



Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2014 and 2013

(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 consolidated 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 consolidated 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>	September 30, 2014	December 31, 2013
Assets			
Current assets			
Cash		\$ 2,655	\$ 1,617
Trade and other receivables, net	8	587	842
Prepaid expenses		116	220
Inventory		14	23
Restricted cash	20	-	574
		<u>3,372</u>	<u>3,276</u>
Non-current assets			
Equity investment in KUB Holdings	5	22,090	30,518
Property, plant and equipment	6	19,512	25,174
Exploration and evaluation assets	7	-	33,510
Non-current trade and other receivables and other assets, net	8	38	601
		<u>41,640</u>	<u>89,803</u>
Total assets		\$ 45,012	\$ 93,079
Liabilities			
Current liabilities			
Trade and other payables		\$ 2,371	\$ 2,334
Current portion of line of credit	10	46	-
		<u>2,417</u>	<u>2,334</u>
Non-current liabilities			
Long term portion of line of credit	10	2,000	-
Deferred income tax liability		3,032	4,959
Provisions	14	111	132
		<u>5,143</u>	<u>5,091</u>
Total liabilities		7,560	7,425
Shareholders' equity			
Share capital		62,133	62,133
Warrants	11	281	281
Contributed surplus	12	4,387	3,521
Accumulated other comprehensive loss		(31,813)	(867)
Retained earnings		2,464	20,586
Total shareholders' equity		37,452	85,654
Total shareholders' equity and liabilities		\$ 45,012	\$ 93,079

Nature of operations (Note 1)
Commitments (Note 17)

Approved by the Board

“Mikhail Afendikov”
Director (Signed)

“Robert Hodgins”
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 Income (Loss)**

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

	<i>Note</i>	Three months ended September 30,		Nine months ended September 30,	
		2014	2013	2014	2013
Revenue		\$ 1,444	\$ 627	\$ 4,838	\$ 2,505
Cost of sales		893	388	2,062	1,401
Gross profit		551	239	2,776	1,104
Operating expenses					
Impairment of exploration and evaluation assets	7	20,761	-	20,761	-
Selling and general administrative expenses	15	1,164	2,309	5,116	6,258
Depletion and depreciation	6	181	275	979	947
Share-based payments	12	199	643	866	766
Write down of non-current trade and other receivables	8	345	-	345	-
Finance cost (income), net of expenses		54	(63)	61	(154)
Accretion of decommissioning obligation	14	4	7	9	21
		22,708	3,171	28,137	7,838
Other income					
Income from equity investment	5	2,758	3,815	7,224	8,319
Profit (loss) before tax		(19,399)	883	(18,137)	1,585
Income tax expense (recovery)		-	8	(15)	108
Net profit (loss)		(19,399)	875	(18,122)	1,477
Other comprehensive income (loss)					
Items that may be reclassified to profit or loss					
Foreign currency translation loss on foreign operations		(7,404)	(61)	(30,946)	(364)
Comprehensive income (loss)		\$ (26,803)	\$ 814	\$ (49,068)	\$ 1,113
Earnings (loss) per share					
Basic and diluted	13	(0.06)	0.00	(0.06)	0.01

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 for the nine months ended September 30, 2014 and 2013

(Unaudited, expressed in thousands of US dollars)

	<i>Note</i>	Number of shares	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total
Balances as at January 1, 2013		242,298,551	\$ 45,714	\$ -	\$ 2,126	\$ 630	\$ 23,599	\$ 72,069
Share-based payments	12	-	-	-	766	-	-	766
Anatolia acquisition		13,892,179	2,986	281	-	-	-	3,267
TGI acquisition		55,555,555	13,433	-	-	-	-	13,433
Currency translation adjustment		-	-	-	-	(364)	-	(364)
Net profit		-	-	-	-	-	1,477	1,477
Balances as at September 30, 2013		311,746,285	\$ 62,133	\$ 281	\$ 2,892	\$ 266	\$ 25,076	\$ 90,648
Balances as at January 1, 2014		311,746,285	\$ 62,133	\$ 281	\$ 3,521	\$ (867)	\$ 20,586	\$ 85,654
Share-based payments	12	-	-	-	866	-	-	866
Currency translation adjustment		-	-	-	-	(30,946)	-	(30,946)
Net profit		-	-	-	-	-	(18,122)	(18,122)
Balances as at September 30, 2014		311,746,285	\$ 62,133	\$ 281	\$ 4,387	\$ (31,813)	\$ 2,464	\$ 37,452

