MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015

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 unaudited condensed consolidated financials for the three months ended March 31, 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 May 24, 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 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 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 Tysagaz LLC ("Tysagaz").

Barrels of Oil Equivalent Conversion

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

Forward Looking Information

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

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

Reported Results and Equity Investment

As at March 31, 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 March 31, 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 months ended March 31, 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.

Three months ended March 31, 2016	As Reported	Deduct Equity Investment	Add 35% Allocated from Equity Investment	Pro-rata Net to Cub
Average Daily Production (boe/d)	431	-	1,213	1,644
Revenue	$ 1,456,000	$ -	$ 4,447,000	$ 5,903,000
Royalty	391,000	-	1,178,000	1,569,000
Gross profit	**1,065,000**	**-**	**3,269,000**	**4,334,000**
Income from equity investment	1,653,000	(1,653,000)	-	-
Operating expenses				
Selling and general administrative	1,092,000	-	4,000	1,096,000
Depletion and depreciation	319,000	-	639,000	958,000
Cost of sales	129,000	-	527,000	656,000
Finance (income) loss, net	(47,000)	-	74,000	27,000
Accretion and decommissioning Obligation	3,000	-	2,000	5,000
Gain on sale of subsidiary	(235,000)	-	-	(235,000)
	1,261,000	**-**	**1,246,000**	**2,507,000**
Income before tax	**1,457,000**	**(1,653,000)**	**2,023,000**	**1,827,000**
Income tax expense	**-**	**-**	**370,000**	**370,000**
Net income	**$ 1,457,000**	**$ (1,653,000)**	**$ 1,653,000**	**$ 1,457,000**
Netback ($/boe)				
Revenue	$ 36.94	-	$38.17	$ 37.86
Royalty	(9.94)	-	(10.11)	(10.07)
Production expenses	(5.06)	-	(4.52)	(4.66)
Field netback ($/boe)	**$ 21.94**	**-**	**$ 23.54**	**$ 23.13**
Field netback ($/mcfe)	**$ 3.66**	**-**	**$ 3.92**	**$ 3.86**

For three months ended March 31, 2016 or as at March 31, 2016	As Reported	Deduct Equity Investment	Add 35% Allocated from Equity Investment	Pro-rata Net to Cub
Funds from operations[(1)]	**$ (109,000)**	**$ -**	**$ 1,324,000**	**$ 1,215,000**
Capital expenditures	**138,000**	**-**	**149,000**	**287,000**
Net working capital (deficit)[(2)]	**(2,718,000)**	**-**	**188,000**	**(2,530,000)**
Long term debt	**-**	**-**	**-**	**-**

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

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

Results of Operations

(in thousands of US Dollars)	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Petroleum and natural gas revenue	1,456	1,776
Pro-rata petroleum and natural gas revenue[(1)]	5,903	6,884
Net income (loss)	1,457	(1,223)
Income (loss) per share – basic and diluted	0.00	(0.00)
Funds generated from operations[(2)]	(109)	246
Pro-rata funds generated from operations[(3)]	1,215	144
Capital expenditures[(4)]	138	83
Pro-rata capital expenditures[(4)]	287	540
Pro-rata netback ($/boe)	23.13	11.64
Pro-rata netback ($Mcfe)	3.86	1.92

	March 31, 2016	December 31, 2015
Working capital (deficit)	(2,718)	(1,722)
Cash and cash equivalents	1,971	1,360
Long-term debt	1,176	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 1,644 boe/d (98% natural gas) for the quarter ended March 31, 2016, which is flat compared to the 1,644 boe/d in the comparative 2015 quarter and a 22% increase from the 1,353 boe/d production averaged for the fourth quarter ended December 31, 2015.
- Netbacks of $23.13/boe or $3.86/Mcfe for the quarter ended March 31, 2016 as compared to netback of $11.64/Boe or $1.92/Mcfe for the comparative 2015 quarter. In addition, netbacks were $13.13/Boe or $2.19/Mcfe for the fourth quarter of 2015. Netbacks in 2016 improved as a result of the reduced royalty rate effective January 1, 2016.
- Achieved average natural gas price of $6.23/Mcf and condensate price of $28.29/bbl during the quarter ended March 31, 2016 as compared to $7.77/Mcf and $39.83/bbl for the comparative 2015 quarter and $7.32/Mcf and $46.84/bbl for the fourth quarter ended December 31, 2015.
- During the three months ended March 31, 2016, the Company's Ukraine subsidiary, Tysagaz, entered into an unsecured, non-interest bearing loan agreement with KUB-Gas, whereby KUB-Gas agreed to lend Tysagaz approximately $1,176,000 for general working capital. The loan is due and payable on December 31, 2017.
- In January 2016, a workover at RK-21 set a retrievable plug above the current open perforations in the D-2 through D-3 Lower reservoirs and opened the D-0 reservoir for production. The workover was successfully completed and the well was initially on production at approximately 1.3 MMcf/d.
- 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.
- In March 2016, the Company was granted a 20-year term production licence in western Ukraine. The Uzhgorod licence covers approximately 75,000 acres which is a 50% increase from its original size of 50,000 acres.

