,207	1,533
Revenue	$ 2,632,000	$ -	$ 9,766,000	$ 12,398,000
Royalty	1,481,000	-	5,933,000	7,414,000
Gross profit	**1,151,000**	**-**	**3,833,000**	**4,984,000**
Income from equity investment	645,000	(645,000)	-	-
Operating expenses				
Selling and general administrative	2,509,000	-	12,000	2,521,000
Depletion and depreciation	635,000	-	1,365,000	2,000,000
Cost of sales	260,000	-	1,326,000	1,586,000
Finance expense (income), net	219,000	-	91,000	310,000
Foreign exchange loss	-	-	181,000	181,000
Share based payments	39,000	-	-	39,000
Accretion and decommissioning obligation	8,000	-	3,000	11,000
	3,670,000	**-**	**2,978,000**	**6,648,000**
Profit (loss) before tax	**(1,874,000)**	**(645,000)**	**855,000**	**(1,664,000)**
Income tax expense (recovery)	**-**	**-**	**210,000**	**210,000**
Net profit (loss)	**$ (1,874,000)**	**$ (645,000)**	**$ 645,000**	**$ (1,874,000)**
Netback ($/boe)				
Revenue	$ 44.40	-	$45.04	$ 44.90
Royalty	(25.09)	-	(27.36)	(26.88)
Production expenses	(7.34)	-	(6.11)	(6.38)
Field netback ($/boe)	**$ 11.97**	**-**	**$ 11.57**	**$ 11.64**
Field netback ($/mcfe)	**$ 2.00**	**-**	**$ 1.93**	**$ 1.94**

Three months ended June 30, 2015	As Reported	Deduct Equity Investment	Add 30% Allocated from Equity Investment	Pro-rata Net to Cub
Average Daily Production (boe/d)	215	-	1,199	1,414
Revenue	$ 856,000	$ -	$ 4,658,000	$ 5,514,000
Royalty	397,000	-	2,671,000	3,068,000
Gross profit	**459,000**	**-**	**1,987,000**	**2,446,000**
Income from equity investment	500,000	(500,000)	-	-
Operating expenses				
Selling and general administrative	1,086,000	-	4,000	1,090,000
Depletion and depreciation	343,000	-	688,000	1,031,000
Cost of sales	117,000	-	737,000	854,000
Foreign exchange loss (income)	-	-	(405,000)	(405,000)
Finance expense (income), net	60,000	-	312,000	372,000
Accretion and decommissioning obligation	4,000	-	1,000	5,000
	1,610,000	**-**	**1,337,000**	**2,947,000**
Profit (loss) before tax	**(651,000)**	**(500,000)**	**650,000**	**(501,000)**
Income tax expense (recovery)	**-**	**-**	**(150,000)**	**(150,000)**
Net profit (loss)	**$ (651,000)**	**$ (500,000)**	**$ 500,000**	**$ (651,000)**
Netback ($/boe)				
Revenue	$ 43.33	-	$43.04	$ 43.08
Royalty	(20.21)	-	(24.68)	(24.00)
Production expenses	(10.76)	-	(6.80)	(7.41)
Field netback ($/boe)	**$ 12.36**	**-**	**$ 11.56**	**$ 11.67**
Field netback ($/mcfe)	**$ 2.06**	**-**	**$ 1.93**	**$ 1.95**

For three months ended June 30, 2015 or as at June 30, 2015	As Reported	Deduct Equity Investment	Add 30% Allocated from Equity Investment	Pro-rata Net to Cub
Funds from operations[(1)]	**$ (804,000)**	**$ -**	**$ 683,000**	**$ (121,000)**
Capital expenditures	**44,000**	**-**	**346,000**	**390,000**
Net working capital (deficit)[(2)]	**(780,000)**	**-**	**(884,000)**	**(1,664,000)**
Long term debt	**2,000,000**	**-**	**-**	**2,000,000**

(1) Funds from operations is a non-IFRS measure and is defined as cash flow from operating activities, excluding changes in non-cash working capital related to operating activities. Funds flow demonstrates the ability of the Company to generate funds for future capital investment. Deducted from the fund flows from operations was the dividends received from KUB Holdings during the period.

(2) Net working capital is a non-IFRS measure calculated as current assets less current liabilities. Net working capital demonstrates the capacity (or incapacity) to fund existing short-term liabilities with existing current assets. See "off balance sheet arrangements" located elsewhere in this MD&A.

