CUB ENERGY INC

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016

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 interim financials for the three and six months ended June 30, 2017 and 2016. Amounts are reported in United States dollars, unless otherwise stated, based upon the financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A is dated as of August 22, 2017.

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. 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 35% interest in KUB-Gas LLC ("KUB-Gas") in eastern Ukraine which interest was increased from 30% effective February 8, 2016, and the Company's 100% operated interest in western Ukraine in Tysagaz LLC ("Tysagaz"). The Company holds a 50% interest in CNG Holdings Netherland B.V. ("CNG Holdings") which in turn owns CNG LLC ("CNG LLC") to jointly explore a production licence in western Ukraine.

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 June 30, 2017, 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. The Company also owns 100% ownership of Tysagaz, whose producing assets are in western Ukraine but has have been temporarily suspended since April 1, 2016 other than minor production from RK-1 testing. In addition, the Company has an effective 50% ownership interest in CNG LLC, a Ukrainian company with a production licence in western Ukraine that has no current production.

All of the KUB-Gas shares are held through KUBGAS Holdings Limited ("KUB Holdings"), a private company incorporated in Cyprus, which at June 30, 2017 was 35% owned by the Company. The Company increased its ownership in KUB Holdings from 30% to 35% effective February 8, 2016. The results for the three and six months ended June 30, 2017 reflect the 35% ownership in KUB Holdings from February 8, 2016 and 30%

ownership prior to. The Company does not control KUB Holdings nor CNG Holdings and is required under IFRS to record their investment under the equity method of accounting. In doing so, it reports none of the revenues, royalties or production expenses for KUB Holdings and CNG Holdings within its consolidated statements of operations and cash flows. Similarly, the Company does not report the individual consolidated assets and liabilities of KUB Holdings and CNG Holdings on its consolidated statements of financial position.

The historical 35% share of the net assets of KUB Holdings and 50% share of net assets of CNG Holdings attributable to the Company are presented as an "Equity investments" within non-current assets on the consolidated statement of financial position. Net profits or losses from the historical 35% interest of KUB Holdings and 50% of CNG Holdings 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 CNG Holdings. 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% KUB Holdings share and 50% CNG Holdings share allocable to its equity investment to reflect the gross results of operations attributable to the Company's 35% and 50% economic interest, respectively, and finally the pro-rata net to Cub results which is a non-IFRS measure.

Six months ended June 30, 2017	As Reported	Deduct Equity Investments	Add Allocated from Equity Investments	Pro-rata Net to Cub
Average Daily Production (boe/d)	4	-	1,051	1,055
Revenue	$ 24,000	$ -	$ 7,382,000	$ 7,406,000
Revenue from gas trading[(1)]	6,035,000	(5,858,000)	-	177,000
Royalty	2,000	-	2,161,000	2,163,000
Gross profit	**6,057,000**	**(5,858,000)**	**5,221,000**	**5,420,000**
Income from equity investment	3,577,000	(3,577,000)	-	-
Operating expenses				
Selling and general administrative	2,182,000	-	36,000	2,218,000
Depletion and depreciation	42,000	-	1,093,000	1,135,000
Cost of sales	18,000	-	528,000	546,000
Cost of sales for gas trading[(1)]	5,858,000	(5,858,000)	-	-
Finance loss (income), net	373,000	-	(768,000)	(395,000)
Share-based payments	209,000	-	-	209,000
Accretion and decommissioning Obligation	21,000	-	10,000	31,000
Gain on sale of asset	-	-	(32,000)	(32,000)
	8,703,000	**(5,858,000)**	**867,000**	**3,712,000**
Income before tax	**931,000**	**(3,577,000)**	**4,354,000**	**1,708,000**
Income tax expense	**-**	**-**	**777,000**	**777,000**
Net income	**$ 931,000**	**$ (3,577,000)**	**$ 3,577,000**	**$ 931,000**