Ukraine Royalty Rates and Gas Storage

On December 31, 2015, Ukraine President Petro Poroshenko signed a new law 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. The Company's western Ukraine production utilizes blending of gas whereby it extracts volumes of gas from the pipeline and blends it with its gas and infuses the resulting blended gas back in the pipeline. As a result, any tariffs on both the extracting and infusing of gas may have a material negative effect on the Company's western operations.

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 June 4, 2016 (recently extended from March 4, 2016). The continued prohibition on cross-border dividends continues to have a material negative affect 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 26.3 UAH/USD at March 31, 2016, which represents a devaluation of the UAH of approximately 8% during 2016 as compared to a devaluation of approximately 30% during the first quarter of 2015. For operating expenses and capital expenditures incurred and paid in UAH, the Company benefits from the lower equivalents in US dollars.

During the first quarter ended March 31, 2016, gas prices realized were $6.23/Mcf which is about 15% lower than the fourth quarter 2015 gas price of $7.32/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.

Ukraine KUB-Gas Assets (30% Interest, 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 quarter of 2016 as a result of the change of control of KUB-Gas.

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. 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.

Subsequent to the quarter ended March 31, 2016, the Company temporarily suspended production at the RK field due to a termination of a gas blending contract. The Company is currently negotiating with third parties for a new blending agreement and also evaluating blending its own gas. The Company's RK field production utilizes blending of gas whereby it extracts volumes of gas from the pipeline and blends it with its gas and infuses the resulting blended gas back in the pipeline. Production at RK represented approximately 26% of the

Company's first quarter production volume. The Company hopes to resume production at the RK Field in July 2016.

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

Quarter Ended	Mar 31, 2016	Dec 31, 2015	Sept 30, 2015	June 30, 2015
Revenue	1,456,000	923,000	655,000	856,000
Income (loss) from equity investment	1,653,000	(116,000)	777,000	500,000
Operating expenses	1,261,000	2,149,000	1,338,000	1,610,000
Net income (loss)	1,457,000	(1,053,000)	(214,000)	(651,000)
Income (loss) per share	0.00	(0.00)	(0.00)	(0.00)
Working Capital (deficit)	(2,718,000)	(1,722,000)	(1,005,000)	(780,000)

Quarter Ended	Mar 31, 2015	Dec 31, 2014	Sept 30, 2014	June 30, 2014
Revenue	1,776,000	2,154,000	1,444,000	1,693,000
Income (loss) from equity Investment	145,000	(684,000)	2,758,000	3,389,000
Operating expenses	2,060,000	7,164,000	22,923,000	2,575,000
Net income (loss)	(1,223,000)	(5,345,000)	(19,399,000)	2,192,000
Income (loss) per share	(0.00)	(0.02)	(0.06)	0.01
Working Capital (deficit)	48,000	704,000	955,000	39,000

Material Variations in Quarterly Results

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. During the quarter ended September 30, 2014, the Company recorded $20,761,000 in charges for the impairment of the Technogasidustria LLC ("TGI") assets that are located in or near rebel-held territory and the impairment of certain exploration assets in Tysagaz.

Revenue, Net of Royalty

During the quarter ended March 31, 2016, the Company's revenue, net of royalty, on its Tysagaz operations in western Ukraine increased to $1,065,000 from $692,000 in 2015. The increase in net revenue relates primarily to the reduction in royalty rates from 55% to 29% effective January 1, 2016.

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 March 31, 2016, KUB-Gas generated gross revenues of approximately $12,705,000 (2015 - $17,026,000) and had net income of $4,724,000 (2015 – $482,000). This resulted in a net income to the Company from its equity investment for the quarterly period of $1,653,000 (2015 – $145,000). The lower royalty rate contributed to the increase in income.

Selling and General Administrative Expenses

Selling and general administrative expenses were $1,092,000 during the quarter ended March 31, 2016, as compared to $1,423,000 in the comparative 2015 quarter for a decrease of $331,000. The Company did initiate cost-cutting efforts during the last eighteen months 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. Some of the significant items contained within selling and general administrative expenses are as follow:

Salaries

During the first quarter, salaries to staff and directors fees decreased to $536,000 as compared to $903,000 during the comparative 2015 quarter. Cost-cutting measures commenced mid 2014 and included the reduction of ten staff members and three directors with a view of cutting selling and administrative expenses. Included in the three months ended March 31, 2015, is $106,000 of severance to three employees.

