CUB ENERGY INC

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013

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 year ended December 31, 2013 and the unaudited consolidated financial statements for the three months ended March 31, 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 May 15, 2014.

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 (Tysagaz). The Company recently acquired additional exploration acreage in eastern Ukraine (Technogasidustria LLC or "TGI").

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, 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's 2014 production growth and use of capital is expected to be driven by the Company's 100% ownership of Tysagaz, whose assets are in western Ukraine. The Company plans up to six drilling activities in Tysagaz including the recently completed and successful RK-21 well.

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.

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 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 three months ended March 31, 2014 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.

	As Reported	Deduct Equity Investment	Add 30% Allocated from Equity Investment	Pro-rata Net to Cub
Average Daily Production (boe/d)	361	-	1,496	1,857
Revenue	$ 1,701,000	$ -	$ 7,033,000	$ 8,734,000
Cost of sales	667,000	-	2,864,000	3,531,000
Gross profit	**1,034,000**	**-**	**4,169,000**	**5,203,000**
Operating expenses				
Selling and general administrative	2,216,000	-	4,000	2,220,000
Share based payments	377,000	-	-	377,000
Depletion and depreciation	451,000	-	1,576,000	2,027,000
Finance expense (income)	(21,000)	-	74,000	53,000
Foreign exchange loss	-	-	1,080,000	1,080,000
Accretion and decommissioning obligation	3,000	-	3,000	6,000
	3,026,000	**-**	**2,737,000**	**5,763,000**
Other income				
Income from equity investment	1,077,000	(1,077,000)	-	-
Profit (loss) before tax	**(915,000)**	**(1,077,000)**	**1,432,000**	**(560,000)**
Income tax expense	**-**	**-**	**355,000**	**355,000**
Net profit (loss)	**$ (915,000)**	**$ (1,077,000)**	**$ 1,077,000**	**$ (915,000)**
Netback ($/boe)				
Revenue	$ 52.83	-	$52.26	$ 52.37
Royalty	(13.89)	-	(14.03)	(14.00)
Production expenses	(11.58)	-	(7.25)	(8.09)
Field netback ($/boe)	**$ 27.36**	**-**	**$ 30.98**	**$ 30.28**
Field netback ($/mcfe)	**$ 4.56**	**-**	**$ 5.16**	**$ 5.05**
Funds from operations(1)	**$ (126,000)**	**$ (1,035,000)**	**$ 3,552,000**	**$ 2,391,000**
Capital expenditures	**1,074,000**	**-**	**2,148,000**	**3,222,000**
Net working capital (deficit) (2)	**(306,000)**	**-**	**2,558,000**	**2,252,000**
Long term debt(3)	**1,000,000**	**-**	**565,000**	**1,565,000**

(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 $1,035,000 in 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.

(3) See "off balance sheet arrangements" located elsewhere in this MD&A. This amount represents the Company's 30% share of the long term portion of the debt.

Results of Operations

(in thousands of US dollars)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Petroleum and natural gas revenue	1,701	1,055
Pro-rata petroleum and natural gas revenue(1)	8,734	9,668
Net profit (loss)	(915)	276
Earnings (loss) per share – basic and diluted	(0.00)	0.00
Funds generated from (used in) operations(2)	(126)	1,583
Pro-rata funds generated from operations(3)	2,391	2,692
Capital expenditures(4)	1,074	323
Pro-rata capital expenditures(4)	3,222	1,871
Pro-rata netback ($/boe)	30.28	43.84
Pro-rata netback ($Mcfe)	5.05	7.31

	March 31, 2014	December 31, 2013
Working capital (deficit)	(306)	942
Cash and cash equivalents	1,908	1,617
Long-term debt	1,000	-

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. The KUB-Gas funds from operations is calculated as the income from equity investment less the KUB-Gas depletion and depreciation.