Six months ended June 30, 2017	As Reported	Deduct Equity Investments	Add Allocated from Equity Investments	Pro-rata Net to Cub
Netback ($/boe)				
Revenue	-	-	$38.77	$38.77
Royalty	-	-	(11.36)	(11.36)
Production expenses	-	-	(2.77)	(2.77)
Field netback ($/boe)	**-**	**-**	**$ 24.64**	**$ 24.64**
Field netback ($/mcfe)	**-**	**-**	**$ 4.11**	**$ 4.11**

Three months ended June 30, 2017	As Reported	Deduct Equity Investments	Add Allocated from Equity Investments	Pro-rata Net to Cub
Average Daily Production (boe/d)	2	-	1,002	1,004
Revenue	$ 6,000	$ -	$ 3,217,000	$ 3,223,000
Revenue from gas trading(1)	2,040,000	(2,023,000)	-	17,000
Royalty	-	-	986,000	986,000
Gross profit	**2,046,000**	**(2,023,000)**	**2,231,000**	**2,254,000**
Income from equity investment	1,514,000	(1,514,000)	-	-
Operating expenses				
Selling and general administrative	1,151,000	-	4,000	1,155,000
Depletion and depreciation	24,000	-	529,000	553,000
Cost of sales	10,000	-	266,000	276,000
Cost of sales for gas trading(1)	2,023,000	(2,023,000)	-	-
Finance loss (income), net	184,000	-	(420,000)	(236,000)
Share-based payments	142,000	-	-	142,000
Accretion and decommissioning Obligation	11,000	-	5,000	16,000
Gain on sale of asset	-	-	8,000	8,000
	3,545,000	**(3,835,000)**	**392,000**	**1,914,000**
Income before tax	**15,000**	**(1,514,000)**	**1,839,000**	**340,000**
Income tax expense	**-**	**-**	**325,000**	**325,000**
Net income	**$ 15,000**	**$ (1,514,000)**	**$ 1,514,000**	**$ 15,000**
Netback ($/boe)				
Revenue	-	-	$35.27	$35.27
Royalty	-	-	(10.82)	(10.82)
Production expenses	-	-	(2.92)	(2.92)
Field netback ($/boe)	**-**	**-**	**$ 21.53**	**$ 21.53**
Field netback ($/mcfe)	**-**	**-**	**$ 3.59**	**$ 3.59**

(1) Commencing August 2016, the Company's wholly-owned subsidiary, Tysagaz, began taking possession of its 35% ownership of gas produced at KUB-Gas. Tysagaz purchased its share of gas from KUB-Gas at the same price that KUB-Gas sold its gas to an affiliate of the majority owner. The Company agreed to this arrangement so it could attempt to earn additional net income from the gas sales price to the majority owner's affiliate. During the three and six months ended June 30, 2017, the Company recorded $2,040,000 and $6,035,000 in gas sales and $2,023,000 and $5,858,000 as the cost of the sales for a net profit from gas trading of $177,000 and $17,000, respectively. For purposes of these pro-rata disclosures, the cost of sales is eliminated as it's already included in the equity investment revenue.

Results of Operations

(in thousands of US Dollars)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Petroleum and natural gas revenue	6	-	24	1,456
Pro-rata petroleum and natural gas revenue(1)	3,223	3,873	7,406	9,776
Revenue from gas trading	2,040	-	6,035	-
Net income	15	583	931	2,040
Income per share – basic and diluted	0.00	0.00	0.00	0.01
Funds generated from operations(2)	124	(966)	(646)	(1,075)
Pro-rata funds generated from operations(3)	(1,143)	2,326	248	3,541
Capital expenditures(4)	12	24	810	162
Pro-rata capital expenditures(4)	1,220	46	2,688	336
Pro-rata netback ($/boe)	21.53	18.20	24.64	22.05
Pro-rata netback ($Mcfe)	3.59	3.03	4.11	3.67

	June 30, 2017	December 31, 2016
Working capital	556	3,255
Cash and cash equivalents	4,034	4,585
Long-term debt	5,934	6,332

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% equity share of the KUB-Gas 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% equity share of the KUB-Gas and 50% equity share of CNG Holdings 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% equity share of the KUB-Gas and 50% equity share of CNG Holdings capital expenditures that the Company has an economic interest in.

