



Condensed consolidated interim financial Statements

For the three months ended March 31, 2016 and 2015

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

(Unaudited)

Notice of No Auditor Review of Interim Financial Statements

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

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

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

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

	<i>Note</i>	March 31, 2016	December 31, 2015
Assets			
Current assets			
Cash		\$ 1,971	\$ 1,360
Trade and other receivables	7, 10	548	75
Prepaid expenses and inventory		110	117
		2,629	1,552
Non-current assets			
Equity investment in KUB Holdings	5, 10	14,305	13,562
Property, plant and equipment	6	6,775	7,614
Non-current receivables	7	329	329
		21,409	21,505
Total assets		\$ 24,038	\$ 23,057
Liabilities			
Current liabilities			
Trade and other payables		\$ 3,027	\$ 2,999
Line of credit	9	2,320	275
		5,347	3,274
Non-current liabilities			
Loan from KUB-Gas	11	1,176	-
Long term portion of line of credit	9	-	2,000
Provisions		183	196
		1,359	2,196
Total liabilities		6,706	5,470
Shareholders' equity			
Share capital		62,133	62,133
Warrants	12	-	26
Contributed surplus	13	4,879	4,845
Accumulated other comprehensive loss		(45,115)	(43,395)
Deficit		(4,565)	(6,022)
Total shareholders' equity		17,332	17,587
Total shareholders' equity and liabilities		\$ 24,038	\$ 23,057

Nature of operations and going concern (Note 1)

Commitments and contingencies (Note 17)

Subsequent event (Note 22)

Approved by the Board

“Mikhail Afendikov”
Director (Signed)

“Tim Marchant”
Director (Signed)

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

Cub Energy Inc.**Condensed Consolidated Interim Statements of Operations and Comprehensive Loss**

(Unaudited, expressed in thousands of US dollars, except per share data)

Three months ended March 31,	<i>Note</i>	2016	2015
Revenue		\$ 1,456	\$ 1,776
Royalty		391	1,084
Revenue, net of royalty		1,065	692
Income from equity investment	<i>5</i>	1,653	145
Operating expenses			
Selling and general administrative expenses	<i>15</i>	1,092	1,423
Depletion and depreciation	<i>6</i>	319	292
Gain on sale of subsidiary	<i>1</i>	(235)	-
Cost of sales		129	143
Finance (income) loss, net	<i>9</i>	(47)	159
Accretion of decommissioning obligation		3	4
Share-based payments	<i>13</i>	-	39
		1,261	2,060
Net income (loss)		1,457	(1,223)
Other comprehensive loss			
Items that may be reclassified to profit or loss			
Foreign currency translation loss on foreign operations		(1,720)	(5,312)
Comprehensive loss		\$ (263)	\$ (6,535)
Income (loss) per share			
Basic and diluted	<i>14</i>	0.00	(0.00)

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

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

	<i>Note</i>	Number of shares	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive loss	Retained earnings (deficit)	Total
Balances as at January 1, 2015		311,746,285	\$ 62,133	\$ 281	\$ 4,502	\$ (36,840)	\$ (2,881)	\$ 27,195
Share-based payments	13	-	-	-	50	-	-	50
Currency translation adjustment		-	-	-	-	(5,312)	-	(5,312)
Net loss		-	-	-	-	-	(1,223)	(1,223)
Balances as at March 31, 2015		311,746,285	\$ 62,133	\$ 281	\$ 4,552	\$ (42,152)	\$ (4,104)	\$ 20,710
Balances as at January 1, 2016		311,746,285	\$ 62,133	\$ 26	\$ 4,845	\$ (43,395)	\$ (6,022)	\$ 17,587
Share-based payments	13	-	-	-	8	-	-	8
Expiry of warrants	12	-	-	(26)	26	-	-	-
Currency translation adjustment		-	-	-	-	(1,720)	-	(1,720)
Net income		-	-	-	-	-	1,457	1,457
Balances as at March 31, 2016		311,746,285	\$ 62,133	\$ -	\$ 4,879	\$ (45,115)	\$ (4,565)	\$ 17,332