Results of Operations

(in thousands of US Dollars)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Petroleum and natural gas revenue	856	1,693	2,632	3,394
Pro-rata petroleum and natural gas revenue(1)	5,514	10,505	12,398	19,239
Net profit (loss)	(651)	2,192	(1,874)	1,277
Earnings (loss) per share – basic and diluted	(0.00)	0.01	(0.01)	0.00
Funds generated from operations(2)	(804)	2,502	(558)	2,376
Pro-rata funds generated from operations(3)	(121)	4,503	23	6,894
Capital expenditures(4)	44	3,034	127	4,108
Pro-rata capital expenditures(4)	390	4,662	930	7,884
Pro-rata netback ($/boe)	11.67	41.46	11.64	35.89
Pro-rata netback ($Mcfe)	1.95	6.91	1.94	5.98

	June 30, 2015	December 31, 2014
Working capital (deficit)	(780)	704
Cash and cash equivalents	1,203	1,728
Long-term debt	2,000	2,000

Notes:

(1) Pro-rata petroleum and natural gas revenue is a non-IFRS measure that adds the Company's petroleum and natural gas revenue earned in the respective periods to the Company's 30% equity share of the KUB-Gas petroleum and natural gas sales that the Company has an economic interest in.

(2) Funds from operations is a non-IFRS measure and is defined as cash flow from operating activities, excluding changes in non-cash working capital.

(3) Pro-rata funds from operations is a non-IFRS measure that adds the Company's funds from operations in the respective periods to the Company's 30% equity share of the KUB-Gas funds from operations that the Company has an economic interest in.

(4) Capital expenditures includes the purchase of property, plant and equipment and the purchase of exploration and evaluation assets. Pro-rata capital expenditures is a non-IFRS measure that adds the Company's capital expenditures in the respective periods to the Company's 30% equity share of the KUB-Gas capital expenditures that the Company has an economic interest in.

Highlights

- Second quarter production in Ukraine continues to be below capacity due to the lingering effects of government legislation attempting to reserve a large share of the natural gas market for the state owned National Joint Stock Company Naftogaz ("Naftogaz") and lack of reinvestment over the last twelve months.
- Production averaged 1,414 boe/d (98% natural gas) for the three months ended June 30, 2015, representing a 24% decrease from 1,868 boe/d in the comparative 2014 quarter and a 14% decrease from the 1,644 boe/d production averaged for the three months ended March 31, 2015.
- Netbacks of $11.67/boe or $1.95/Mcfe for the three months ended June 30, 2015 as compared to netback of $41.46/Boe or $6.91/Mcfe for the same period in 2014 when royalty rates were 28% versus the current 55% (reduced to 30.25% for new wells). In addition, netbacks were $11.64/Boe or $1.92/Mcfe for the quarter ended March 31, 2015.

- Achieved average natural gas price of $7.08/Mcf and condensate price of $46.89/bbl during the three months ended June 30, 2015 as compared to $10.23/Mcf and $79.86/bbl for the comparative 2014 period and $7.77/Mcf and $39.83/bbl for the three months ended March 31, 2015.
- The Company received no dividends during the three months ended June 30, 2015 as compared to $3,060,000 during the comparative 2014 period. During the six months ended June 30, 2015, the Company received $1,279,000 in dividends during as compared to $4,095,000 during the comparative 2014 period. The National Bank of Ukraine ("NBU") temporary resolution prohibiting the payment of cross-border dividends is in effect until September 3, 2015, which has been extended by the NBU several times already. The Company continues to review alternatives for repatriating dividends.
- During the first and second quarters of 2015, the Company upgraded the separation and dehydration process at the RK facility (100% WI) in western Ukraine.
- KUB-Gas acquired the West Olgovskoye block in eastern Ukraine which immediately offsets the Olgovskoye and North Makeevskoye licences. It covers an area of 449 km^2 (approximately 111,000 acres), and surrounds (but does not include) the existing Druzhelyubovskoe gas/condensate field, and very old vintage 2D seismic data suggests the existence of additional undrilled structures.
- The compression unit has been installed at the Olgovskoye field facilities at KUB-Gas and is now in operation.