Highlights

- The Company reported income from equity investment of $1,514,000 during the three months ended June 30, 2017 as compared to income of $1,574,000 in the 2016 comparative period.
- The Company reported net income of $15,000 or $0.00 per share during the three months ended June 30, 2017 as compared to net income of $583,000 or $0.00 per share during the comparative 2016 quarter.
- Production averaged 1,004 boe/d (97% weighted to natural gas and the remaining to condensate) for the quarter ended June 30, 2017, which decreased 15% as compared to the 1,185 boe/d in the comparative 2016 quarter and a decrease of 9% as compared to the 1,107 boe/d average for the first quarter ended March 31, 2017.

- Netbacks of $21.53/boe or $3.59/Mcfe for the quarter ended June 30, 2017 as compared to netback of $18.20/Boe or $3.03/Mcfe for the comparative 2016 quarter.
- Achieved average natural gas price of $5.71/Mcf and condensate price of $65.93/bbl during the quarter ended June 30, 2017 as compared to $5.55/Mcf and $52.89/bbl for the comparative 2016 quarter and compared to $6.88/Mcf and condensate price of $62.70/bbl during the quarter ended March 31, 2017. Gas prices are historically lower during the summer months due to seasonal heating demand in Ukraine.
- During the three months ended June 30, 2017, the Company received $975,000 in dividends from KUB Holdings and an additional $397,000 subsequent to the quarter end as compared to no dividends in the comparative 2016 period. The National Bank of Ukraine ("NBU") eased certain capital controls by allowing limited dividends.
- In June 2017, the Company contracted to purchase a new Nitrogen Rejection Unit ("NRU") to re-commence production on the wholly-owned RK field in western Ukraine.
- A 118 square kilometer 3D seismic program was completed during the second quarter of 2017 on the Uzhgorod licence which the Company has a 50% interest. The first 100 square kilometers was funded solely by the Company's partner and the balance of the program was paid evenly between the two partners. The 3D seismic is being interpreted and the Company and its partner hope to identify drill targets.
- During the second quarter of 2017, KUB-Gas completed a 150 kilometer 2D seismic survey on the West Olgovskoye licence in eastern Ukraine. KUB-Gas will utilize the 2D seismic survey to further delineate the best location for a 3D seismic survey with the goal of identifying drill targets.
- During the second quarter of 2017, KUB-Gas spud the Olgovskoye-26 ("O-26") well in eastern Ukraine. Subsequent to the quarter ended June 30, 2017, the well tested the S-5 and S-4 zones but they were determined to be non-productive. The B-14 zone will be perforated and tested.

Ukraine Amended Code

On November 27, 2015, Ukraine amended the Code on Gas Pipeline Systems, which among other things, required all producers utilizing the pipeline to pay a tariff for access to the pipeline. The tariff was introduced on April 1, 2017 and the cost to producers was approximately 300 UAH per thousand cubic meters or approximately $0.30/Mcf.

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. On June 7, 2016, the NBU eased certain capital controls by allowing Ukraine companies to issue limited dividends related directly to 2014, 2015 and recently amended to include 2016 earnings. The recent amendments allow KUB-Gas to issue up to a maximum of $5 million in dividends per month. During the three months ended June 30, 2017, the Company received dividends of $975,000 from KUB Holdings and subsequent to June 30, 2017, received a further $397,000 in dividends.

With the current cash resources, suspension of the RK Field, uncertainty surrounding the successful installation of the new NRU, currency fluctuations, reliance on a few customers and impact on carrying values, the Company may not have sufficient cash to continue exploration and development activities. These matters raise significant doubt about the ability of the Company to continue as a going concern and meet its obligations as they become due. Continuing operations are dependent on the ability to obtain adequate funding to finance existing operations, receiving funds from Ukraine (including dividends), stability in Ukraine and attaining future profitable operations in Ukraine. Additional financing is subject to the global financial markets and economic conditions, and volatility in the debt and equity markets. These factors have made, and will likely continue to make it challenging to obtain cost effective funding or any at all. There is no assurance this capital will be available and, if it is not, the Company may be forced to curtail or suspend all planned activity.