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)

	<i>Note</i>	Three months ended September 30,		Nine months ended September 30,	
		2014	2013	2014	2013
Operating activities					
Net profit (loss)		\$ (19,399)	\$ 875	\$ (18,122)	\$ 1,477
<i>Adjustments for:</i>					
Impairment of exploration and evaluation assets	7	20,761	-	20,761	-
Dividends received from equity investment	5	3,540	1,500	7,635	6,900
Income from equity investment	5	(2,758)	(3,815)	(7,224)	(8,319)
Depletion and depreciation	6	181	275	979	947
Share-based payments	12	199	643	866	766
Write down of non-current trade and other receivables	8	345	-	345	-
Accretion	14	4	7	9	21
		2,873	(515)	5,249	1,792
Changes in working capital	9	(87)	4,700	316	170
Changes in non-current trade and other receivables	8	-	(321)	-	(470)
Changes in provisions	14	-	1	27	29
Cash flows provided by (used in) operating activities		2,786	3,865	5,592	1,521
Investing activities					
Additions to property, plant and equipment	6	(2,631)	(225)	(6,168)	(1,132)
Additions to exploration and evaluation assets	7	(40)	(4,608)	(611)	(4,930)
Restricted cash	20	-	1,376	574	(124)
Cash received through acquisitions		-	-	-	284
Acquisition transaction costs		-	-	-	(1,059)
Cash provided by (used in) investing activities		(2,671)	(3,457)	(6,205)	(6,961)
Financing activities					
Proceeds from line of credit	10	-	-	2,000	-
Cash provided by (used in) financing activities		-	-	2,000	-
Net increase (decrease) in cash		115	408	1,387	(5,440)
Effects of exchange rates changes on cash		422	(794)	(349)	(946)
Cash at beginning of period		2,118	4,116	1,617	10,116
Cash at end of period		\$ 2,655	\$ 3,730	\$ 2,655	\$ 3,730

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

Cub Energy Inc.
For the three and nine months ended September 30, 2014 and 2013
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited, expressed in thousands of US dollars)

1 Nature of operations

Cub Energy Inc. (the “Company”) is engaged in the exploration, development and production of petroleum and natural gas properties in the Black Sea Region with a current focus on 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 30% equity interest 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 owns and operates five licensed gas and gas condensate fields in the Dnieper-Donetsk Basin of eastern Ukraine (four operating under production licenses and one under exploration license). In addition, the Company, through its subsidiary Listren Holding Company (“Listren”), owns 100% of Technogasindustria LLC (“TGI”). TGI assets consist of three exploration licenses in eastern Ukraine.

The Company, through its subsidiary Tysagaz (“Tysagaz”), also owns a 100% working interest in four licenses in western Ukraine. The Rusko-Komarivske field is currently in production while the other three licenses are currently under exploration.

Ukraine’s political and economic situation has been volatile since the former Government’s decision not to sign the Association Agreement and the Deep and Comprehensive Free Trade Agreement with the European Union in late November 2013. Political and social unrest, which escalated into violent conflicts in February 2014, has resulted in the Ukrainian parliament initiating the resignation of the president, election of a new President (Petro Poroshenko) in May 2014, change of government and heads of key governing bodies. It also led to the deepening of the ongoing economic crisis, widening of the state budget deficit, depletion of the National Bank of Ukraine’s foreign currency reserves and, as a result, a further downgrading of the Ukrainian sovereign debt credit ratings. In February 2014, following the significant devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions that require Ukrainian companies to convert 50% of all incoming foreign transfers to the local Ukrainian currency. The National Bank of Ukraine also imposed a restriction that US and other foreign denominated loans in Ukraine could not be repaid in advance of their maturity dates.