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

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

Three months ended March 31,	<i>Note</i>	2016	2015
Operating activities			
Net income (loss)		\$ 1,457	\$ (1,223)
<i>Adjustments for:</i>			
Income from equity investment	5	(1,653)	(145)
Depletion and depreciation	6	319	292
Gain on sale of subsidiary	1	(235)	-
Accretion		3	4
Dividends from equity investment	5	-	1,279
Share-based payments	13	-	39
		(109)	246
Changes in working capital	8	(84)	584
Cash flows provided by (used in) operating activities		(193)	830
Investing activities			
Additions to property, plant and equipment	6	(138)	(83)
Cash used in investing activities		(138)	(83)
Financing activities			
Proceeds from KUB-Gas loan	11	1,176	-
Cash provided by financing activities		1,176	-
Net change in cash		845	747
Effects of exchange rates changes on cash		(234)	111
Cash at beginning of period		1,360	1,728
Cash at end of period		\$ 1,971	\$ 2,586
Supplemental cashflow information			
Cash taxes paid		\$ -	\$ -
Cash interest paid		\$ -	\$ -

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

Cub Energy Inc.
For the three months ended March 31, 2016 and 2015
Notes to the condensed consolidated interim financial Statements
(Unaudited, expressed in thousands of US dollars)

1 Nature of operations and going concern

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

The Company, through its subsidiary Gastek LLC (“Gastek”), owns a 35% equity interest (increased from 30% to 35% effective February 8, 2016) in KUBGAS Holdings Limited (“KUB Holdings”) which in turn owns a 100% equity interest in KUB-Gas LLC (“KUB-Gas”). KUB Holdings is governed by a shareholders agreement amongst the two shareholders. KUB-Gas and its subsidiary own and operate six licenced gas and gas condensate fields in the Dnieper-Donetsk Basin of eastern Ukraine (five operating under production licences and one under exploration licence).

The Company, through its subsidiary Tysagaz LLC, also owns a 100% working interest in three licences in western Ukraine (two operating as production licences and one under exploration licence). The Rusko-Komarivske field was in production until April 1, 2016 when it was temporarily suspended.

On February 11, 2016, the Company’s subsidiary sold its 100% owned subsidiary Technogasindustria LLC (“TGI”) for nominal value. TGI held three exploration licences in the rebel held territory that had been written off during the year ended December 31, 2014 and the licences expired in January 2016. During the three months ended March 31, 2016, the Company recorded a gain of \$235 as a result of TGI’s net working capital deficit at the time of sale.

Ukraine’s political and economic situation has been volatile since late November 2013. Political and social unrest, which escalated into violent conflicts in February 2014, resulted in a change of government and heads of key governing bodies, and parliamentary elections in October 2014. The International Monetary Fund (“IMF”) committed to a \$17 billion two-year aid program to help the country’s economy recover conditioned upon comprehensive economic reforms by the new Ukraine government. IMF financing commenced in March 2015.

Violent clashes in eastern Ukraine between Ukraine military and Russian-backed rebels began in May 2014, after the annexation of Crimea. Russian-backed rebels moved into the Donetsk and Lughansk regions in an attempt to occupy and claim these territories from Ukraine. Due to this military conflict, the Company suspended its field development operations in eastern Ukraine from June 27, 2014 until October 2, 2014 to ensure the safety of its employees. Production continued uninterrupted during that period. The Company continues to monitor the conflict to make any necessary changes to its operations.

The political unrest and ongoing military conflicts has also led to the deepening of the ongoing economic crisis, widening of the state budget deficit, depletion of the National Bank of Ukraine’s (“NBU”) foreign currency reserves and, as a result, a further downgrading of the Ukrainian sovereign debt credit ratings. In February 2014, following the significant devaluation of the national currency, Ukraine implemented several changes, including: the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions that require Ukrainian companies to convert 50% of all incoming foreign transfers to the local Ukrainian currency; the National Bank of Ukraine imposed a restriction that US and other foreign denominated loans in Ukraine could not be repaid in advance of their maturity dates; the National Bank of Ukraine passed resolutions prohibiting the payment of dividends to foreign shareholders through June 4, 2016, the Ukraine parliament increased the natural gas royalty rate to 55% for production at or above depth of 5,000 metres. On November 27, 2015, Ukraine amended the Code on Gas Pipeline Systems, which among

Cub Energy Inc.

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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. On December 31, 2015, the Ukraine parliament decreased the natural gas royalty rate from 55% to 29% for production at or above depth of 5,000 metres.