Ukraine Royalty Rates

In early January 2015, Ukraine's Parliament passed new legislation, which includes amendments to the Tax Code of Ukraine concerning gas royalties. More specifically, the amendments include a permanent royalty rate of 55% and discontinued the discounted royalty rate for newly drilled wells. On March 3, 2015, Parliament re-introduced the discounted rate of 30.25% for new wells drilled after August 1, 2014.

On July 14, 2015, the Cabinet of Ministers of Ukraine submitted to the Rada (the Ukrainian parliament) a draft bill which would reduce the royalties on natural gas from their current level of 55%. If passed, those respective royalty rates would drop to 29% effective October 1, 2015 for existing production. Also, the government proposes to introduce a new tax regime for wells drilled after January 1, 2016 – the royalty rate will be reduced to 20 percent and an additional profits tax surcharge will be levied at the rate of 30% on profits. Full details of how these rates would be applied and the tax base for calculation as well as administration of the surcharge are yet to be determined by the government. The current two-year royalty relief period for new gas wells at 30.25% would no longer apply. Royalties on oil and liquids would remain unchanged at 43%. Importantly, this draft bill may be subject to changes while going through first and second readings in the Rada.

Ukraine Cross-Border Dividend Restrictions and Going Concern

In 2014, the NBU issued a temporary resolution which, among other things, prohibits the payment of cross-border dividends through September 3, 2015 (recently extended from June 3, 2015). During the six months ended June 30, 2015, the Company received $1,279,000 (2014 - $4,095,000) in dividends from KUB-Gas which represented the largest source of cash for the Company during the respective periods. Cub and its partner are reviewing alternatives for issuance of dividends. The continued prohibition on cross-border dividends will have a material negative affect on the Company.

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, notified the Company that it will not provide any further funding under the line of credit in 2015. The line of credit has $3,000,000 undrawn as at June 30, 2015.

With the current cash resources, no further funding in 2015 under the existing 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.

Ukraine Gas Prices and Currency

The Ukrainian exchange rate versus the USD was 16.4 UAH/USD at December 31, 2014, which represents a devaluation of the UAH of approximately 50% during 2014. During the first quarter of 2015, the exchange rate closed at 23.5 UAH/USD for a further devaluation of approximately 30% but did improve to 21.0 UAH/USD at the end of the second quarter of 2015 for a modest 11% increase. For operating expenses and capital expenditures incurred and paid in UAH, the Company benefits from the lower equivalents in US dollars.

During the second quarter ended June 30, 2015, gas prices realized were $7.08/Mcf which is about 9% lower than the first quarter 2015 gas price of $7.77/Mcf. The decline in gas price is a result of the effects of government legislation to reserve a large share of the natural gas market for Naftogaz.

The future of natural gas prices in Ukraine is currently subject to a high degree of uncertainty and it is unknown what the future prices the Company will receive on its Ukraine production. The gas prices in Ukraine are quoted in UAH but the state regulator has generally increased the gas price in UAH to compensate for the devaluation of the UAH but there are no assurances of such increases in the future.

Ukraine KUB-Gas Assets (30% Interest)

On June 8, 2015, the Company announced that the West Olgovskoye block in eastern Ukraine had been awarded to KUB-Gas Borova LLC ("KUB-Gas Borova") (a newly incorporated subsidiary of KUB-Gas) by way of a special permit. West Olgovskoye is located in the Kharkiv Oblast which immediately offsets the Olgovskoye and North Makeevskoye licences. It covers an area of 449 km^2 (approximately 111,000 acres), and surrounds (but does not include) the existing Druzhelyubovskoe gas/condensate field, and vintage 2D seismic data suggests the existence of additional undrilled structures. The term of this new special permit is for 20 years with the right to a 20 year extension, during which KUB-Gas Borova will be allowed to conduct both exploration and production activities. There are work commitments of UAH 202.3 million or approximately $9.6 million at the current exchange rate of 21.0 UAH/USD. Almost 90% of the total required spending is scheduled for between 2018 and 2020

The M-22 well in Ukraine has been suspended and added to the list of wells being considered for fracture stimulation (see Outlook). The S13, S13a and S13b zones were all non-commercial despite initially appearing promising on logs. The S6 zone did build up pressure after perforating and produced gas at rates too small to measure. The well has been suspended with a wellhead and tubulars appropriate for fracture stimulation. If successful, M-22 will qualify for the reduced royalty rate of 30.25% for its first two years of production under the current royalty regime (see also Ukraine Legislative Developments below). In addition, the commissioning of the field compression for Olgovskoye Field is currently underway.

