



## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

### Introduction

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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 unaudited condensed consolidated financials for the three and nine months ended September 30, 2016 and 2015. 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 November 16, 2016.

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](http://www.sedar.com) or on the Company's website at [www.cubenergyinc.com](http://www.cubenergyinc.com).

### Corporate Overview and Strategy

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The Company is a publicly-traded, international energy company engaged in exploration and development of onshore oil and gas properties in Ukraine. The Company aims to bring modern technologies (including dual-completions and hydraulic fracturing) 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 an historical 30% interest in KUB-Gas LLC ("KUB-Gas") in eastern Ukraine which was increased to 35% effective February 8, 2016, and the Company's 100% operated interest in western Ukraine in Tysgaz LLC ("Tysgaz").

### Barrels of Oil Equivalent Conversion

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A barrel of oil equivalent ("boe") or units of natural gas equivalents ("Mcf") 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

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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

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As at September 30, 2016, the Company had an effective 35% (increased from 30% effective February 8, 2016) 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 at September 30, 2016 was 35% owned by the Company and 65% owned by Resano Trading Ltd. (“Resano”). The Company increased its ownership in KUB Holdings from 30% to 35% effective February 8, 2016. The results for the three and nine months ended September 30, 2016 reflect the 35% ownership in KUB Holdings. 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 historical 35% 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 historical 35% 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 35% share allocable to its equity investment to reflect the gross results of operations attributable to the Company's 35% economic interest and finally the pro-rata net to Cub results which is a non-IFRS measure.

Nine months ended September 30, 2016	As Reported	Deduct Equity Investment	Add 35% Allocated from Equity Investment	Pro-rata Net to Cub
Average Daily Production (boe/d)	144	-	1,212	1,356
Revenue	\$ 1,456,000	\$ -	\$ 11,954,000	\$ 13,410,000
Revenue from gas trading <sup>(1)</sup>	2,122,000	(2,067,000)	-	55,000
Royalty	391,000	-	3,203,000	3,594,000
<b>Gross profit</b>	<b>3,187,000</b>	<b>(2,067,000)</b>	<b>8,751,000</b>	<b>9,871,000</b>
<b>Income from equity investment</b>	<b>4,725,000</b>	<b>(4,725,000)</b>	<b>-</b>	<b>-</b>
<b>Operating expenses</b>				
Selling and general administrative	2,944,000	-	17,000	2,961,000
Cost of sales	129,000	-	1,729,000	1,858,000
Depletion and depreciation	359,000	-	1,075,000	1,434,000
Cost of sales for gas trading <sup>(1)</sup>	2,067,000	(2,067,000)	-	-
Finance (income) loss, net	43,000	-	60,000	103,000
Accretion and decommissioning Obligation	10,000	-	5,000	15,000
Gain on sale of subsidiary	(1,879,000)	-	-	(1,879,000)
	<b>3,673,000</b>	<b>(2,067,000)</b>	<b>2,886,000</b>	<b>4,492,000</b>
<b>Income before tax</b>	<b>4,239,000</b>	<b>(4,725,000)</b>	<b>5,865,000</b>	<b>5,379,000</b>
Income tax expense	-	-	1,140,000	1,140,000
<b>Net income</b>	<b>\$ 4,239,000</b>	<b>\$ (4,725,000)</b>	<b>\$ 4,725,000</b>	<b>\$ 4,239,000</b>
<b>Netback (\$/boe)</b>				
Revenue	\$ 36.94	-	\$36.82	\$ 36.84
Royalty	(9.94)	-	(9.87)	(9.88)
Production expenses	(5.06)	-	(5.27)	(5.25)
<b>Field netback (\$/boe)</b>	<b>\$ 21.94</b>	<b>-</b>	<b>\$ 21.68</b>	<b>\$ 21.71</b>
<b>Field netback (\$/mcf)</b>	<b>\$ 3.66</b>	<b>-</b>	<b>\$ 3.61</b>	<b>\$ 3.62</b>