With the new government in place, President Poroshenko signed the Association Agreement with European Union -- the same agreement that was rejected in November 2013. The International Monetary Fund committed to a \$17 billion two-year aid program to help the country’s economy recover.

After the annexation of Crimea to the Russian federation in March 2014, political violence escalated in eastern Ukraine with pro-Russian rebels ceasing various government buildings in the Donetsk and Lugansk regions. This ongoing conflict between the pro-Russian rebels and Ukraine army raised security concerns surrounding the Company’s eastern Ukraine assets. As such, on June 27, 2014, the Company and its partner announced that they decided to suspend current developmental field operations at KUB-Gas to ensure the continued safety of employees and assets. During this suspension period, KUB-Gas continued with production. On October 2, 2014, KUB-Gas recommenced field operations. The Vergunskoye and Krutogorovskoye fields at KUB-Gas, which are located in the area close to the city of Lugansk, have been temporarily shut in. The production from these fields represents approximately 2% of the Company’s total production.

To date, the unrest in Ukraine has had an impact on the Company’s field operations; however, the final resolution and the effects of the political and economic crisis are difficult to predict and could negatively affect the Company’s results and financial position.

Cub Energy Inc.
For the three and nine months ended September 30, 2014 and 2013
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited, expressed in thousands of US dollars)

On August 1, 2014, the Ukrainian President signed a Law that temporarily increased royalties on natural gas production to 55% from their current level of 28% through December 31, 2014. By law, the royalty rate returns to 28% on January 1, 2015 unless legislatively extended. Additionally, under the enacted law, the royalty rate for newly drilled wells will be discounted for two years at a discount coefficient of 0.55. In effect, newly drilled wells put on production after August 1, 2014 will have a royalty rate of 30.25%.

On September 22, 2014, the National Bank of Ukraine issued a temporary resolution which, among other things, prohibits the payment of cross-border dividends through December 2, 2014. During the nine months ended September 30, 2014, the Company received \$7,635 (2013 - \$6,900) in dividends from KUB-Gas which represented the largest source of cash for the Company during the respective periods. Cub and its partner are reviewing alternatives for issuance of dividends for use within Ukraine which in Cub's case, may be used for its western Ukraine licences. Pelicourt Limited ("Pelicourt"), a significant shareholder of the Company which has a common director, and also the provider of a line of credit (see Note 10), recently notified the Company that it is having liquidity issues as a result of the National Bank of Ukraine resolution and may not be able to provide any further funding under the line of credit. The line of credit has \$3,000 undrawn funds as at September 30, 2014.

As at September 30, 2014, the Company had working capital of \$955 (2013 - \$942) and accumulated earnings of \$2,464 (2013 - \$20,586) since its inception and may incur future losses in the development of its business. With the current cash resources and the uncertainty surrounding the Pelicourt line of credit, 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, and maintain 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. There is no assurance this capital will be available and if it is not, the Company may be forced to curtail or suspend 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

Cub Energy Inc.
For the three and nine months ended September 30, 2014 and 2013
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited, expressed in thousands of US dollars)

audited consolidated financials for the year ended December 31, 2013. The condensed consolidated financial statements for the period ended September 30, 2014, were approved by the board of directors of the Company on November 12, 2014. Certain prior period financial statement amounts have been reclassified to conform to current period presentation (Note 23).

(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 September 30, 2014:

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	30%	Cyprus	US
KUB-Gas LLC	30%	Ukraine	Hryvnia
3P International Energy Limited	100%	Cyprus	US
Tysagaz	100%	Ukraine	Hryvnia
Listren Holding Company	100%	Cyprus	US
Technogasindustria LLC (TGI)	100%	Ukraine	Hryvnia
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 30% indirect ownership in KUB Holdings as an investment in associate subject to significant influence under the equity method. All Listren, TGI and all Anatolia corporations are consolidated from the date of acquisition.

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".

(ii) 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 investees 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.

Cub Energy Inc.
For the three and nine months ended September 30, 2014 and 2013
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited, expressed in thousands of US dollars)

(c) 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.