In July 2015, a workover rig moved to the NM-3 well drilled in 2013 which found small amounts of oil in the Visean formation. A perforation was performed but there were no signs of hydrocarbons. This operation fulfilled work obligations required to retain the North Makeevskoye licence.

Ukraine Tysagaz Assets (100% Interest)

In January 2015, the company added the fourth, fifth and sixth sets of perforations to the RK-21 well. The well responded favorably by displaying an immediate increase in flowing tubing pressure with a corresponding increase of production from a five day average of 0.8 MMcf/d to over 2.6 MMcf/d for the subsequent five day period with steep declines. These perforations were added over a two-day period at a small incremental cost.

The Company also recently upgraded the separation and dehydration process at the RK facility.

Summary of Quarterly Results

The following table sets out selected unaudited consolidated financial information for each of the last eight quarters ended up to and including June 30, 2015. The information contained herein is taken from the consolidated financial statements of the Company for each of the aforementioned quarters.

Quarter Ended	June 30, 2015	Mar 31, 2015	Dec 31, 2014	Sept 30, 2014
Revenue	856,000	1,776,000	2,154,000	1,444,000
Income (loss) from equity investment	500,000	145,000	(684,000)	2,758,000
Operating expenses	1,610,000	2,060,000	7,164,000	22,894,000
Net profit (loss)	(651,000)	(1,223,000)	(5,345,000)	(19,399,000)
Earnings (loss) per share	(0.00)	(0.00)	(0.02)	(0.06)
Working Capital (deficit)	(780,000)	48,000	704,000	955,000

Quarter Ended	June 30, 2014	Mar 31, 2014	Dec 31, 2013	Sept 30, 2013
Revenue	1,693,000	1,701,000	745,000	627,000
Income from equity investment	3,389,000	1,077,000	2,836,000	3,815,000
Operating expenses	2,575,000	3,254,000	8,646,000	3,402,000
Net profit (loss)	2,192,000	(915,000)	(4,490,000)	875,000
Earnings (loss) per share	0.01	(0.00)	(0.02)	0.00
Working Capital (deficit)	39,000	(306,000)	942,000	3,769,000

Material Variations in Quarterly Results

The Company's revenue decreased during the quarter ended June 30, 2015 as a result of natural declines rates in western Ukraine coupled with a lack of reinvestment. This compares with increased revenues during the quarters ended December 31, 2014 and March 31, 2014 as a result of the tie in of the RK-23 and RK-21 wells at Tysagaz, respectively. The company has been focusing on cost reductions and its operating expenses in the current quarter has been the lowest level in over two years.

The Company experienced a loss from equity investment from KUB-Gas during the quarter ended December 31, 2014 due to a one-time impairment charge of $1,678,000 on the K and V fields which are located in rebel-held territory in eastern Ukraine.

During the quarter ended March 31, 2014, the Company saw its income from equity investment decrease and net loss increase as result of the temporary agreement between Russia and Ukraine which decreased the gas prices significantly but was reversed in the second quarter ended June 30, 2014.

There were impairment charges that impacted net losses in 2014 and 2013. During the quarter ended December 31, 2014, the Company recorded an impairment of $1,583,000 on the exploration assets in Tysagaz and an impairment charge of $3,035,000 on its petroleum and natural gas interests on the RK field at Tysagaz. During the quarter ended September 30, 2014, the Company recorded $20,761,000 in charges for the impairment of the Technogasidustria LLC ("TGI") assets that are located in or near rebel-held territory and the impairment of certain exploration assets in Tysagaz.

Revenue, Net of Royalty

During the quarter ended June 30, 2015, the Company's revenue, net of royalty, on its Tysagaz operations in western Ukraine decreased from $1,349,000 in 2014 to $459,000 in 2015. The decreased net revenue relates to the increase in royalty rates from 28% in the comparative 2014 period to 55% in the current quarter (30.25% for the RK-23 well). In addition, the gas price the Company realised in the second quarter of 2015 was $7.08/Mcf as compared to $10.23/Mcf in 2014. Gas volumes also decreased between the periods as the average production was 215 boe/d during the current quarter as compared to 293 boe/d in the comparative period.