Ukraine Gas Prices and Currency

The Ukrainian exchange rate versus the USD was 26.0 UAH/USD at June 30, 2017, which appreciated 4% compared to the 27.1 UAH/USD at March 31, 2017.

During the quarter ended June 30, 2017, gas prices realized were $5.71/Mcf which was comparable to the 2016 comparative quarter gas price of $5.55/Mcf. The future of natural gas prices in Ukraine is currently subject to a high degree of uncertainty and it is unknown what the future prices the Company will receive on its Ukraine production.

Eastern Ukraine KUB-Gas Assets (35%)

During the first quarter of 2017, the O-26 well spudded. The O-26 well was drilled to a total depth of approximately 3,210 meters and the well tested the S-5 and S-4 zones but it was determined to be non-productive. The B-14 zone will be perforated and tested next. KUB-Gas also anticipates drilling the O-28 well later in 2017.

KUB-Gas completed a 150 kilometer 2D seismic survey on the West Olgovskoye licence in eastern Ukraine. KUB-Gas will utilize the seismic survey to further delineate the best location for a 3D seismic survey with the goal of identifying drill targets.

Western Ukraine Tysagaz Assets (100% Interest)

The RK field was suspended on April 1, 2016 due to the nitrogen content exceeding the allowable limit per local pipeline specifications. In June 2017, the Company contracted to purchase a new nitrogen rejection unit ("NRU") to re-commence production on the RK field. The new NRU is being manufactured in the United States by Sep-Pro Systems Inc. (www.sepprosystems.com), which specializes in the design and manufacture of NRUs, as well other separation and recovery processes in the oil and gas sector. The new NRU is expected to be operational in Ukraine in the first quarter of 2018. The NRU comes with manufacturer warranties on operational capabilities and Sep-Pro will supervise the installation and field test of the NRU as part of its contracted services. Also, the NRU will be skid mounted so it can be utilized on any of the Company's gas fields in the future. The Company is evaluating the used NRU it purchased in 2016 and related compressors for optimizing the RK field.

The Company re-entered the RK-1 well and preliminary tests indicated the well is capable of producing pipeline quality gas without utilizing the NRU. The Company elected to tie-in the RK-1 well and simultaneously produce and continue to evaluate the well. During the six months ended June 30, 2017, the Company was able to test and produce approximately $24,000 worth of pipeline quality gas but the production was not sustainable. The Company is reviewing its options including the drilling of a new wellbore where a fracture stimulation may be performed.

Western Ukraine CNG Assets (50% Interest)

During the quarter ended June 30, 2017, CNG LLC completed the 118 square kilometre 3D seismic survey on the Uzhgorod production licence in western Ukraine. The results are being interpreted to identify drill targets.

Summary of Quarterly Results

The following table sets out selected unaudited consolidated financial information for each of the last eight quarters ended up to and including June 30, 2017. The information contained herein is taken from the consolidated financial statements of the Company for each of the aforementioned quarters.

Quarter Ended	June 30, 2017	Mar 31, 2017	Dec 31, 2016	Sept 30, 2016
Revenue	6,000	18,000	-	-
Revenue from gas trading	2,040,000	3,995,000	4,793,000	2,122,000
Income (loss) from equity				
Investment	1,514,000	2,063,000	1,272,000	1,498,000
Operating expenses	3,545,000	5,158,000	6,335,000	1,421,000
Net income (loss)	15,000	916,000	(308,000)	2,199,000
Income (loss) per share	0.00	0.00	(0.00)	0.01
Working Capital (deficit)	556,000	1,219,000	3,255,000	822,000