(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

- Production averaged 1,857 boe/d (95% natural gas) for the three months ended March 31, 2014 for an increase of 22% over 1,528 boe/d in the same period in 2013;
- Exit rate of 1,952 boe/d at March 31, 2014 for a 6% decrease over exit rate of 2,070 boe/d at December 31, 2013;
- Current production of approximately 1,900 boe/d;
- Eighth consecutive quarter of production growth;
- Netback of $30.28/Boe or $5.05/Mcfe for the quarter ended March 31, 2014;
- Received $1,035,000 in dividends from Kub-Gas during the quarter ended March 31, 2014;
- Achieved average natural gas price of $8.63/Mcf and condensate price of $78.19/bbl for the three months ended March 31, 2014;
- A Shallow Pool Discovery was made while drilling the Rusko-Komarovske-22 ("RK-22") development well on the Rusko-Komarovske ("RK") licence in western Ukraine tested gas and was brought on production in late 2013. The Company is the 100% owner and operator of the RK licence;
- On March 14, 2014, the RK-21 well was spud and subsequently cased to TD, tested 2.6 MMcf/d and tied-in;
- Gas began flowing from the new Kub-Gas (30% WI) Makeevskoye and Olgovskoye production and processing facility on March 6, 2014 resulting in increased capacity to 68 MMcf/d from the previous 30 MMcf/d. While this work was completed by the end of the first quarter of 2014, full production gains are pending re-routing of gas production and permitting which is expected in the next couple of months;
- The M-17 well (30% WI) was drilled to its total depth of 3,445 metres and the S7 zone tested gas at a rate of over 0.9 MMcf/d through a seven millimetre choke;
- On April 7, 2014, Cub announced the O-11 well (30% WI) commenced and is currently drilling at a depth of over 3,000 metres; and
- Cub also announced the O-24 well (30% WI) tested and flowed gas at low rates in the R30c zone. The Company anticipates fracture stimulate this zone later this year.

Ukraine Gas Prices and Currency

During the first quarter ended March 31, 2014, natural gas prices declined per the terms of a temporary agreement between Russia and Ukraine and was also materially impacted by the devaluation of the Ukrainian Hryvnia ("UAH") which went from approximately 8.2 UAH/USD to 11.4 UAH/USD by the end of the quarter or a 39% decline. The combination of Natural gas price declines and devaluation of the local currency resulted in the Company receiving approximately $8.63/Mcf during the current quarter as compared to $11.88/Mcf in the comparative period in 2013 and $11.26/Mcf in the 2013 year. For operating expenses and capital expenditures incurred and paid in UAH, the Company benefits from the lower equivalents in US dollars.

In April and May of 2014, the temporary agreement between Russian and Ukraine was terminated and gas prices materially increased. The gas price realized in the month of April was approximately $9.13/Mcf using an exchange rate effective of 11.9:1 UAH/USD. The Company expects a further published increase in May 2014 to $11.42/Mcf, less an estimated 10% trading margin, using a current exchange rate of 11.65:1 UAH/USD. 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.

Ukraine KUB-Gas Assets (30% Interest)

Material updates for the three months ended March 31, 2014 include the drilling and testing of the O-24 and M-17 wells. Plans are to perform a dual completion on the M-17 when the snubbing unit arrives on location. The new Makeevskoye and Olgovskoye processing facility began flowing gas on March 6, 2014 and KUB-Gas intends to slowly increase the throughput rate in the new plant. When fully operational the new facility will have increased throughput capacity from approximately 30 MMcf/d to 68 MMcf/d. While this work was completed by the end of the first quarter of 2014, full production gains are pending re-routing of gas production and permitting which is expected in the next couple of months. For the Makeevskoye and Olgovskoye fields, the company anticipates that gross daily production rates could increase by 3.0 MMcf/d (0.9 MMcf/d net) from existing wells previously constrained by facility limitations.

Ukraine Tysagaz Assets (100% Interest)

During the quarter ended March 31, 2014, the commenced drilling of the RK-21 well and subsequently reached a total measured depth ("TMD") of 1,818 metres. The well has been cased to TMD with multiple potential gas bearing zones identified. Subsequent to the quarter end, the RK-21 was tied-in.