Three months ended September 30, 2016	As Reported	Deduct Equity Investment	Add 35% Allocated from Equity Investment	Pro-rata Net to Cub
Average Daily Production (boe/d)	-	-	1,171	1,171
Revenue	\$ -	\$ -	\$ 3,634,000	\$ 3,634,000
Revenue from gas trading <sup>(1)</sup>	2,122,000	(2,067,000)	-	55,000
Royalty	-	-	1,095,000	1,095,000
<b>Gross profit</b>	<b>2,122,000</b>	<b>-</b>	<b>2,539,000</b>	<b>2,594,000</b>
<b>Income from equity investment</b>	<b>1,498,000</b>	<b>(1,498,000)</b>	<b>-</b>	<b>-</b>
<b>Operating expenses</b>				
Selling and general administrative	893,000	-	-	893,000
Depletion and depreciation	19,000	-	349,000	368,000
Cost of sales	-	-	289,000	289,000
Cost of sales for gas trading <sup>(1)</sup>	2,067,000	(2,067,000)	-	-
Finance (income) loss, net	83,000	-	34,000	117,000
Accretion and decommissioning Obligation	3,000	-	2,000	5,000
Gain on sale of subsidiary	(1,644,000)	-	-	(1,644,000)
	<b>1,421,000</b>	<b>-</b>	<b>674,000</b>	<b>28,000</b>
<b>Income before tax</b>	<b>2,199,000</b>	<b>(1,498,000)</b>	<b>1,865,000</b>	<b>2,566,000</b>
Income tax expense	-	-	367,000	367,000
<b>Net income</b>	<b>\$ 2,199,000</b>	<b>\$ (1,498,000)</b>	<b>\$ 1,498,000</b>	<b>\$ 2,199,000</b>
<b>Netback (\$/boe)</b>				
Revenue	-	-	\$33.74	\$33.74
Royalty	-	-	(10.16)	(10.16)
Production expenses	-	-	(2.69)	(2.69)
<b>Field netback (\$/boe)</b>	<b>-</b>	<b>-</b>	<b>\$ 20.89</b>	<b>\$ 20.89</b>
<b>Field netback (\$/mcf)</b>	<b>-</b>	<b>-</b>	<b>\$ 3.48</b>	<b>\$ 3.48</b>

For three months ended September 30, 2016 or as at September 30, 2016	As Reported	Deduct Equity Investment	Add 35% Allocated from Equity Investment	Pro-rata Net to Cub
<b>Funds from operations<sup>(2)</sup></b>	<b>\$ (921,000)</b>	<b>\$ -</b>	<b>\$ 2,742,000</b>	<b>\$ 1,821,000</b>
<b>Capital expenditures</b>	<b>301,000</b>	<b>-</b>	<b>1,009,000</b>	<b>1,310,000</b>
<b>Net working capital (deficit)<sup>(3)</sup></b>	<b>822,000</b>	<b>-</b>	<b>(382,000)</b>	<b>440,000</b>
<b>Long term debt</b>	<b>5,198,000</b>	<b>-</b>	<b>-</b>	<b>5,198,000</b>

- (1) Commencing August 2016, the Company's wholly-owned subsidiary, Tysagaz, began taking possession of its 35% ownership of gas produced at KUB-Gas. Tysagaz purchased its share of gas from KUB-Gas at the same price that KUB-Gas sold its gas to an affiliate of Resano's. The Company agreed to this arrangement so it could attempt to earn additional net income from the gas sales price to Resano's affiliate. During the three and nine months ended September 30, 2016, the Company recorded \$2,122,000 in gas sales and \$2,067,000 as the cost of the sales for a net profit from gas trading of \$55,000. For purposes of these pro-rata disclosures, the \$2,067,000 is eliminated as it's already included in the equity investment revenue.
- (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 related to operating activities. Funds flow demonstrates the ability of the Company to generate funds for future capital investment.
- (3) 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 September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Petroleum and natural gas revenue	-	655	1,456	3,287
Pro-rata petroleum and natural gas revenue <sup>(1)</sup>	3,634	4,919	13,410	17,317
Revenue from gas trading	2,122	-	2,122	-
Net income (loss)	2,199	(214)	4,239	(2,088)
Income (loss) per share – basic and diluted	0.01	(0.00)	0.01	(0.01)
Funds generated from operations <sup>(2)</sup>	(921)	(391)	(1,996)	(949)
Pro-rata funds generated from operations <sup>(3)</sup>	1,821	752	5,362	775
Capital expenditures <sup>(4)</sup>	301	-	463	127
Pro-rata capital expenditures <sup>(4)</sup>	1,310	379	1,647	4,332
Pro-rata netback (\$/boe)	20.89	14.88	21.71	12.64
Pro-rata netback (\$/Mcf)	3.48	2.48	3.62	2.11

	September 30, 2016	December 31, 2015
Working capital (deficit)	822	(1,722)
Cash and cash equivalents	3,611	1,360
Long-term debt	5,198	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 35% (2015 – 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 35% (2015 – 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 35% (2015 – 30%) equity share of the KUB-Gas capital expenditures that the Company has an economic interest in.