(d) 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 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 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.
- The determination of Cash Generating Units (“CGU”) requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.
- Amounts recognized for depletion and depreciation and amounts used for impairment calculations are based on estimates of petroleum and natural gas reserves. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows, are subject to measurement uncertainty. These estimates are also used in assessing impairment for exploration and evaluation assets. See Note 7.
- 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.

Cub Energy Inc.
For the three and nine months ended September 30, 2014 and 2013
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited, expressed in thousands of US dollars)

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, 2013. These financial statements should be read in conjunction with those consolidated financial statements.

4 New standards and interpretations

a) New Accounting Standards Effective in 2014

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

b) New Accounting Standards Issued But Not Yet Effective

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

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

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

5 Equity investment in KUB Holdings

The Company's share of the income from its 30% ownership interest in KUB Holdings for nine months ended September 30, 2014 was \$7,224 (2013 – \$8,319). As of September 30, 2014, the Company's 30% ownership investment was \$22,090 (December 31, 2013 - \$30,518). The continuity of the Company's investment in KUB Holdings is as follows:

Cub Energy Inc.**For the three and nine months ended September 30, 2014 and 2013****Notes to the Condensed Consolidated Interim Financial Statements**

(Unaudited, expressed in thousands of US dollars)

Investment in KUB Holdings as at January 1, 2013	\$	29,740
Income from Equity investment		8,319
Dividends received		(6,900)
Investment in KUB Holdings as at September 30, 2013	\$	31,159
Investment in KUB Holdings as at January 1, 2014	\$	30,518
Income from Equity investment		7,224
Dividends received		(7,635)
Currency translation adjustment		(8,017)
Investment in KUB Holdings as at September 30, 2014	\$	22,090

As at September 30, 2014 and December 31, 2013, KUB Holdings on a gross basis includes the following:

As at	September 30,		December 31,	
		2014		2013
Current assets	\$	12,111	\$	11,941
Non-current assets		81,051		108,918
Current liabilities		(14,848)		(9,043)
Non-current liabilities		(4,681)		(10,088)
Net assets	\$	73,633	\$	101,728

	Nine months ended September 30,			
		2014		2013
Capital expenditures	\$	14,080	\$	22,998
Revenues		88,937		87,695
Royalty expense		27,711		22,676
Net income		24,079		27,731
Other comprehensive loss	\$	27,372	\$	-

During the nine months ended September 30, 2014, KUB Holdings recorded \$27,372 (2013 - \$Nil) in other comprehensive losses as a result of the Ukrainian currency devaluation.

Cub Energy Inc.**For the three and nine months ended September 30, 2014 and 2013****Notes to the Condensed Consolidated Interim Financial Statements**

(Unaudited, expressed in thousands of US dollars)

6 Property, plant and equipment

Cost	Petroleum and Natural Gas Interests	Equipment, Furniture and Fixtures	Total
Balance as at December 31, 2012	\$ 22,087	\$ 831	\$ 22,918
Additions and acquisition	3,343	725	4,068
Disposals	-	(21)	(21)
Effect of movements in exchange rates	(23)	(58)	(81)
Balance as at December 31, 2013	25,407	1,477	26,884
Additions	6,201	266	6,467
Effect of movements in exchange rates	(11,100)	(156)	(11,256)
Balance as at September 30, 2014	\$ 20,508	\$ 1,587	\$ 22,095

Accumulated depletion and depreciation	Petroleum and Natural Gas Interests	Equipment, Furniture and Fixtures	Total
Balance as at December 31, 2012	\$ 529	\$ 177	\$ 706
Depletion and depreciation for the year	789	244	1,033
Disposals	-	(14)	(14)
Effect of movements in exchange rates	(8)	(7)	(15)
Balance as at December 31, 2013	1,310	400	1,710
Depletion and depreciation for the period	880	99	979
Effect of movements in exchange rates	(85)	(21)	(106)
Balance as at September 30, 2014	\$ 2,105	\$ 478	\$ 2,583

Carrying amounts						
Balance as at December 31, 2013	\$	24,097	\$	1,077	\$	25,174
Balance as at September 30, 2014	\$	18,403	\$	1,109	\$	19,512

As at September 30, 2014, \$299 (2013 - \$Nil) of additions to property, plant and equipment are non-cash working capital items and included in trade and other payables.