Ukraine TGI Assets (100% Interest)

During 2013, the Company initiated multiple 3D seismic campaigns on its TGI assets and, in 2014, has been focused on the processing and interpretation of these acquisitions.

Turkish Assets

In March 2014, the Company and its Turkish partner entered into a settlement agreement in which the Company relinquished its interest in the eleven Turkish licenses in consideration of receipt of $250,000 from the restricted cash account, consisting of a reimbursement of past expenditures and a return of half the balance in the restricted cash account. The remaining balance of $324,000 in the restricted cash account was transferred to the Turkish partner. The Company was also released from any and all claims, liabilities and commitments. The Company continues to examine further upstream oil and gas opportunities in Turkey.

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 March 31, 2014. The information contained herein is taken from the consolidated financial statements of the Company for each of the aforementioned quarters.

Quarter Ended	Mar 31, 2014	Dec 31, 2013	Sept 30, 2013	Jun 30, 2013
Revenue	1,701,000	745,000	627,000	823,000
Cost of sales	667,000	343,000	388,000	452,000
Income from equity investment	1,077,000	2,836,000	3,815,000	2,352,000
Operating expenses	3,026,000	8,308,000	3,234,000	2,347,000
Net profit (loss)	(915,000)	(6,083,000)	271,000	1,257,000
Earnings (loss) per share	(0.00)	(0.02)	0.00	0.00
Working Capital (deficit)	(306,000)	942,000	3,769,000	10,232,000

Quarter Ended	Mar 31, 2013	Dec 31, 2012	Sept 30, 2012	Jun 30, 2012
Revenue	1,055,000	606,000	546,000	514,000
Cost of sales	561,000	266,000	271,000	247,000
Income from equity investment	2,153,000	1,982,000	1,741,000	2,155,000

Operating expenses	2,309,000	2,714,000	1,740,000	2,118,000
Net profit (loss)	276,000	(136,000)	54,000	181,000
Earnings (loss) per share	0.00	(0.00)	0.00	0.00
Working Capital (deficit)	10,611,000	9,577,000	(229,000)	1,378,000

Revenue and Cost of Sales

During the quarter ended March 31, 2014, the Company's gross profit from its Tysagaz operations in western Ukraine increased to $1,034,000 from $494,000 in the 2013 comparative period. The increased profit relates to the RK-22 well which was brought on production late 2013. The gross profit during the current quarter was offset by the lower gas price as the Company realised $8.63/Mcf in the first quarter of 2014 as compared to $11.88/Mcf in the comparative 2013 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 March 31, 2014, KUB-Gas generated gross revenues of approximately $23,446,000 (2013 - $28,709,000) and net income of $3,590,000 (2013 – $7,175,000). This resulted in an income from equity investment for the quarterly period to the Company of $1,077,000 (2013 - $2,153,000), a decline of approximately 50% period over period. The decrease was due to the lower gas price realised at KUB-Gas period over period and the devaluation of the local Ukrainian currency. In the current quarter, Kub-Gas reported a $3,601,000 loss on foreign exchange (net to Cub is $1,080,000) as it held US denominated debt (EBRD Loan Facility) in its Ukrainian subsidiary. Excluding the foreign exchange loss, the Company's income from equity investment would have been $2,157,000.

The Company estimates that its pro-rata portion of cash flow from operations from KUB Holdings to be approximately $3,552,000 for the three months ended March 31, 2014.

Selling and General Administrative Expenses

Selling and general administrative expenses were $2,216,000 during the quarter ended March 31, 2014, as compared to $1,951,000 in the comparative 2013 period for an increase of $265,000. Some of the significant items contained within selling and general administrative expenses are as follow:

Professional fees

Professional fees decreased to $291,000 during the quarter ended March 31, 2014 from $324,000 in the comparative 2013 period representing a 10% change. The Company's professional costs during the respective periods reflected the costs of being a public issuer including third party engineering reports and yearend financial audits.

Office and administration

Office and administration costs were flat period over period with $213,000 in the quarter ended March 31, 2014, from $214,000 in the comparative 2013 quarter.