Professional fees

Professional fees increased to $207,000 during the quarter ended March 31, 2016 from $127,000 in the comparative 2015 period. Professional fees increased during the current period due to more corporate activity surrounding the review of the Company's right of first refusal on the KUB Holdings transaction in late 2015 and through the first quarter 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 $160,000 in the quarter ended March 31, 2016, as compared to $165,000 in the 2015 quarter.

Consulting

Consulting fees were $54,000 during the current quarter which decreased 64% compared to the 2015 quarter when the fees were $150,000. The Company retains consultants periodically on an as needed basis to assist in operations and administration.

Travel

During the current quarter, travel costs were $92,000, for an increase of $62,000 from the comparative 2015 quarter which totaled $30,000. Travel expenses include costs associated with international operations and increased during the current quarter as a result of increased corporate activity surrounding the right of first refusal and meetings with the Company's new equity partner.

Business development and investor relations

During the quarter ended March 31, 2016, business development and investor relations expenses were $9,000 as compared to $18,000 in the comparative period in 2015. The expenses consisted of investor awareness activities which have been reduced due to cost-cutting efforts.

Net Profit/Loss

During the quarter ended March 31, 2016, the Company recorded net income of $1,457,000 or $0.00 per share as compared to a net loss of $1,223,000 or $0.00 per share in the comparative 2015 period. The improved net income during the quarter ended March 31, 2016 was a result of the reduction of the Ukraine natural gas royalties from 55% to 29% and also impacted by a gain of $235,000 from the sale of the Company's subsidiary, TGI, for a nominal amount.

Foreign Currency Translation Loss

During the quarter ended March 31, 2016, the foreign currency translation loss was $1,720,000 as compared to a loss of $5,312,000 in the comparative 2015 period. The losses relate to the revaluation of the Company's foreign assets and liabilities from the local currency to the US dollar in accordance with the Company's accounting policy for the translation of its subsidiaries. The carrying value of the assets of the Ukrainian subsidiaries were materially impacted by the devaluation of the local currency which decreased approximately 30% in the first quarter of 2015 and a further 8% decrease in 2016. The losses materially lowered the carrying value of the Ukrainian property, plant and equipment, the value of the equity investment in KUB Holdings and deferred income tax liability. These losses do not impair the ability of those assets or liabilities to perform their intended purpose. If the Ukrainian currency were to appreciate, some or all of these unrealized losses would be recouped.

Liquidity, Capital Resources and Financings

At March 31, 2016, the Company had a cash balance of $1,971,000 (December 31, 2015 – $1,360,000) and working capital deficit of $2,718,000 (December 31, 2015 – $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 fro, 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 reclassification of the line of credit as a current liability impacted the working capital deficit during the current quarter. 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. 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. The Company drew down $2,000,000 during the year ended December 31, 2014. On November 10, 2015, an amending agreement was signed that deferred interest payments until June 27, 2016. Pelicourt notified the Company that it will not provide any further funding under the line of credit in 2016. Without access to the remaining $3,000,000 line of credit, the Company may not be able to meet its obligations as they become due in the next twelve months.

During the three months ended March 31, 2016, the Company's Ukraine subsidiary, Tysagaz, entered into an unsecured, non-interest bearing loan agreement with KUB-Gas, whereby KUB-Gas agreed to lend Tysagaz approximately $1,176,000 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.

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.

During the three months ended March 31, 2016, the Company expended $138,000 on the purchase of property, plant and equipment as compared to $83,000 in 2015. The property, plant and equipment additions for 2016 consisted of the RK-21 workover.

During the three months ended March 31, 2016, KUB-Gas incurred approximately $425,000 (2015 - $1,523,000) of capital expenditures on property, plant and equipment of which the Company's 35% equity share was $149,000 (2015 - $457,000).

Outlook

The Company is evaluating the 2016 work programs in light of the recently reduced royalty rate of 29% effective January 1, 2016. The Company expects KUB-Gas to drill two wells and perform several fracture stimulations in 2016 which the Company expects will be self-funded by KUB-Gas. The Company may drill one new well on its 100% owned western Ukraine licences pending sufficient operating cashflow.

Outstanding Share Data

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

Type	Number
Common Shares	311,746,285
Restricted Stock Units	3,673,642
Total Issued and Outstanding	315,419,927

Commitments

Ukraine

The Company has an obligation to incur certain capital expenditures to comply with the Ukrainian exploration 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 three months for the term of the lease.

Transactions with Related Parties

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 and KUB-Gas loan - 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, dividends receivable, trade and other receivables, trade and other payables and accrued liabilities and provisions. The fair market values of cash, dividends receivable, trade and other receivables, line of credit and trade and other payables approximate their carrying values. Provisions are based on expected future cash outflow.

Non-IFRS Measures

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