## Highlights

- Royalty rates for natural gas in Ukraine declined from 55% to 29% effective January 1, 2016 which materially improved the Company's netbacks and net income.
- Production averaged 1,171 boe/d (98% natural gas) for the quarter ended September 30, 2016, which decreased 13% as compared to the 1,350 boe/d in the comparative 2015 quarter and relatively flat as compared to the 1,185 boe/d average for the second quarter ended June 30, 2016. The decrease in production for the quarter ended September 30, 2016 was a result of the temporary suspension of production at the RK Field due to the termination of a gas blending contract. The Company hopes to resume the RK Field production in the first quarter of 2017.
- Netbacks of \$20.89/boe or \$3.48/Mcfe for the quarter ended September 30, 2016 as compared to netback of \$14.88/Boe or \$2.48/Mcfe for the comparative 2015 quarter. In addition, netbacks were

\$18.20/Boe or \$3.03/Mcfe for the second quarter of 2016. Netbacks in 2016 improved as a result of the reduced royalty rate effective January 1, 2016 but somewhat offset by lower natural gas prices.

- Achieved average natural gas price of \$5.48/Mcf and condensate price of \$63.99/bbl during the quarter ended September 30, 2016 as compared to \$6.58/Mcf and \$43.01/bbl for the comparative 2015 quarter and \$5.55/Mcf and \$52.89/bbl for the second quarter ended June 30, 2016.
- During the three months ended September 30, 2016, the Company's Ukraine subsidiary, Tysagaz, received an additional \$2,973,000 from KUB-Gas pursuant to an unsecured, non-interest bearing loan agreement. These loans are due and payable on May 31, 2019 and July 31, 2019. Subsequent to the quarter ended September 30, 2016, Tysagaz received an additional \$577,000 pursuant to a loan agreement and is due July 31, 2019.
- On July 8, 2016, the Company announced that it has entered into a share purchase agreement ("SPA") and Shareholders' Agreement ("SHA") with a third party, whereby the third party earns a 50% interest in the Company's newly formed subsidiary, CNG Holdings Netherlands B.V. ("CNG"), which, in turn, owns CNG LLC ("CNG LLC"), 100% owner of the Uzhgorod production licence in western Ukraine.
- The Makeevskoye-23 ("M-23") well was drilled by KUB-Gas to the target depth of 2,550 meters. The well drilled multiple objectives and three targeted reservoirs appeared to be gas saturated based on electric log evaluation. The B-7 reservoir tested gas in a tight sand formation and KUB-Gas recently performed a fracture stimulation on the reservoir with results pending.
- In October 2016, the used nitrogen rejection unit ("NRU") arrived in western Ukraine and was tested on-site at the RK Field. For the NRU to become fully operational, the NRU requires two compressors which have been ordered and are expected to be delivered in late 2016. The Company expects the NRU to be fully operational in the first quarter of 2017.
- In November 2016, the Company received dividends of approximately \$257,000 from KUB Holdings. The National Bank of Ukraine ("NBU") eased certain capital controls by allowing limited dividends.
- In November 2016, CNG LLC commenced a 118 square kilometre 3D seismic survey on the Uzhgorod production licence in western Ukraine but was immediately delayed due to unfavourable weather conditions. The seismic program will resume when weather conditions permit.

## Ukraine Royalty Rates and Gas Storage

On December 31, 2015, a new law was signed reversing the increase of royalties on natural gas production put into place on August 1, 2014. Effective January 1, 2016, royalty rates are reduced from 55% to 29% for wells drilled at depths up to five kilometers.