Cub Energy Inc.**For the three and nine months ended September 30, 2014 and 2013****Notes to the Condensed Consolidated Interim Financial Statements**

(Unaudited, expressed in thousands of US dollars)

7 Exploration and evaluation assets

	Nine Months ended		Year ended	
	September 30, 2014		December 31, 2013	
Net carrying amount, beginning of the period	\$	33,510	\$	16,616
Additions		619		5,956
Acquisition - TGI		-		13,939
Acquisition - Anatolia		-		2,928
Impairment of exploration and evaluation assets		(20,761)		(5,216)
Effect of movements in exchange rates		(13,368)		(713)
Net carrying amount, end of the period	\$	-	\$	33,510

Exploration and evaluation assets consist of the Company's intangible exploration projects which are pending the determination of proved or probable reserves. As at September 30, 2014, \$8 (2013 - \$Nil) of additions to exploration and evaluation assets are non-cash working capital items and included in trade and other payables.

Management assessed whether there were indications of impairment of the Company's exploration and evaluation assets as at September 30, 2014 as per IFRS 6 Exploration for and Evaluation of Mineral Resources. The Company determined that it would not be committing any material capital over the next twelve months on its exploration and evaluation assets in eastern Ukraine (TGI) which are situated in rebel held territory and recorded an impairment of \$9,566 (2013 - \$Nil) during the nine months ended September 30, 2014. In addition, the Company recorded an impairment of \$11,195 (2013 - \$Nil) during the nine months ended September 30, 2014 reflecting the total carrying value of the exploration and evaluation assets in western Ukraine (Tysagaz) where it is uncertain when the Company will have sufficient capital to continue exploration and evaluation efforts.

8 Trade and other receivables

	September 30,		December 31,	
	2014		2013	
Trade receivables	\$	-	\$	249
VAT receivable		585		563
HST receivables		2		26
Other tax receivables		-		4
	\$	587	\$	842

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.

Included in non-current trade and other receivables and other assets as at September 30, 2014 is \$Nil (December 31, 2013 - \$563) of VAT in Ukraine that was not expected to be collected in the next twelve months. During the nine months ended September 30, 2014, the Company recorded an impairment of \$345 of non-current VAT in Ukraine related to TGI as its collectability is uncertain.

Cub Energy Inc.
For the three and nine months ended September 30, 2014 and 2013
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited, expressed in thousands of US dollars)

9 Changes in working capital

	Three months ended September 30, 2014		Nine months ended September 30, 2013	
	2014	2013	2014	2013
Cash flows relating to:				
Decrease (increase) in trade and other receivables	\$ 6	\$ 65	\$ (92)	\$ (188)
Decrease (increase) in inventory	6	(5)	9	(6)
Decrease (increase) in prepaid expenses	222	886	59	(398)
Increase (decrease) in trade and other payables	(321)	934	340	1,091
Increase (decrease) in interest payable	-	-	-	-
Decrease (increase) in investment	-	2,820	-	(329)
	\$ (87)	\$ 4,700	\$ 316	\$ 170

The working capital cash flows shown above 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 exploration and evaluation assets (Note 7).

10 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 which has a common director. 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 is due in full on September 30, 2016. During the nine months ended September 30, 2014, the Company drew down \$2,000 (2013 - \$Nil) of the facility and paid or accrued interest of \$104 (2013 - \$Nil). The outstanding balance as at September 30, 2014 was \$2,000 (December 31, 2013 - \$Nil) in principal and \$46 (2013 - \$Nil) in interest.

Pelicourt recently notified the Company that it is having liquidity issues as a result of the September 22, 2014 National Bank of Ukraine resolution prohibiting the payment of cross-border dividends and may not be able to provide any further funding under the line of credit. This raises significant doubt about the ability of the Company to continue as a going concern and meet its obligations as they become due.

11 Warrants

A summary of the common share purchase warrants is presented below.