During the six months ended June 30, 2015, the gross profit from its Tysagaz operations was $1,151,000 as compared to $2,611,000 for the comparative 2014 period. The revenue during the current quarter was impacted by gas prices as the Company realised $7.49/Mcf in the six months ended June 30, 2015 as compared to $9.46/Mcf in the comparative 2014 period.

Income from Equity Investment

The Company accounts for its 30% indirect ownership in KUB Holdings as an investment under the equity method. During the quarter ended June 30, 2015, KUB-Gas generated gross revenues of approximately $15,527,000 (2014 - $29,372,000) and had a net profit of $1,669,000 (2014 – $11,271,000). This resulted in a net profit to the Company from its equity investment for the quarterly period of $500,000 (2014 – $3,389,000). The net profit was impacted by the lower gas prices, higher royalties and lower volumes.

During the six months ended June 30, 2015, KUB-Gas generated gross revenues of approximately $32,553,000 (2014 - $52,818,000) and net income of $2,151,000 (2014 – $14,862,000). This resulted in income from equity investment for the quarterly period to the Company of $645,000 (2014 - $4,466,000) which was substantially lower than the income in the comparative period. The higher royalty rates coupled with lower production volumes contributed to the decrease.

The Company estimates that its pro-rata portion of cash flow from operations from KUB Holdings to be approximately $1,860,000 for the six months ended June 30, 2015 as compared to $8,613,000 in 2014.

Selling and General Administrative Expenses

Selling and general administrative expenses were $1,086,000 during the quarter ended June 30, 2015, as compared to $1,736,000 in the comparative 2014 period for a decrease of $650,000. During the six months ended June 30, 2015, selling and general administrative expenses were $2,509,000 as compared to $3,952,000 in the comparative 2014 period. The Company did initiate cost-cutting efforts during the second half of 2014 and into the first quarter of 2015 which included, but not limited to, the reduction of ten employees and two directors, the ceasing of a material amount of investor relations activities, and general cuts in travel expenditures. Some of the significant items contained within selling and general administrative expenses are as follow:

Salaries

During the current quarter, salaries to staff and directors fees decreased to $590,000 as compared to $862,000 during the comparative 2014 quarter. During the six months ended June 30, 2015, salaries were $1,493,000 as compared to $1,799,000 in the comparative 2014 period. Cost-cutting measures went into effect late in the second quarter of 2014 and included the reduction of ten staff members and two directors with a view of cutting selling and administrative expenses. Included in the six months ended June 30, 2015, is $106,000 of severance to three employees that was paid in the first quarter of 2015 that resulted in lower salaries in the second quarter.

Travel

During the current quarter, travel costs were $48,000, for a decrease of $222,000 from the comparative 2014 quarter which totaled $270,000. Travel costs also decreased $531,000 between the six months ended June 30, 2015 as compared to the 2014 comparative period. Travel expenses include costs associated with international operations, investor marketing and business development. The Company has reduced travel in 2015 as a result of lower level of corporate activity and as a cost-cutting measure.

Professional fees

Professional fees decreased to $155,000 during the quarter ended June 30, 2015 from $198,000 in the comparative 2014 period representing a 22% decrease. Professional fees decreased from $489,000 to $282,000 during the six months ended June 30, 2015. The Company's professional costs during the respective periods reflected the costs of being a public issuer including third party legal advice, engineering reports and yearend financial audits. The decrease in professional fees reflects the lower level of corporate activity in 2015 as compared to 2014.

Consulting

Consulting fees were $96,000 during the current quarter which decreased 32% compared to the 2014 quarter when the fees were $141,000. Consulting fees for the six months ended June 30, 2015 were $246,000 as compared to $320,000 in the comparative 2014 period. The Company retains consultants periodically on an as needed basis to assist in operations and administration.

Office and administration

Office and administration costs were $140,000 in the quarter ended June 30, 2015, from $173,000 in the comparative 2014 quarter. During the six months ended June 30, 2015, office and administrative costs were $305,000 which were relatively flat compared to $386,000 in the comparative 2014 period.