A new bill reforming the natural gas market in Ukraine became effective October 1, 2015. Among other things, it contains a provision that gas producers may have to contribute into storage a volume equivalent to thirty days of production effective January 1, 2016 but to the date of this MD&A, there has been no material impact to the Company. On November 27, 2015, Ukraine amended the Code on Gas Pipeline Systems, which among other things, may require all producers utilizing the pipeline to pay a tariff for access to the pipeline. It is not known yet if a tariff will be imposed and what impact it may have on the Company.

## 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 December 15, 2016 (via multiple extensions). On June 7, 2016, the NBU eased certain capital controls by allowing Ukraine companies to issue limited dividends related directly to 2014 and 2015 earnings. In November 2016, the Company received dividends of \$257,000 from KUB Holdings utilizing the limited dividends. The continued broader prohibition on cross-border dividends continues to have a material negative effect on the Company.

With the current cash resources, no further funding in 2016 under the existing line of credit, temporary suspension of the RK Field, dividend restrictions, currency fluctuations, possible tariffs, 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 26.0 UAH/USD at September 30, 2016, which represents a devaluation of the UAH of approximately 7% during 2016 as compared to a devaluation of approximately 32% during 2015. For operating expenses and capital expenditures incurred and paid in UAH, the Company benefits from the lower equivalents in US dollars.

During the third quarter ended September 30, 2016, gas prices realized were \$5.48/Mcf which is flat as compared to the second quarter 2016 gas price of \$5.55/Mcf. 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.

## Eastern Ukraine KUB-Gas Assets (35% Interest effective February 8, 2016)

In February 2016, the Company received an additional 5% interest in KUB Holdings for a total 35% equity ownership interest. The Company has the ability to further increase its ownership interest from 35% to 40% on meeting certain benchmarks and optional payments. There were no material operations at KUB-Gas during the first half of 2016 as a result of the change of control of KUB-Gas.

During the third quarter and fourth quarters of 2016, the Makeevskoye-23 ("M-23") well was drilled by KUB-Gas to the target depth of 2,550 meters. The well drilled multiple objectives and three targeted reservoirs appeared to be gas saturated based on electric log evaluation. The B-7 reservoir tested gas in a tight sand formation and KUB-Gas recently performed a fracture stimulation on the reservoir with results pending.

During the second quarter ended June 30, 2016, KUB-Gas decided to reduce its reliance on its internal service division and sold its 1,000 horse power drilling rig built in 2007 to an affiliate of Resano for proceeds of \$900,000. As a result of the decision and sale, KUB-Gas materially reduced the number of personnel employed at its internal service division during the most recent quarter. The drilling of the M-23 well utilized a drilling company affiliated with Resano but a different rig than that the one sold by KUB-Gas.

## Western Ukraine Tysagaz Assets (100% Interest)

During the first quarter, the Company set a retrievable plug at RK-21 above the current open perforations in the D-2 through D-3 lower reservoirs and opened the D-0 reservoir for production.

In October 2016, the recently purchased used nitrogen rejection unit ("NRU") arrived in Ukraine and was tested on-site. For the NRU to become fully operational, the NRU requires two compressors which have been ordered and are expected to be delivered in late 2016. The Company expects the NRU to be operational in the first quarter of 2017.

Tysgaz is planning to re-enter the RK-1 well in the fourth quarter of 2016 with the goal of completing the well in zones that tested pipeline quality gas but at non-commercial rates during the mid-1980s. The reported tests indicate the gas will meet today's pipeline standards without going through the NRU. The estimated cost of the RK-1 re-entry will be approximately \$700,000.

## Western Ukraine CNG Assets (50% Interest)

On March 11, 2016, the Company was granted the 20-year term Uzhgorod production licence. The Uzhgorod licence covers approximately 75,000 acres which is a 50% increase from its original size of 50,000 acres. On July 8, 2016, the Company announced that it has entered into a SPA and SHA with a third party, whereby the third party earns a 50% interest in the Company's newly formed subsidiary, CNG, which, in turn, owns CNG LLC, 100% owner of the Uzhgorod production licence in western Ukraine. Pursuant to the terms of the SPA, the third party is to (i) pay Cub €1,500 (\$1,649) upon transfer of the 50% shares ("Closing") (paid in Q3 2016); (ii) fund a 100 square kilometre 3D seismic survey within 20 months of Closing; (iii) fund the drilling of first three wells within four years of Closing; and (iv) fund the tie-in costs of the first three wells up to a maximum €200 (\$225) per well within four years of Closing. See also "Commitments and Contingencies" elsewhere in this MD&A.