Salaries

During the current quarter, salaries to staff and directors fees increased to $937,000 from $589,000 during the comparative 2013 quarter. The Company increased the number of directors, executives, management and staff in the second half of 2013 as it increased general corporate activity and development efforts.

Consulting

Consulting fees were $179,000 during the current quarter as compared to $164,000 during the comparative 2013 quarter. The Company retains consultants periodically on an as needed basis to assist in operations and administration.

Travel

During the current quarter, travel costs were $339,000, for a decrease of $69,000 from the comparative 2013 quarter. Travel expenses include costs associated with international operations, investor marketing and business development.

Business development and investor relations

During the quarter, business development and investor relations expenses were $46,000 as compared to $122,000 in the comparative period in 2013. The expenses consisted of investor awareness activities.

Share Based Payments

The Company recorded $377,000 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 quarter ended March 31, 2014 as compared to $78,000 in related expenses in the comparative quarter. The Company experienced a higher expense in 2014 due to a material stock option grant in July, 2013.

Net Profit/Loss

During the quarter ended March 31, 2014, the Company recorded a net loss of $915,000 or $0.00 per share as compared to net income of $276,000 or $0.00 per share in the comparative 2013 period.

Foreign Currency Translation Loss

During the quarter ended March 31, 2014, the Company recorded a foreign currency translation loss on foreign operations of $21,316,000 as compared to a loss of $242,000 in the comparative 2013 period. The losses relate to the revaluation of the Company's foreign assets and liabilities from the local Ukrainian 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 39% in the quarter as the Ukrainian currency went from approximately 8.2 UAH/USD to 11.4 UAH/USD. The loss materially lowered the carrying value of the Ukrainian property, plant and equipment, the value of the equity investment in KUB Holdings, the Company's Ukrainian exploration and evaluation assets 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, some or all of these unrealized losses would be recouped.

Liquidity, Capital Resources and Financings

At March 31, 2014, the Company had a cash balance of $1,908,000 (December 31, 2013 – $1,617,000) and working capital deficit of $306,000 (December 31, 2013 – $942,000). The Company has no long-term debt or capital leases other than the Pelicourt line of credit. The Company has historically been able to successfully raise funds through the issuance of common shares or debt.

The Company has access to a $5,000,000 unsecured line of credit with Pelicourt Limited, a significant shareholder of the Company which has a common director. 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 $1,000,000 during the quarter ended March 31, 2014 and subsequent to March 31, 2014, drew down an additional $1,000,000.

During the three months ended March 31, 2014, the Company received dividends in the amount of $1,035,000 from KUB Holdings and subsequent to March 31, 2014, the Company received further dividends of $1,260,000.

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 first quarter ended March 31, 2014, the Company used $953,000 of its cash on the purchase of property, plant and equipment and $121,000 on exploration and evaluation activities as compared to $317,000 and $6,000, respectively, in the comparative 2013 period. The property, plant and equipment additions for 2014 consisted of the commencement of drilling the RK-21 well in western Ukraine.

During the three months ended March 31, 2014, KUB-Gas incurred approximately $7,161,000 of capital expenditures on property, plant and equipment of which the Company's 30% equity share was $2,148,000 and included the continuing costs of the new gas facility, drilling of the O-24 and M-17 wells and related tie-in costs, where applicable.

Outlook

For the remainder of 2014, the Company will continue it's previously announced work program on its 100% owned and operated Tysagaz assets in western Ukraine. The Company plans to drill the RK-23 and RK-24 development wells, re-enter the RK-1 well for completion in a deeper zone and plans to drill up to two wells on the Stanivske licence.

Operations expected in the remainder of 2014 for KUB-Gas include the drilling of four wells including the current O-11 well, four fracture stimulations and a workover of the O-6 well and construction of pipeline to tie-in wells as needed. The Makeevskoye and Olgovskoye production and processing facilities is expected to be optimized in the next couple of months.

Effective April 1, 2014, the government of Ukraine increased it royalty rates to 28% for natural gas and 42% for condensate from 25% and 39%, respectively.