The political and economic uncertainty in Ukraine has contributed to a significant devaluation of the Ukrainian currency, Hryvnya (“UAH”), against major currencies. During the year ended December 31, 2015, the UAH went from 16.4 UAH/USD to 24.2 UAH/USD representing an approximate 32% devaluation and to 26.3 UAH/USD as at March 31, 2016, for a further 8% devaluation in 2016.

Pelicourt Limited (“Pelicourt”), a significant shareholder of the Company which the Company’s CEO is a principal of, and also the provider of a line of credit (see Note 9), notified the Company that it will not provide any further funding under the line of credit during 2016. The line of credit has \$3,000 undrawn funds as of March 31, 2016.

As of March 31, 2016, the Company had a working capital deficit of \$2,718 (December 31, 2015 – \$1,722) and accumulated deficit of \$4,565 (December 31, 2015 – \$6,022) since its inception and may incur future losses in the development of its business. With the current cash resources, no further funding in 2016 under the existing Pelicourt line of credit, temporary suspension of the RK Field, Ukraine dividend restrictions, currency fluctuations, reliance on a single customer, possible tariffs for pipeline access 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.

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

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

2 Basis of preparation

(a) Statement of compliance

The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) and their interpretations as issued by the International Accounting Standards Board (“IASB”). The condensed consolidated interim financial statements have been prepared in conformity with IAS 34 *Interim Financial Reporting* and do not include all the information required for full annual consolidated financial statements in accordance with IFRS and should be read in conjunction with the audited consolidated financials for the year ended December 31, 2015. The condensed consolidated financial

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statements for the period ended March 31, 2016, were approved by the board of directors of the Company on May 24, 2016.

(b) Basis of consolidation

(i) Subsidiaries and functional and reporting currencies

The following table describes the Company's subsidiaries and equity accounted investment, their place of incorporation, continuance or formation and the percentage of securities beneficially owned, controlled or directed by the Company as at March 31, 2016:

Name of Subsidiary/ Equity Accounted Investment	Percentage of Voting Securities Owned	Jurisdiction of Incorporation, Continuance or Formation	Functional Currency
Gastek LLC	100%	California	US
KUBGAS Holdings Limited	35%	Cyprus	US
KUB-Gas LLC	35%	Ukraine	Hryvnia
KUB-Gas Borova LLC	35%	Ukraine	Hryvnia
3P International Energy Limited	100%	Cyprus	US
Tysagaz LLC	100%	Ukraine	Hryvnia
CNG Holdings Netherlands B.V.	100%	Netherlands	Euro
CNG LLC	100%	Ukraine	Hryvnia
Listren Holding Company	100%	Cyprus	US
Cub Energy Inc.	100%	Texas	US
Galizien Energy Corp.	100%	Ontario	Canadian
Anatolia Energy Corp.	100%	Alberta	Canadian
Anatolia Energy Inc.	100%	Alberta	Canadian
Anatolia Energy Holdings Inc.	100%	Cayman Islands	US
Anatolia Energy (Turkey) Inc.	100%	Cayman Islands	US

The Company accounts for its 35% indirect ownership in KUB Holdings as an investment in associate subject to significant influence under the equity method.

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

(c) Transactions eliminated on consolidation

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

(d) Basis of measurement

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

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(e) **Use of estimates and judgments**

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated 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 in note 1.
- The determination of Cash Generating Units (“CGU”) requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality. The Company views exploration and evaluation assets to be a separate CGU from its producing assets.
- Amounts recognized for depletion and depreciation and amounts used for impairment calculations are based on estimates of petroleum and natural gas reserves. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows, are subject to measurement uncertainty.
- There are a number of inherent uncertainties associated with estimating reserves. Reserves estimates are dependent upon variables including the recoverable quantities of hydrocarbons, the cost of the development of the required infrastructure to recover the hydrocarbons, production costs, estimated selling price of the hydrocarbons produced, royalty payments and taxes. Changes in these variables could significantly impact the reserves estimates which would affect the impairment test and depreciation, depletion and amortization expense of the Company’s crude oil and natural gas assets. The Company’s crude oil and natural gas reserves are evaluated annually and reported to the Company by independent qualified reserves evaluators.
- Amounts recognized for decommissioning obligations, if any, and the related accretion expense requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.
- Charges for share-based payment and the value of warrants are based on the fair value at the date of issuance. These instruments are subject to the estimation using pricing models such as the Black-Scholes option pricing model, which is based on assumptions such as volatility, dividend yield, risk free rate of return and expected term. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.
- Allocation of the purchase price of acquisitions requires estimates as to the fair market value of the assets acquired and judgment is required in determination if the transaction constitutes a business or an asset acquisition.
- Tax interpretations, regulations and legislations in the jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