Business development and investor relations

During the three months ended June 30, 2015, business development and investor relations expenses were $6,000 as compared to $25,000 in the comparative period in 2014. The Company also reduced expenditures during the six months ended June 30, 2015 as its business development and investor relations expenses decreased from $71,000 to $24,000. The expenses consisted of investor awareness activities, sponsorship and non-marked roadshows which have been reduced or ceased due to cost-cutting and the unrest in eastern Ukraine.

Share Based Payments

The Company recorded $39,000 in share based payments for the vesting of stock options to directors, officers, employees and consultants as determined by the black-scholes option price model for the six months ended June 30, 2015 as compared to $667,000 in related expenses in the comparative 2014 period. During the six months ended June 30, 2015, 19,219,000 stock options were voluntarily canceled or expired leaving no stock options currently outstanding.

Net Profit/Loss

During the quarter ended June 30, 2015, the Company recorded a net loss of $651,000 or $0.00 per share as compared to a net profit of $2,192,000 or $0.01 per share in the comparative 2014 period. The Company also recorded a net loss of $1,874,000 or $0.01 per share during the six months ended June 30, 2015 as compared a net profit of $1,277,000 or $0.00 per share in the 2014 period.

Foreign Currency Translation Loss

During the quarter ended June 30, 2015, the Company recorded a foreign currency translation gain on its foreign operations of $1,519,000 as compared to a loss of $2,226,000 in the comparative 2014 period. During the six months ended June 30, 2015, the Company recorded a foreign currency translation loss on its foreign operations of $3,793,000 as compared to a loss of $23,542,000 in the comparative 2014 period. The gains and losses relate to the revaluation of the Company's foreign assets and liabilities from the local currency to the US dollar in accordance with the Company's accounting policy for the translation of its subsidiaries. The carrying value of the assets of the Ukrainian subsidiaries were materially impacted by the devaluation of the local currency which decreased approximately 50% in 2014 and a further 30% decrease in the first quarter of 2015 but increased by 11% in the second quarter of 2015. The losses materially lowered the carrying value of the Ukrainian property, plant and equipment, the value of the equity investment in KUB Holdings and deferred income tax liability. These losses do not impair the ability of those assets or liabilities to perform their intended purpose. If the Ukrainian currency were to appreciate, as they did in the second quarter of 2015, some or all of these unrealized losses would be recouped.

Liquidity, Capital Resources and Financings

At June 30, 2015, the Company had a cash balance of $1,203,000 (December 31, 2014 – $1,728,000) and working capital deficit of $780,000 (December 31, 2014 – working capital of $704,000). The Company had no long-term debt or capital leases other than the Pelicourt line of credit. The Company has historically been able to raise funds through the issuance of common shares or debt although there are no assurances funds will be able in the future. Given the current geopolitical situation in Ukraine, the restrictions on the cross-border dividends and the Company's stock price, the Company does not believe it will be able to attract equity or debt at the present time or, if it is, on commercially reasonable terms.

The Company has access to a $5,000,000 unsecured line of credit with Pelicourt. The line of credit bears interest at 9% per annum payable semi-annually and the principal of the line of credit is due in full on September 30, 2016. The Company drew down $2,000,000 during the year ended December 31, 2014. On November 14, 2014, an amending agreement was signed that deferred interest payments until December 27, 2015. Pelicourt notified the Company that it will not provide any further funding under the line of credit through 2015. Without access to the remaining $3.0 million line of credit, the Company may not be able to meet its obligations as they become due in the next twelve months. This will result in the curtailment of future material work programs at its western Ukraine operations (Tysagaz) and impact the parent company operations in North America.

During the three month ended June 30, 2015, the Company received no dividends from KUB Holdings as compared to $3,060,000 in the 2014 comparative period. Due to restrictions imposed by the NBU, it is unclear when dividends will resume.

The matters described above all raise significant doubt about the ability of the Company to continue as a going concern and meet its obligations as they become due.

The major uses of cash continue to be the purchase of property and equipment and the further exploration and evaluation of its oil and gas assets on its 100% owned western Ukraine assets. During the three months ended June 30, 2015, the Company used $44,000 of its cash on the purchase of property, plant and equipment as compared to $2,584,000 in the comparative period. The property, plant and equipment additions for 2015 consisted of continued work on the separation and dehydration facility on the RK field. During 2014, the additions included drilling of the RK-21 well and re-entry of RK-1.

During the three months ended June 30, 2015, KUB-Gas incurred approximately $1,155,000 of capital expenditures on property, plant and equipment of which the Company's 30% equity share was $346,000 and included the continuing costs of the M-22 well.