With the uncertainty of gas prices in Ukraine, it is possible that the programs could get constrained. Subsequent to the quarter ended March 31, 2014, the Company made certain cost reductions to its general and administrative overhead without adversely affecting operations.

Ukraine's political and economic situation has been volatile since the former Government's decision not to sign the Association Agreement and the Deep and Comprehensive Free Trade Agreement with the European Union in late November 2013. Political and social unrest, which escalated into violent conflicts in February 2014, has resulted in the Ukrainian parliament initiating the resignation of the president, change of government and heads of key governing bodies. It also led to the deepening of the ongoing economic crisis, widening of the state budget deficit, depletion of the National Bank of Ukraine's foreign currency reserves and, as a result, a further downgrading of the Ukrainian sovereign debt credit ratings. In February 2014, following the significant devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions. The new government has approached international lenders with the request to provide financing in order to stabilize macroeconomic situation. Presidential elections in Ukraine are scheduled to take place on May 25, 2014. On March 21, 2014, the European Union and Ukraine signed an Association Agreement designed to give Ukraine's interim leadership more political support — the same agreement that was rejected in November 2013. The economic portions of the accord will be signed after the Ukrainian presidential elections expected to be held on May 25, 2014. In March 2014, the Crimea parliament declared Crimea's independence from Ukraine and Crimea was annexed to the Russian federation The United States and European Union have declared sanctions against selected Russian individuals and companies. On April 30, 2014, the International Monetary Fund committed to a $17 billion two-year aid program to help the country's economy recover. To date, the unrest in Ukraine has had limited impact on the Company's operations; however, the final resolution and the effects of the political and economic crisis are difficult to predict and could negatively affect the Company's results and financial position.

Outstanding Share Data

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

Type	Number
Common Shares	311,746,285
Warrants	9,340,257
Stock options	22,509,000
Total Issued and Outstanding	343,595,542

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 March 31, 2014, the remaining balance of the EBRD Loan Facility was approximately $5,815,000 of which the Company has guaranteed $1,745,000 or 30%.

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 2014 to 2015 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 license.

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.

Transactions with Related Parties

Transactions with related parties are incurred in the normal course of business and are measured at the fair value, which is the amount of consideration established and approved by the related parties. During the three months ended March 31, 2014, 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 these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates. Significant estimates included:

- 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 including estimates of impairment losses.
- 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.
- 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. These estimates are also used in assessing impairment for exploration and evaluation assets.
- 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.

New Standards and Interpretations

a) New Accounting Standards Effective in 2014

In May 2013, IASB issued IFRIC 21 Levies, which sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to the recognition of a liability to pay a levy. The Company performed an assessment of the impact of IFRIC 21 and concluded it did not have a significant impact on its consolidated financial statements.

b) New Accounting Standards Issued But Not Yet Effective

In November 2009, the IASB issued IFRS 9 Financial Instruments as the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement. In February 2014, the IASB tentatively decided that the mandatory effective date of IFRS 9 would be annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of adopting IFRS 9 on its consolidated financial statements.

Annual Improvements 2010-2012 Cycle was issued by IASB in December 2013. The annual improvement process is comprised of minor revisions, clarifications or corrections to the standards. The following standards have been amended: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38. These amendments are effective for annual periods beginning on or after July 1, 2014. Earlier application is permitted.

Annual Improvements 2011-2013 Cycle was issued by IASB in December 2013. The annual improvement process is comprised of minor revisions, clarifications or corrections to the standards. The following standards have been amended: IFRS 1, IFRS 3, IFRS 13 and IAS 40. These amendments are effective for annual periods beginning on or after July 1, 2014. Earlier application is permitted.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash, restricted cash, trade and other receivables, trade and other payables and accrued liabilities and provisions.

Management believes that these financial instruments expose the Company to a limited amount of currency or credit risks. The fair market values of cash, restricted cash, investment, trade and other receivables, line of credit and trade and other payables and accrued liabilities 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.