Cub Energy Inc.**For the three months ended March 31, 2016 and 2015****Notes to the condensed consolidated interim financial Statements**

(Unaudited, expressed in thousands of US dollars)

- Judgment is required to determine the functional currency of the parent and its subsidiaries. These judgments are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances.
- The Company applies judgment in assessing its ability to continue as a going concern for at least 12 months. In making this assessment, the Company considered its ability to obtain future financing and curtail its spending. The Company concluded that there is a material uncertainty that may cast doubt on its ability to continue as a going concern.

3 Significant accounting policies

These condensed consolidated interim financial statements are prepared in accordance with IFRS and follow the same accounting policies and methods of their application as the most recent audited financial statements for the year ended December 31, 2015. These financial statements should be read in conjunction with those consolidated financial statements.

4 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.

5 Equity investment in KUB Holdings

The Company's share of the consolidated income from its 35% ownership interest in KUB Holdings for the three months ended March 31, 2016 was \$1,653 (2015 – \$145). As of March 31, 2016, the Company's 35% (2015 – 30%) ownership investment was \$14,305 (December 31, 2015 - \$13,562). The continuity of the Company's investment in KUB Holdings is as follows:

Investment in KUB Holdings as at January 1, 2015	\$	17,586
Income from Equity investment		145
Dividends declared		(185)
Currency translation adjustment		(3,260)
Investment in KUB Holdings as at March 31, 2015	\$	14,286
Investment in KUB Holdings as at January 1, 2016	\$	13,562
Income from Equity investment		1,653
Currency translation adjustment		(910)
Investment in KUB Holdings as at March 31, 2016	\$	14,305

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As at March 31, 2016 and December 31, 2015, KUB Holdings on a gross basis includes the following:

		March 31, 2016		December 31, 2015
Current assets	\$	11,990	\$	14,948
Non-current assets		40,242		42,411
Current liabilities		(8,442)		(8,645)
Non-current liabilities		(2,920)		(3,508)
Net assets	\$	40,870	\$	45,206

Three months ended March 31,		2016		2015
Capital expenditures	\$	425	\$	1,523
Revenues		12,705		17,026
Royalty expense		3,365		10,872
Net income		4,724		482
Other comprehensive loss	\$	(2,599)	\$	(10,867)

During the three months ended March 31, 2016, KUB Holdings recorded \$2,599 in other comprehensive losses (2015 – \$10,867) as a result of the Ukrainian currency devaluation. The Ukraine currency devalued approximately 8% during the three months ended March 31, 2016 as compared to a 30% devaluation in the comparative 2015 period.

6 Property, plant and equipment

Cost		Petroleum and Natural Gas Interests		Equipment, Furniture and Fixtures		Total
Balance as at January 1, 2015	\$	13,246	\$	1,425	\$	14,671
Additions		72		127		199
Effect of movements in exchange rates		(4,394)		(232)		(4,626)
Balance as at December 31, 2015		8,924		1,320		10,244
Additions		116		22		138
Effect of movements in exchange rates		(691)		(48)		(739)
Balance as at March 31, 2016	\$	8,349	\$	1,294	\$	9,643

Accumulated depletion and depreciation		Petroleum and Natural Gas Interests		Equipment, Furniture and Fixtures		Total
Balance as at January 1, 2015	\$	1,957	\$	567	\$	2,524
Depletion and depreciation for the year		723		150		873
Effect of movements in exchange rates		(606)		(161)		(767)
Balance as at December 31, 2015		2,074		556		2,630
Depletion and depreciation for the period		288		31		319
Effect of movements in exchange rates		(65)		(16)		(81)
Balance as at March 31, 2016	\$	2,297	\$	571	\$	2,868

Carrying amounts						
Balance as at December 31, 2015	\$	6,850	\$	764	\$	7,614
Balance as at March 31, 2016	\$	6,052	\$	723	\$	6,775

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(Unaudited, expressed in thousands of US dollars)

As at March 31, 2016, \$Nil (2015 - \$Nil) of additions to property, plant and equipment are non-cash working capital items and included in trade and other payables on the consolidated statements of financial position.