Quarter Ended	June 30, 2016	Mar 31, 2016	Dec 31, 2015	Sept 30, 2015
Revenue	-	1,456,000	923,000	655,000
Revenue from gas trading	-	-	-	-
Income (loss) from equity				
Investment	1,574,000	1,653,000	(116,000)	777,000
Operating expenses	991,000	1,261,000	2,149,000	1,338,000
Net income (loss)	583,000	1,457,000	(1,053,000)	(214,000)
Income (loss) per share	0.00	0.00	(0.00)	(0.00)
Working Capital (deficit)	(2,467,000)	(2,718,000)	(1,722,000)	(1,005,000)

Material Variations in Quarterly Results

Commencing August 2016, the Company's wholly owned subsidiary, Tysagaz, began taking possession of its 35% ownership of gas produced at KUB-Gas. Tysagaz purchased the gas from KUB-Gas at the same price that KUB-Gas sold its gas to an affiliate of the majority owner, the majority shareholder of KUB-Gas. The Company agreed to this arrangement so it could attempt to earn additional net income on the gas sales price sold to the majority owner's affiliate. This revenue is described as "Revenue from gas trading" in the quarterly table.

On April 1, 2016, the Company temporarily suspended production at the RK Field which resulted in no revenues, royalties or cost of sales during the second, third and fourth quarters of 2016. The Company produced a minor amount of gas from the RK-1 re-entry tests during the quarters ended June 30, 2017 and March 31, 2017. The Company's increased revenue during the quarter ended March 31, 2016 was the result of a workover of the RK-23 well at Tysagaz.

The Company's working capital deficit increased materially during the quarter ended March 31, 2016 due to the reclassification of the Pelicourt Limited ("Pelicourt") shareholder loan from a long term liability to a current liability as it previously matured on January 31, 2017. During the quarter ended December 31, 2016, the Pelicourt shareholder loan maturity date was changed to January 31, 2019 and was reclassified as a long term liability which improved the working capital. The Company's working capital did decrease materially during the quarter ended March 31, 2017 due to $1,662,000 in KUB-Gas loans being reclassified from a long-term liability to a current liability as the maturity date is twelve months or less.

Revenue, Net of Royalty

During the quarter ended June 30, 2017, the Company reported $6,000 in revenue, net of royalties, on its Tysagaz gas operations as compared to no such revenue in the comparative 2016 quarter.

During the six months ended June 30, 2017, the Company reported $22,000 in revenue, net of royalties, on its Tysagaz gas operations as compared to $1,065,000 in revenue, net of royalties, in the comparative 2016 period. The RK Field in western Ukraine was suspended effective April 1, 2016 so experienced one full quarter of production in 2016.

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

Commencing August 2016, the Company's wholly owned subsidiary, Tysagaz, began taking possession of its 35% ownership of gas produced at KUB-Gas. Tysagaz purchased the gas from KUB-Gas at the same price that KUB-Gas sold its gas to an affiliate of the majority owner, the majority shareholder of KUB-Gas. The Company agreed to this arrangement so it could attempt to earn additional net income from the gas sales price sold to the majority owner's affiliate. During three months ended June 30, 2017, the Company recorded $2,040,000 in gas trading revenue and $2,023,000 for the cost of the gas trading for a net profit of $17,000 as compared to no such transactions during the comparative 2016 quarter. During six months ended June 30, 2017, the Company recorded $6,035,000 in gas trading revenue and $5,858,000 for the cost of the gas trading for a net profit of $177,000 as compared to no such transactions during the comparative 2016 period.

Income from Equity Investments

The Company accounts for its historical 35% indirect ownership in KUB Holdings as an investment under the equity method. During the three months ended June 30, 2017, KUB-Gas generated gross revenues of approximately $9,190,000 (2016 - $11,840,000) and had net income of $4,517,000 (2016 – $4,839,000). This resulted in a net income to the Company from its equity investment for the quarterly period of $1,580,000 (2016 – $1,574,000). During the six months ended June 30, 2017, KUB-Gas generated gross revenues of approximately $21,091,000 (2016 - $24,545,000) and had net income of $10,501,000 (2016 – $9,563,000). This resulted in a net income to the Company from its equity investment for the quarterly period of $3,675,000 (2016 – $3,227,000).