In November 2016, CNG LLC commenced a 118 square kilometre 3D seismic survey on the Uzhgorod production licence in western Ukraine but was immediately delayed due to unfavourable weather conditions. The seismic program will resume when weather conditions permit.

## 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 September 30, 2016. The information contained herein is taken from the consolidated financial statements of the Company for each of the aforementioned quarters.

Quarter Ended	September 30, 2016	June 30, 2016	Mar 31, 2016	Dec 31, 2015
<b>Revenue</b>	-	-	1,456,000	923,000
<b>Revenue from gas trading</b>	2,122,000	-	-	-
<b>Income (loss) from equity</b>				
<b>Investment</b>	1,498,000	1,574,000	1,653,000	(116,000)
<b>Operating expenses</b>	1,421,000	991,000	1,261,000	2,149,000
<b>Net income (loss)</b>	2,199,000	583,000	1,457,000	(1,053,000)
<b>Income (loss) per share</b>	0.01	0.00	0.00	(0.00)
<b>Working Capital (deficit)</b>	822,000	(2,467,000)	(2,718,000)	(1,722,000)

Quarter Ended	September 30, 2015	June 30, 2015	Mar 31, 2015	Dec 31, 2014
<b>Revenue</b>	655,000	856,000	1,776,000	2,154,000
<b>Revenue from gas trading</b>	-	-	-	-
<b>Income (loss) from equity</b>				
<b>Investment</b>	777,000	500,000	145,000	(684,000)
<b>Operating expenses</b>	1,338,000	1,610,000	2,060,000	7,164,000
<b>Net income (loss)</b>	(214,000)	(651,000)	(1,223,000)	(5,345,000)
<b>Income (loss) per share</b>	(0.00)	(0.00)	(0.00)	(0.02)
<b>Working Capital (deficit)</b>	(1,005,000)	(780,000)	48,000	704,000

## Material Variations in Quarterly Results

Commencing August 2016, the Company's wholly owned subsidiary, Tysagaz, began taking possession of its 35% ownership of gas produced at KUB-Gas. Tysagaz purchased the gas from KUB-Gas at the same price that KUB-Gas sold its gas to an affiliate of Resano, the majority shareholder of KUB-Gas. The Company agreed to this arrangement so it could attempt to earn additional net income on the gas sales price sold to Resano's affiliate. During three months ended September, 2016, the Company recorded \$2,122,000 in gas sales and \$2,067,000 for the cost of the sales for a net profit from gas trading of \$55,000 as compared to no such transactions during 2015.

On April 1, 2016, the Company temporarily suspended production at the RK Field which resulted in no oil and gas revenues, royalties or cost of sales during the quarters ended June 30, 2016 and September 30, 2016.

The Company's increased revenues during the quarters ended March 31, 2016 and December 31, 2014 are a result of the tie in or workovers of the RK-21 and RK-23 wells at Tysagaz. The company has been focusing on cost reductions and its operating expenses have generally declined in three of the last four quarters. The Company's working capital deficit increased materially during the quarter ended March 31, 2016 due to the reclassification of the Pelicourt line of credit from a long term liability to a current liability as it matures on January 31, 2017.

There were losses from its equity investment from KUB-Gas during the quarters ended December 31, 2015 and 2014 due to one-time impairment charges of \$991,000 and \$1,678,000, respectively. The Company's equity partner entered into a share purchase and sale agreement to sell its 70% interest in KUB Holdings to a third party in late 2015 and the \$991,000 impairment charge for 2015 was taken to write down the carrying value of KUB Holdings to the actual sales price.

There were impairment charges that impacted net losses in 2015 and 2014. During the quarter ended December 31, 2015, the Company recorded an impairment of \$1,000,000 on its KUB Holdings equity investment to reflect fair market value of the recent sale of the 70% interest by its former partner. This impairment charge is in addition to the \$991,000 impairment charge taken to the KUB Holdings level. This compares with a \$1,583,000 impairment charge in the quarter ended December 31, 2014 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.