Management assessed whether there were indications of impairment of the Company's property, plant and equipment assets as at March 31, 2016. While impairment indications exist, such as the carrying value of its net assets exceeding the Company's total market capitalization, the Company believes no impairment is warranted as at March 31, 2016 as the net present value of expected future cash flows supports the carrying value.

7 Trade and other receivables

	March 31, 2016	December 31, 2015
Trade receivables	\$ 535	\$ 67
VAT receivable	7	8
HST receivables	6	-
	\$ 548	\$ 75

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

8 Changes in working capital

Three months ended March 31,	2016	2015
Cash flows relating to:		
Changes in trade and other receivables	\$ (455)	\$ 66
Changes in prepaid expenses and inventory	7	(8)
Changes in trade and other payables	319	481
Changes in interest payable	45	45
	\$ (84)	\$ 584

The working capital cashflows shown above may differ from the statement of financial position due to the additional trade and other payables that are included in property, plant and equipment (Note 6) and effects from currency fluctuations. Share-based payments of \$57 (December 31, 2015 - \$49) is included in trade and other payables relating to the restricted share unit plan (Note 13 (b)).

9 Line of credit

During the year ended December 31, 2013, the Company extended and increased the line of credit with Pelicourt, a significant shareholder of the Company and a related party to the CEO of the Company. The extended and amended line of credit is for \$5,000 and bears interest at 9% per annum and interest is payable semi-annually. The principal of the line of credit was due in full on September 30, 2016. During the year ended December 31, 2014, the Company drew down \$2,000 of the facility. During the three months ended March 31, 2016, the Company accrued interest of \$46 (2015 - \$45). The outstanding balance as at March 31, 2016 was \$2,000 (December 31, 2015 - \$2,000) in principal and \$320 (December 31, 2015 - \$275) in accrued interest. On November 14, 2014, an amending agreement was signed that deferred interest payments due until December 27, 2015. On November 10, 2015, a second amending agreement was signed that deferred interest payments due until June 27, 2016 and deferred the principal payment to January 31, 2017.

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Pelicourt notified the Company that it will not provide any further funding under the line of credit in 2016.

10 Offsetting of financial instruments

During the year ended December 31, 2015, the Company's Ukraine subsidiary, Tysgaz, entered into an unsecured non-interest bearing loan agreement with KUB-Gas, whereby KUB-Gas agreed to lend Tysgaz approximately \$446 at the then applicable exchange rate for general working capital. The loan is due and payable on December 31, 2016.

The loan is subject to an enforceable right to offset the loans with a dividend receivable in certain circumstances including an event of bankruptcy or default of either party to the loan agreements.

Financial asset and liability are offset and the net amount reported in the statement of financial position where the parties have a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The parties expect to settle the offsetting financial instruments once the NBU lifts the dividend restrictions in Ukraine. The following table presents the recognized financial instruments that are offset with a resulting \$38 included in trade and other receivables.

	Total
Financial aid loan payable	(385)
Dividend receivable	423
Net receivable	38

11 Loan from KUB-Gas

During the three months ended March 31, 2016, the Company's Ukraine subsidiary, Tysgaz, entered into an unsecured, non-interest bearing loan agreement with KUB-Gas, whereby KUB-Gas agreed to lend Tysgaz approximately \$1,176 for general working capital. The loan is due and payable on December 31, 2017. The Company expects to repay the loan if, and when, the NBU lifts the dividend restriction in Ukraine and contemporaneously receive the same amount as a dividend from KUB Holdings. There is no guarantee that the dividend restriction will be lifted or that dividends will be available from KUB Holdings.

12 Warrants

A summary of the common share purchase warrants is presented below. As at March 31, 2016, there were no warrants issued by the Company.

	Number of Warrants	Amount
Balance as at January 1, 2015	9,185,563	\$ 281
Expiry of warrants	(7,314,000)	(255)
Balance as at December 31, 2015	1,871,563	\$ 26
Expiry of warrants	(1,871,563)	(26)
Balance as at March 31, 2016	-	\$ -

13 Share-based payments

- (a) Stock options

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(Unaudited, expressed in thousands of US dollars)

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

There were no stock options granted during the three months ended March 31, 2016 and 2015 and there were no stock options outstanding as at March 31, 2016 and December 31, 2015. Options expire five years from the date of grant and vest 12.5% every three months, and are fully vested two years after the date of grant. The Company uses a graded vesting methodology to expense the options over the vesting period. The Company recorded share based payments of \$Nil (2015 - \$39) during the three months ended March 31, 2016.