The net loss from the Company's 50% ownership of CNG Holdings was $65,000 during the three months ended June 30, 2017 as compared to no loss during the comparative 2016 quarter when CNG Holdings was not yet operating. The net loss from the Company's share of CNG Holdings was $98,000 during the six months ended June 30, 2017 as compared to no loss during the comparative 2016 period.

Selling and General Administrative Expenses

Selling and general administrative expenses were $1,151,000 during the quarter ended June 30, 2017, as compared to $959,000 in the comparative 2016 quarter for an increase of $192,000. For the six months ended June 30, 2017, selling and general administrative expenses were $2,182,000, as compared to $2,051,000 in the comparative 2016 period for an increase of $131,000. With the recent increase in seismic work programs, the new NRU and two new partners, the Company hired new technical team members as well as new managerial and operations staff members in Ukraine to oversee the Company's KUB Holdings and CNG Holdings equity investments. As a result, the Company has experienced a general increase in selling and general administrative expenses except for professional fees which decreased. Some of the significant items contained within selling and general administrative expenses are as follow:

Salaries

During the second quarter of 2017, salaries to staff and director's fees increased to $649,000 as compared to $604,000 during the comparative 2016 quarter. Salaries were $1,272,000 during the six months ended June 30, 2017 as compared to $1,140,000 during the comparative 2016 period. As described in the preceding paragraph, with the new partnership at CNG Holdings and a new local Ukrainian partner at KUB Holdings, the Company hired additional staff members in the second half of 2016 resulting in higher salaries during the current periods.

Office and administration

Office and administration costs were $275,000 in the quarter ended June 30, 2017, as compared to $177,000 in the comparative 2016 quarter. Office costs were $461,000 for the six months ended June 30, 2017 as compared to $379,000 in the comparative 2016 period. The higher office and administrative costs in 2017 can be attributed to the absorption of certain overhead costs at Tysagaz that were previously allocated to cost of sales before the suspension of the RK field on April 1, 2016.

Consulting

Consulting fees were $116,000 during the current quarter which increased significantly compared to the 2016 comparative quarter when the fees were $26,000. For the six months ended June 30, 2017, the consulting fees were $240,000 as compared to $80,000 for the comparative 2016 period. The Company retains consultants periodically on an as needed basis to assist in operations and administration. During 2017, the Company retained several technical consultants in to assists in the evaluation and optimization of the NRU as well as a review of a solar power opportunity in Ukraine.

Professional fees

Professional fees were $70,000 during the quarter ended June 30, 2017 as compared to $105,000 in the comparative 2016 quarter and were $96,000 for the six months ended June 30, 2017 as compared to $313,000 in the comparative 2016 period. Professional fees during the comparative 2016 period included the review of the Company's right of first refusal on the KUB Holdings transaction. The Company's professional costs also include the costs of being a public issuer including third party legal advice, engineering reports and financial audits.

Travel

During the current quarter, travel costs were $41,000 as compared to $47,000 in the comparative 2016 quarter. During the six months ended June 30, 2017, travel costs were $113,000 as compared to $139,000 in the comparative 2016 period. Travel expenses include costs associated with international operations and meetings with the Company's equity partners.

Gain on Sale of Subsidiary

During the comparative six months ended June 30, 2016, the Company recorded a gain on the sale of a subsidiary of $235,000 as compared to no such gain in 2017. The gain was a result of the sale of the Company's 100% owned subsidiary, Technogasindustria LLC ("TGI"). The sale of TGI was for nominal consideration and the gain reflects the net working capital deficit of the entity at the time of sale.

Share Based Payments

The Company recorded share based payments of $142,000 and $209,000 for the three and six months ended June 30, 2017, respectively, for the vesting of stock options to directors, officers, employees and consultants as determined by the black-scholes option price model as compared to no such related expenses in 2016.