## Revenue, Net of Royalty

During the quarter ended September 30, 2016, the Company reported no revenue on its Tysagaz oil and gas operations as a result of the temporary suspension of the RK Field in western Ukraine effective April 1, 2016 as compared to \$347,000 in revenue, net of royalties, in 2015.

During the nine months ended September 30, 2016, the Company's net revenue on its Tysagaz oil and gas operations was \$1,065,000 as compared to \$1,498,000 in 2015.

## Revenue from Gas Trading, Net of Cost of Sales for Gas Trading

Commencing August 2016, the Company's wholly owned subsidiary, Tysagaz, began taking possession of its 35% ownership of gas produced at KUB-Gas. Tysagaz purchased the gas from KUB-Gas at the same price that KUB-Gas sold its gas to an affiliate of Resano, the majority shareholder of KUB-Gas. The Company agreed to this arrangement so it could attempt to earn additional net income from the gas sales price sold to Resano's affiliate. During three months ended September, 2016, the Company recorded \$2,122,000 in gas sales and

\$2,067,000 for the cost of the sales for a net profit from gas trading of \$55,000 as compared to no such transactions during 2015.

## Income from Equity Investment

The Company accounts for its historical 35% (2015 – 30%) indirect ownership in KUB Holdings as an investment under the equity method. During the quarter ended September 30, 2016, KUB-Gas generated gross revenues of approximately \$10,384,000 (2015 - \$14,214,000) and had net income of \$4,278,000 (2015 – \$2,588,000). This resulted in a net income to the Company from its equity investment for the quarterly period of \$1,498,000 (2015 – \$777,000). The lower royalty rate contributed to the increase in income.

During the nine months ended September 30, 2016, KUB-Gas generated gross revenues of approximately \$34,929,000 (2015 - \$46,767,000) and had net income of \$13,841,000 (2015 – \$4,739,000). This resulted in a net income to the Company from its equity investment for the period of \$4,725,000 (2015 – \$1,422,000). The lower royalty rate contributed to the increased net income during the current nine month period.

## Selling and General Administrative Expenses

Selling and general administrative expenses were \$893,000 during the quarter ended September 30, 2016, as compared to \$822,000 in the comparative 2015 quarter for an increase of \$71,000. During the nine months ended September 30, 2016, selling and general administrative expenses decreased \$387,000 from \$3,331,000 in 2015 to \$2,944,000 in 2016. The Company initiated cost-cutting efforts during the last two years which included, but not limited to, the reduction of ten employees and three directors, the ceasing of a material amount of investor relations activities, and general cuts in travel expenditures. However, with the recent transaction on Uzhgorod and resumption of drilling operations at KUB-Gas, the Company hired two technical team members in the second quarter of 2016 which increased selling and general administrative expenses in the current and future quarters. Some of the significant items contained within selling and general administrative expenses are as follow:

### Salaries

During the third quarter, salaries to staff and directors fees increased to \$641,000 as compared to \$572,000 during the comparative 2015 quarter. During the current quarter, the Company added two technical team members. During the nine months ended September 30, 2016, salaries were \$1,782,000 as compared to \$2,065,000 in the comparative 2015 period. Cost-cutting measures were introduced in 2015 and included the reduction of three staff members with a view of cutting selling and administrative expenses. Included in the nine months ended September 30, 2015, is \$106,000 of severance to three employees.

### Professional fees

Professional fees were \$45,000 during the quarter ended September 30, 2016 as compared to \$1,000 in the comparative 2015 period. During the nine months ended September 30, 2016, professional fees were \$359,000 as compared to \$283,000 in 2015. Professional fees during the nine months ended September 30, 2016 included the review of the Company's right of first refusal on the KUB Holdings transaction in late 2015 and through the first half of 2016. The Company's professional costs also include the costs of being a public issuer including third party legal advice, engineering reports and financial audits.

### Office and administration

Office and administration costs were \$161,000 in the quarter ended September 30, 2016, as compared to \$104,000 in the 2015 quarter. During the nine months ended September 30, 2016, office and administrative costs were \$493,000 as compared to \$409,000 in 2015.