Outlook

The limit price for July at which gas can be sold to industrial customers is UAH 6,600 per Mcm. At the current exchange rate of 21.0 UAH/USD, that is equivalent to $8.86/Mcf. The price that the Company receives has been at least 10% lower, reflecting the margins of the traders through whom the gas is sold, and lingering effects of the government decrees.

Cub is re-evaluating its future capital programs on its 100% owned and operated Tysagaz assets in light of the proposed reduction of royalty rates scheduled to be effective October 1, 2015, subject to parliamentary approval. If financing becomes available and/or government policy changes, the Company is considering several workovers in late 2015 or early 2016. The Company needs to reinvest capital in its operations to sustain or increase current production levels.

KUB-Gas may consider additional capital expenditures on development projects during the balance of 2015, subject to keeping such expenditures within operating cash flow and no further material adverse changes in either the fiscal terms or the security situation in and around the Ukraine licences. A three well fracture stimulation program for O-11, O-15 and M-22 is being considered for later this year, pending the approval of the new royalty regime and cash availability.

Once economic conditions improve, KUB-Gas has an inventory of drilling locations and other projects in the Ukraine licences including:

- Ten firm drilling locations in the Olgovskoye, Makeevskoye and North Makeevskoye licences, plus up to seven more locations contingent upon success. KUB-Gas expects this inventory to grow once the technical team examines the data on the newly acquired West Olgovskoye licence.
- Several fracture stimulations candidates in addition to the three mentioned above.

Outstanding Share Data

Issued and outstanding as at the date of this MD&A:

Type	Number
Common Shares	311,746,285
Warrants	1,871,563
Restricted Stock Units	3,673,642
Total Issued and Outstanding	317,291,490

Off Balance Sheet Arrangements

The Company, through its wholly-owned subsidiary, Gastek, is an indirect owner of 30% of KUB-Gas and has provided a cross-indemnity of up to 30% of the European Bank for Reconstruction and Development ("EBRD") Loan Facility to Serinus to offset Serinus' 100% direct guarantee of the EBRD Loan Facility outstanding from time to time. As at June 30, 2015, the remaining balance of the EBRD Loan Facility was approximately $2,462,000 ($739,000 net to Cub). Subsequent to the quarter end, a scheduled repayment of $1,800,000 was made, resulting in $600,000 ($180,000 net to Cub) left outstanding to be repaid in January 2016, at which time the loan will be repaid in its entirety.

Commitments

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 $166,000 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 $330,000 (using exchange rate as of June 30, 2015). Included in trade and other payables at June 30, 2015 was $269,000 (December 31, 2014 - $345,000) related to this matter. The decrease in the liability from December 31, 2014 is a result of the devaluation of the UAH between periods.

Transactions with Related Parties

Transactions with related parties are incurred in the normal course of business. During the six months ended June 30, 2015, there were no related party transactions other than the Pelicourt line of credit- see "Liquidity, Capital Resources and Financing".

Critical Accounting Estimates

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 the 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 elsewhere in this MD&A.

- 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.

New Standards and Interpretations not yet adopted in 2014

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 six month 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.

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 consolidated 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 consolidated financial statements.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash, dividends receivable, restricted cash, trade and other receivables, trade and other payables and accrued liabilities and provisions. The fair market values of cash, dividends receivable, restricted cash, trade and other receivables, line of credit and trade and other payables approximate their carrying values. Provisions are based on expected future cash outflow.

Non-IFRS Measures

The financial information presented in this MD&A has been prepared in accordance with IFRS except for the terms "funds from operations", "netback", "working capital" and "pro-rata net to Cub" which are not recognized measures under IFRS and do not have standardized meanings prescribed by IFRS. These non-IFRS measures are presented for information purposes only and should not be considered an alternative to, or more meaningful than information presented in accordance with IFRS. Management believes funds from operations, netback, working capital and pro-rata net to Cub may be useful supplemental measures as they are used by the Company to measure operating performance and to evaluate the timing and amount of capital required to fund future operations. The Company's method of calculating these measures may differ from those of other companies and, accordingly, they may not be comparable to measures used by other companies. The Company calculates "funds from operations", "netback", "working capital" and "pro-rata net to Cub" as presented earlier in this document.