	Number of Warrants	Amount
Balance as at December 31, 2012	-	\$ -
Warrants valuation as part of Anatolia acquisition	11,040,306	281
Balance as at December 31, 2013	11,040,306	\$ 281
Expiry of warrants	(1,854,743)	-
Balance as at September 30, 2014	9,185,563	\$ 281

On June 26, 2013, the Company issued 11,040,306 common share purchase warrants, valued at \$281 using the Black-Scholes option pricing model in connection with the acquisition of Anatolia. During the nine months ended September 30, 2014, a total of 1,854,743 warrants expired with no fair value.

Cub Energy Inc.
For the three and nine months ended September 30, 2014 and 2013
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited, expressed in thousands of US dollars)

Issuance Date	Exercise price (CAD)	Outstanding	Expiry Date
June 26, 2013	\$ 3.77	1,109,688	March 15, 2016
June 26, 2013	\$ 3.77	761,875	March 21, 2016
June 26, 2013	\$ 1.42	7,314,000	July 19, 2015
Total		9,185,563	

There were no fair value measurements of warrants during the nine months ended September 30, 2014 (2013 - \$281).

12 Share-based payments

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 nine months ended September 30, 2014. During the year ended December 31, 2013, the Company issued 18,860,000 stock options to directors, officers, employees and consultants of the Company at exercise prices between CAD \$0.19 and CAD \$0.44. The 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. During the nine months ended September 30, 2014, the Company recorded share based payments of \$866 (2013 – \$766). Weighted average exercise price for options exercisable as of September 30, 2014 was CAD \$0.43.

	Number of Options	Weighted Avg Exercise Price (CAD)
Balance as at December 31, 2012	7,149,451	\$ 0.52
Options granted	18,860,000	0.38
Options cancelled or expired	(3,500,451)	0.54
Balance at December 31, 2013	22,509,000	\$ 0.47
Options cancelled or expired	(1,050,000)	0.38
Balance at September 30, 2014	21,459,000	\$ 0.43

Cub Energy Inc.
For the three and nine months ended September 30, 2014 and 2013
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited, expressed in thousands of US dollars)

Expiry Date	Exercise price (CAD)	Issued	Exercisable	Weighted Avg Remaining Life (years)
September 22, 2015	\$ 0.31	140,000	140,000	0.98
October 6, 2015	\$ 0.40	459,000	459,000	1.02
December 21, 2015	\$ 0.87	450,000	450,000	1.22
April 17, 2016	\$ 0.64	50,000	50,000	1.55
July 11, 2016	\$ 0.40	600,000	600,000	1.78
September 7, 2016	\$ 0.50	450,000	450,000	1.94
December 1, 2016	\$ 0.45	2,250,000	2,250,000	2.17
July 24, 2018	\$ 0.33	4,201,250	2,100,625	3.82
July 24, 2018	\$ 0.44	11,853,750	5,926,875	3.82
September 3, 2018	\$ 0.30	138,750	69,375	3.93
September 3, 2018	\$ 0.40	416,250	208,125	3.93
September 3, 2018	\$ 0.19	450,000	225,000	3.93
		21,459,000	12,929,000	3.42

13 Earnings per share

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Numerator				
Profit (loss) for the period - basic and diluted	\$ (19,399)	\$ 875	\$ (18,122)	\$ 1,477
Denominator (in 000's)				
Weighted average shares - basic	311,746	311,746	311,746	272,011
Basic and diluted profit (loss) per share	\$ (0.06)	\$ 0.00	\$ (0.06)	\$ 0.01

14 Provisions

	Nine months ended		Year ended	
	September 30, 2014		December 31, 2013	
Decommissioning liability, beginning of period	\$	132	\$	376
Change in provision		27		(272)
Accretion		9		28
Effect of movements in exchange rates		(57)		-
Balance, end of period	\$	111	\$	132

The Company's decommissioning obligation results from its ownership in oil and gas assets. The total decommissioning obligation is estimated based on the Company's net ownership in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. In Ukraine, the Company estimated the total undiscounted amount required to settle the obligation is \$265 (December 31, 2013 - \$337). The costs are expected to be settled between 2020 and

Cub Energy Inc.**For the three and nine months ended September 30, 2014 and 2013****Notes to the Condensed Consolidated Interim Financial Statements**

(Unaudited, expressed in thousands of US dollars)

2028. The liability has been discounted using a risk-free interest rate of 11% (2013 – 11%) and an inflation rate of 2% as at September 30, 2014 (2013 – 2%).