## Consulting

Consulting fees were \$6,000 during the current quarter which decreased significantly compared to the 2015 comparative quarter when the fees were \$92,000. During the nine months ended September 30, 2016, the consulting fees were \$86,000 as compared to \$338,000 in 2015. The Company retains consultants periodically on an as needed basis to assist in operations and administration. There was less reliance on consultants during 2016.

## Travel

During the current quarter, travel costs were \$40,000 as compared to \$25,000 in 2015. During the nine months ended September 30, 2016, travel costs were \$179,000, for an increase of \$76,000 from the comparative 2015 period which totaled \$103,000. Travel expenses include costs associated with international operations and increased during the first nine months of 2016 as a result of increased corporate activity surrounding the right of first refusal and meetings with the Company's new equity partner.

## Gain on Sale of Subsidiaries

During the quarter ended September 30, 2016, the Company recorded a gain of \$1,644,000 on its 50% sale of CNG as compared to no such gains in 2015. During the nine months ended September 30, 2016, the Company recorded a gain on the sale of subsidiaries of \$1,879,000 as compared to no such gains in 2015. The gain during the nine months include the \$1,644,000 gain on the sale of 50% of CNG and \$235,000 related to the sale of TGI. The sale of TGI was for nominal consideration and the gain of \$235,000 largely reflects the net working capital deficit of TGI at the time of sale.

## Net Profit/Loss

During the quarter ended September 30, 2016, the Company recorded net income of \$2,199,000 or \$0.01 per share as compared to a net loss of \$214,000 or \$0.00 per share in the comparative 2015 period. During the nine months ended September 30, 2016, the Company recorded net income of \$4,239,000 or \$0.01 per share as compared to a net loss of \$2,088,000 or \$0.01 per share in the comparative 2015 period. The improved net income during the 2016 periods was a result of the reduction of the Ukraine natural gas royalties from 55% to 29% and also impacted by a gain of \$1,879,000 on the sale of subsidiaries.

## Foreign Currency Translation Income/Loss

During the quarter ended September 30, 2016, the foreign currency translation loss was \$715,000 as compared to a loss of \$24,000 in the comparative 2015 period. During the nine months ended September 30, 2016, the foreign currency translation loss was \$1,376,000 as compared to a loss of \$3,817,000 in the comparative 2015 period. The losses relate to the revaluation of the Company's foreign assets and liabilities from the local currency (Ukrainian and Canadian currencies) 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 volatility of the local currencies which included a devaluation of the UAH by approximately 32% in 2015 and a further 7% devaluation in 2016. The Canadian dollar has also been volatile and appreciated 6% against the US dollar during the nine months ended September 30, 2016. The losses materially lowered the carrying value of the Ukrainian property, plant and equipment, the value of the equity investment in KUB Holdings. These losses do not impair the ability of those assets or liabilities to perform their intended purpose. If the Ukrainian currency were to appreciate, some or all of these unrealized losses would be recouped.

## Liquidity, Capital Resources and Financings

At September 30, 2016, the Company had a cash balance of \$3,611,000 (December 31, 2015 – \$1,360,000) and working capital of \$822,000 (December 31, 2015 – working capital deficit of \$1,722,000). The Company had no long-term debt or capital leases other than the KUB-Gas loan. The Pelicourt line of credit was reclassified from a long term liability to a current liability during the current period as its due date (January 31, 2017) is within twelve months of the balance sheet date. 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 a \$5,000,000 unsecured line of credit with Pelicourt of which \$2,000,000 is currently outstanding. 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 January 31, 2017. Pelicourt notified the Company that it will not provide any further funding under the line of credit in 2016. Subsequent to the nine months ended September 30, 2016, the Company signed a new Pelicourt Line of Credit agreement that will be effective at the expiring of the current agreement, being January 31, 2017. The line of credit will be the \$2,000,000 currently outstanding with no additional amount available to be drawn down. The interest rate was amended from the current 9% to 12%. The due date was extended from January 31, 2017 to January 31, 2019 and the interest will continue to be paid semi-annually. In addition, Pelicourt was granted security over Gastek which indirectly owns the 35% interest in KUB-Gas. The security is available on an event of default and limited only to the amount owing on the line of credit including principal and interest. The security component of the agreement is subject to approval, including regulatory approval and may be subject to minority shareholder approval.