(b) Restricted stock units

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

During the three months ended March 31, 2015, the Company issued 3,673,642 RSUs to the CEO of the Company as settlement of \$158 of his 2014 compensation with a third of the RSUs vesting on each of January 23, 2016, January 23, 2017, and January 23, 2018. On the vesting date, common shares will be issued by the Company. During the three months ended March 31, 2016, the Company recorded share based payments of \$8 (2015 – \$11) which represents the graded vesting methodology of the RSUs over the vesting period. This amount is offset against the accrued payable to the CEO.

14 Income (loss) per share

Three months ended March 31,	2016	2015
Numerator		
Income (loss) for the period - basic and diluted	\$ 1,457	\$ (1,223)
Denominator (in 000's)		
Weighted average shares - basic and diluted	311,746	311,746
Basic and diluted income (loss) per share	\$ 0.00	\$ (0.00)

15 Selling and general administrative expenses

Three months ended March 31,	2016	2015
Salaries	\$ 536	\$ 903
Travel	92	30
Professional fees	207	127
Consulting fees	54	150
Office and administration	160	165
Business development and investor relations	9	18
Exploration expenses	34	30
	\$ 1,092	\$ 1,423

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16 Operating segments

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

	Ukraine	Canada	USA	Turkey	Total
Three months ended March 31, 2016					
Revenue	\$ 1,456	\$ -	\$ -	\$ -	\$ 1,456
Royalty	(391)	-	-	-	(391)
Income from equity investment	1,653	-	-	-	1,653
Selling and general administrative expenses	(221)	(460)	(410)	(1)	(1,092)
Depletion and depreciation	(300)	-	(19)	-	(319)
Gain on sale of subsidiary	235	-	-	-	235
Cost of sales	(129)	-	-	-	(129)
Finance income (loss), net	(73)	121	(1)	-	47
Accretion and decommissioning obligation	(3)	-	-	-	(3)
Net profit (loss)	\$ 2,227	\$ (339)	\$ (430)	\$ (1)	\$ 1,457
Three months ended March 31, 2015					
Revenue	\$ 1,776	\$ -	\$ -	\$ -	1,776
Royalty	(1,084)	-	-	-	(1,084)
Income from equity investment	145	-	-	-	145
Selling and general administrative expenses	(320)	(327)	(775)	(1)	(1,423)
Depletion and depreciation	(267)	-	(25)	-	(292)
Share-based payments	-	(39)	-	-	(39)
Cost of sales	(143)	-	-	-	(143)
Finance loss, net	(31)	(126)	(2)	-	(159)
Accretion and decommissioning obligation	(4)	-	-	-	(4)
Net profit (loss)	\$ 72	\$ (492)	\$ (802)	\$ (1)	\$ (1,223)
As at March 31, 2016					
Total current assets	\$ 1,502	\$ 1,027	\$ 94	\$ 6	\$ 2,629
Total non-current assets	\$ 20,350	\$ 771	\$ 288	\$ -	\$ 21,409
Total liabilities	\$ 1,716	\$ 3,992	\$ 998	\$ -	\$ 6,706
As at December 31, 2015					
Total current assets	\$ 395	\$ 1,066	\$ 83	\$ 8	\$ 1,552
Total non-current assets	\$ 20,493	\$ 724	\$ 288	\$ -	\$ 21,505
Total liabilities	\$ 711	\$ 3,756	\$ 1,003	\$ -	\$ 5,470

Revenue and the related accounts receivable are represented by one or two customers, respectively, during the three months ended March 31, 2016 and 2015.

17 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 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 programs. 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 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.

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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.

18 Related party transactions

Transactions with related parties are incurred in the normal course of business. During the three months ended March 31, 2016 and 2015, there were no related party transactions other than the Pelicourt line of credit (Note 9) and the transactions with KUB-Gas (Notes 10 and 11).

19 Key management compensation

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

Three months ended March 31,	2016	2015
Director fees	\$ 46	\$ 85
Director share-based compensation	-	4
Management wages	262	317
Management share-based compensation	-	17
Total	\$ 308	\$ 423

As at March 31, 2016, \$395 or CAD \$513 was accrued and owing to directors for their 2014 to 2016 directors fees (December 31, 2015 - \$333 or CAD \$444) and included in trade and other payables.