Net Profit/Loss

During the quarter ended June 30, 2017, the Company recorded net income of $15,000 or $0.00 per share as compared to net income of $583,000 or $0.00 per share in the comparative 2016 quarter. The Company recorded net income of $931,000 or $0.00 per share during the six months ended June 30, 2017 as compared to net income of $2,040,000 or $0.01 per share in the comparative 2016 quarter.

Foreign Currency Translation Income/Loss

During the quarter ended June 30, 2017, the foreign currency translation incomes was $544,000 as compared to income of $1,059,000 in the comparative 2016 quarter. The foreign currency translation income was $844,000 during the six months ended June 30, 2017 as compared to a loss of $661,000 in the comparative 2016 period. The income and losses relate to the revaluation of the Company's foreign assets and liabilities from the local currency (Ukrainian, Canadian and European currencies) to the US dollar in accordance with the Company's accounting policy for the translation of its subsidiaries. The carrying value of the assets of the Ukrainian subsidiaries were materially impacted by the volatility of the local currencies in the past. During the six months ended June 30, 2017, the UAH appreciated approximately 5% as compared to a 3% devaluation of the UAH in the comparative 2016 period. The appreciation/devaluation materially raises/lowers the carrying value of the Ukrainian property, plant and equipment and the value of the equity investment in KUB Holdings. These gains/losses do not impair the ability of those assets or liabilities to perform their intended purpose.

Liquidity, Capital Resources and Financings

At June 30, 2017, the Company had a cash balance of $4,034,000 (December 31, 2016 - $4,585,000) and working capital of $556,000 (2016 - $3,255,000). The Company had no long-term debt or capital leases other than the shareholder loans and KUB-Gas loans. Approximately $2,039,000 of the KUB-Gas loans were reclassified from a long-term liability to a current liability during the first quarter of 2017 as their maturity dates are twelve months or less. The Company expects to extend the maturity dates of the KUB-Gas loans but there are no assurances. 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 $2,000,000 secured shareholder loan with Pelicourt, a related party to the Company. The shareholders loan bears interest at 12% per annum payable quarterly and the principal of the shareholder loan is due on January 31, 2019. Pelicourt was granted security over Gastek which indirectly owns the 35% interest in KUB-Gas. The security is available on an event of default and limited only to the amount owing on the shareholder loan including principal and interest.

In June 2017, the Company entered into a second shareholder loan agreement with an officer of the Company. The shareholder loan is for $1,000,000 with an annual interest rate of 6% payable monthly. The shareholders loan will be repaid in four equal quarterly installments commencing on September 30, 2018 and ending June 30, 2019. The Company issued the lender 2,200,000 common shares valued at $68,000 as a bonus for entering into the loan. The lender was granted the same rights with the Pelicourt shareholder loan for security over Gastek. The security is available on an event of default and limited only to the amount owing on the shareholder loan including principal and interest.

During the three months ended June 30, 2017, the Company received $975,000 in dividends from KUB Holdings as compared to no dividends in the comparative 2016 quarter. Subsequent to the quarter ended June 30, 2017, the Company received $397,000 in further dividends.

During the three months ended June 30, 2017, the Company expended $12,000 on minor capital expenditures as compared to $24,000 in the comparative 2016 quarter.

During the three months ended June 30, 2017, KUB-Gas incurred approximately $1,577,000 (2016 - $73,000) of capital expenditures on property, plant and equipment of which the Company's 35% equity share was $552,000 (2016 - $26,000). The capital expenditures during 2017 primarily related to the costs of the O-26 well. CNG Holdings had capital expenditures of approximately $1,311,000 for the 3D seismic program (2016 - $Nil) which the company's 50% equity shares was $655,000 (2016 - $Nil).

There remains significant doubt about the ability of the Company to continue as a going concern and meet its obligations as they become due.

Outlook

The Company expects KUB-Gas to drill one additional Olgovskoye field well in 2017, O-28, which will be self-funded by KUB-Gas. KUB-Gas will also commence a review and interpretation of a 150 kilometer 2D seismic survey on the West Olgovskoye licence in eastern Ukraine.