During the three months ended September 30, 2016, the Company's Ukraine subsidiary, Tysagaz, received proceeds of \$2,973,000 from KUB-Gas pursuant to an unsecured, non-interest bearing loan agreement between the parties. The loans are due and payable on May 31, 2019 and July 31, 2019. The loan agreements are expected to be in place until the NBU lifts the capital control restrictions in Ukraine. Subsequent to the quarter ended September 30, 2016, Tysagaz, received further proceeds of \$577,000 from KUB-Gas pursuant to a loan agreement between the parties.

During the quarter ended September 30, 2016, the Company received cash proceeds of \$1,649,000 related to the third party sale of 50% of its subsidiary, CNG, which indirectly holds the Uzhgorod licence.

During the three months ended September 30, 2016, the Company expended \$301,000 on the purchase of the NRU as compared to no such capital expenditures in 2015. During the fourth quarter of 2016, the Company's capital expenditures are anticipated to increase to fund with the acquisition of compressors for the NRU and the RK-1 well recompletion.

During the three months ended September 30, 2016, KUB-Gas incurred approximately \$2,884,000 (2015 - \$1,527,000) of capital expenditures on property, plant and equipment of which the Company's 35% equity share was \$1,009,000 (2015 - \$534,000). The capital expenditures during the current period primarily related to the drilling of the M-23 well.

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.

## Outlook

The Company has re-initiated material capital expenditures in 2016 in light of the recently reduced royalty rate of 29% effective January 1, 2016. The Company expects KUB-Gas to drill one new well in the first quarter of 2017 which will be self-funded by KUB-Gas. In western Ukraine, the Company is expects to perform the RK-1 recompletion in the fourth quarter of 2016 and purchase and ship the compressors for the NRU. The goal is to resume production at the RK Field in the first quarter of 2017. Also in western Ukraine, CNG expects to shoot a 118 square kilometre 3D seismic program when weather conditions permit.

## Outstanding Share Data

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

Type	Number
<b>Common Shares</b>	310,790,808
<b>Restricted Stock Units</b>	3,673,642
<b>Total Issued and Outstanding</b>	314,464,450

## Commitments and Contingencies

### Ukraine

The Company has an obligation to incur certain capital expenditures to comply with the Ukrainian licence requirements. Under these licence maintenance commitments, the Company is required to explore its licenced 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 2016 to 2020 as part of the planned exploration and development program. Justified deviation from the capital expenditures is permitted and should be agreed with the licencor, while failure to commit exploration works and substantiate the different capital expenditure schedule may result in termination of the exploration licence. The Company has applied to extend to convert an exploration licence to a production licence, although there are no assurances any conversion 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.

### Litigation

Subsequent to the nine months ended September 30, 2016, the Company's 50% indirect owned Ukraine subsidiary, CNG LLC, learned of two non-governmental organization ("NGO") lawsuits filed against the State Service of Geology and Mineral Resources of Ukraine ("SGS"), the government body who issues licences in Ukraine, concerning recent licence grants including the Company's recently issued Uzhgorod licence. From public available information, it appears that the NGO filed at least five more lawsuits challenging the SGS for issuance of several licenses issued to various third party subsoil users. The Company believes the claims to be frivolous and without merit and there is no reason to postpone investment activities within the Uzhgorod license. To be clear, CNG LLC, which holds the Uzhgorod license is not a defendant under the claims but could be materially affected by a negative outcome. Therefore, CNG LLC will participate in the litigation as a third party on the defendant's side. Accordingly, the Company will provide legal assistance to the SGS in defending against the claims.

## Transactions with Related Parties

Transactions with related parties are incurred in the normal course of business. During the nine months ended September 30, 2016 and 2015, there were no related party transactions other than the Pelicourt line of credit and KUB-Gas loans - 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 as well as the recent sales price achieved by the majority owner on its disposition of shares of KUB Holdings 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

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for future accounting periods. The following have not yet been adopted by the Company and are being evaluated to determine their impact.

- IFRS 9: New standard that replaced IAS 39 for classification and measurement, tentatively effective for annual periods beginning on or after January 1, 2018.
- IFRS 15: New standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers, effective for annual periods beginning on or after January 1, 2018.

### Financial Instruments and Other Instruments

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

### Non-IFRS Measures

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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.