Pursuant to an amending employment agreement with the CEO of the Company, the Company is to compensate the CEO \$330 annually (2015 - \$550) which is paid \$75 in cash and the remaining \$255 may be paid in RSUs (vesting over three years) or cash at the discretion of the Board of Directors. During the year ended December 31, 2015, the Company issued 3,673,642 RSUs to the CEO at a price of CAD \$0.05/per share with a total value \$158 or CAD \$184. See Note 13(b). As at March 31, 2016, \$951 (December 31, 2015 - \$831) was included in trade and other payables owing to the CEO for his 2014 to 2016 accrued compensation.

20 Financial risk management

(a) Overview

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

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

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

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

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

(b) Credit risk

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

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

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

	March 31, 2016	December 31, 2015
Cash	\$ 1,971	\$ 1,360
Trade and other receivables (excludes sales tax)	503	67
Non-current receivables	329	329
	\$ 2,803	\$ 1,756

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows and anticipated investing and financing activities. Officers of the Company are actively involved in the review and approval of planned expenditures.

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

The Company was notified by Pelicourt that it will not provide any further funding under the line of credit in 2016. The line of credit has \$3,000 undrawn funds as at March 31, 2016. See Note 9. As at March 31, 2016, the Company had current assets of \$2,629 and had the following financial liabilities:

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As at March 31, 2016				
	Carrying Amount	Contractual Cash Flows		< 1 year
Trade and other payables	\$ 3,027	\$ 3,027	\$ 3,027	3,027
Line of credit	2,320	2,320	2,320	2,320
Loan from KUB-Gas	1,176	1,176	-	-
Provisions	183	-	-	-
	\$ 6,706	\$ 6,523	\$ 5,347	

(d) Foreign exchange risk

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

	As at March 31, 2016			Total
	UAH	CAD		
Cash	\$ 892	\$ 36	\$ 928	
Trade and other receivables	504	6	510	
Trade and other payables	(346)	(191)	(537)	
Provisions	(183)	-	(183)	
	\$ 867	\$ (149)	\$ 718	
Effect of +/- 10% change in foreign exchange rate	\$ 87	\$ (15)	\$ 72	

(e) Capital management

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

The Company includes equity, comprised of issued share capital, contributed surplus, warrants, accumulated other comprehensive loss and retained deficit in the definition of capital. As at March 31, 2016, the Company has total shareholders' equity of \$17,332 (December 31, 2015 - \$17,587). The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund its exploration and development work programs. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity, debt or by securing strategic partners.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the three months ended March 31, 2016.

(f) Commodity price

The Company is exposed to risks due to fluctuations in the price of natural gas in the Ukraine and the market price of Brent crude oil. The domestic gas price within Ukraine is set by the National Electricity Regulatory Commission of Ukraine and historically referenced to the Russian imported gas price, while the market price of Brent crude oil is impacted by market risk factors. More recently, the Company believes the natural gas

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prices in Ukraine are starting to reference market prices. The Company has no commodity hedge program in place which could potentially mitigate the price risk.

21 Financial instruments

The Company's financial instruments consist of cash, trade and other receivables (excluding sales tax), non-current receivables, line of credit, loan from KUB-Gas and trade and other payables. The fair values of financial instruments other than cash approximate their carrying values.

	March 31, 2016	December 31, 2015
Fair value through profit or loss (i)	\$ 1,971	\$ 1,360
Loans and receivables (ii)	\$ 870	\$ 396
Other financial liabilities (iii)	\$ 6,523	\$ 5,274

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

- (i) Cash
- (ii) Trade and other receivables and non-current receivables (excludes sales tax)
- (iii) Trade and other payables, line of credit and loan from KUB-Gas

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

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

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

	Level 1	Level 2	Level 3	Total
As at March 31, 2016				
Cash	\$ 1,971	\$ -	\$ -	\$ 1,971
As at December 31, 2015				
Cash	\$ 1,360	\$ -	\$ -	\$ 1,360

22 Subsequent event

Subsequent to the three months ended March 31, 2016, the Company's Ukraine subsidiary, Tysgaz, received an additional \$1,173 from KUB-Gas pursuant to a loan agreement. The loan is due and payable on March 31, 2018. See Note 11.