In western Ukraine, the Company committed to purchase a new NRU with a goal of resuming production at the RK field in the first quarter of 2018. Also in western Ukraine, CNG LLC completed a 118 square kilometer 3D seismic program and interpretation has commenced to identify drill targets.

Outstanding Share Data

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

Type	Number
Common Shares	314,215,355
Stock Options	17,500,000
Restricted Stock Units	1,224,548
Total Issued and Outstanding	332,939,903

Commitments and Contingencies

NRU

In June 2017, the Company signed a contract for a new NRU with approximately $925,000 still outstanding under the contract over the balance of 2017. Subsequent to the quarter ended June 30, 2017, the Company advanced a further $493,000 under this contract thereby reducing the remaining commitment to $432,000.

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 2018 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.

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.

Lawsuits

During the year ended December 31, 2016, the Company's 50% indirect investment in Ukraine associate, CNG LLC, learned of two non-governmental organization ("NGO") lawsuits filed against the State Service of Geology and Mineral Resources of Ukraine ("SGS"), the government body who issues licences in Ukraine, concerning recent licence grants including the Company's recently issued Uzhgorod licence. From public available information, it appears that the NGO filed at least five more lawsuits challenging the SGS for issuance of several licenses issued to various third party subsoil users. The Company believes the claims to be frivolous and without merit and there is no reason to postpone investment activities within the Uzhgorod license. To be clear, CNG LLC, which holds the Uzhgorod license is not a defendant under the claims but could be materially affected by a negative outcome. Therefore, CNG LLC will participate in the litigation as a third party on the defendant's side. Accordingly, the Company will provide legal assistance to the SGS in defending against the claims. During the six months ended June 30, 2017, one of the two NGO lawsuits against SGS was dismissed by the Ukraine courts.

Transactions with Related Parties

Transactions with related parties are incurred in the normal course of business. During the six months ended June 30, 2017 and 2016, there were no related party transactions other than the shareholder loans and KUB-Gas loans - see "Liquidity, Capital Resources and Financing".

Critical Accounting Estimates

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare the condensed consolidated interim financial statements in conformity with IFRS. Actual results could differ from those estimates. Significant estimates include:

- To value the equity investment in KUB Holdings, management obtains financial information from the majority owner as well as the recent sales price achieved by the majority owner on its disposition of shares of KUB Holdings and adjusts the carrying value of the investment. The equity investment in KUB Holdings is subject to all estimates included in the financial information from the majority owner as well as estimates of impairment losses and subject to the ability of KUB Holdings to generate future dividends and ability to repatriate funds from Ukraine due to dividend restrictions discussed elsewhere in this MD&A.
- The determination of Cash Generating Units ("CGU") requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.
- Amounts recognized for depletion and depreciation and amounts used for impairment calculations are based on estimates of 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 natural gas assets. The Company's 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 payments and the value of compensatory 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.

- 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, including analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates.*

- Judgement is required to determine if the RK field is impaired due to its temporary suspension since April 1, 2016. The Company committed to purchase a new NRU. However until the new NRU is operational and the RK field is producing pipeline quality gas, there will be uncertainty regarding the value of the RK field.

- 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 considers the facts and circumstances disclosed elsewhere in this MD&A. 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.
- IAS 16 & IAS 38: Amended to (i) clarify that the use of a revenue-based depreciation and amortization method is not appropriated, and (ii) provide a rebuttable presumption for intangible assets, effective for annual periods beginning on or after January 1, 2016.

- IFRS 16, Leases: New standard to establish principles for recognition, measurement, presentation and disclosure of leases with an impact on lessee accounting, effective for annual periods beginning on or after January 1, 2019.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash, trade and other receivables (excluding sales tax), non-current receivables, shareholder loans, loan from KUB-Gas and trade and other payables. The fair values of financial instruments other than cash approximate their carrying values. Trade and other receivables and trade and other payables approximate fair value due to the short term nature of the accounts. The shareholder loan approximates fair value due to the use of market rates of interest. The loan from KUB-Gas also approximates fair value as it has been discounted with an interest rate comparable to current market rates.

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.