15 Selling and general administrative expenses

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Salaries	\$ 621	\$ 653	\$ 2,420	\$ 1,746
Travel	139	412	748	1,284
Professional fees	35	199	524	829
Consulting fees	135	488	455	861
Office and administration	165	363	551	826
Business development and investor relations	21	132	92	442
Exploration and engineering expenses	48	62	326	270
	\$ 1,164	\$ 2,309	\$ 5,116	\$ 6,258

16 Operating segments

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

	Ukraine	Canada	USA	Turkey	Total
Three months ended September 30, 2014					
Revenue	\$ 1,444	\$ -	\$ -	\$ -	\$ 1,444
Cost of sales	(893)	-	-	-	(893)
Impairment of exploration and evaluation assets	(21,106)	-	-	-	(21,106)
Selling and general administrative expenses	(322)	(127)	(700)	(15)	(1,164)
Share-based payments	-	(199)	-	-	(199)
Depletion and depreciation	(153)	(1)	(27)	-	(181)
Accretion	(4)	-	-	-	(4)
Finance (cost) income, net of expenses	1	(53)	(2)	-	(54)
Income from equity investment	2,758	-	-	-	2,758
Income tax recovery	-	-	-	-	-
Net profit (loss)	\$ (18,275)	\$ (380)	\$ (729)	\$ (15)	\$ (19,399)

	Ukraine	Canada	USA	Turkey	Total
Nine months ended September 30, 2014					
Revenue	\$ 4,838	\$ -	\$ -	\$ -	\$ 4,838
Cost of sales	(2,062)	-	-	-	(2,062)
Impairment of exploration and evaluation assets	(21,106)	-	-	-	(21,106)
Selling and general administrative expenses	(1,057)	(990)	(3,022)	(47)	(5,116)
Share-based payments	-	(866)	-	-	(866)
Depletion and depreciation	(907)	(5)	(67)	-	(979)
Accretion	(9)	-	-	-	(9)
Finance (cost) income, net of expenses	1	(54)	(8)	-	(61)
Income from equity investment	7,224	-	-	-	7,224
Income tax recovery	-	-	-	15	15
Net profit (loss)	\$ (13,078)	\$ (1,915)	\$ (3,097)	\$ (32)	\$ (18,122)

Cub Energy Inc.
For the three and nine months ended September 30, 2014 and 2013
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited, expressed in thousands of US dollars)

	Ukraine	Canada	USA	Turkey	Total
Three months ended September 30, 2013					
Revenue	\$ 620	\$ 7	\$ -	\$ -	\$ 627
Cost of sales	(388)	-	-	-	(388)
Selling and general administrative expenses	(357)	(706)	(1,231)	(15)	(2,309)
Share-based payments	-	(643)	-	-	(643)
Depletion and depreciation	(234)	(3)	(38)	-	(275)
Accretion	(7)	-	-	-	(7)
Finance (cost) income, net of expenses	-	62	1	-	63
Income from equity investment	3,815	-	-	-	3,815
Income tax expense	(8)	-	-	-	(8)
Net profit (loss)	\$ 3,441	\$ (1,283)	\$ (1,268)	\$ (15)	\$ 875

	Ukraine	Canada	USA	Turkey	Total
Nine months ended September 30, 2013					
Revenue	\$ 2,492	\$ 13	\$ -	\$ -	2,505
Cost of sales	(1,401)	-	-	-	(1,401)
Selling and general administrative expenses	(955)	(1,718)	(3,570)	(15)	(6,258)
Share-based payments	-	(766)	-	-	(766)
Depletion and depreciation	(797)	(10)	(140)	-	(947)
Accretion	(21)	-	-	-	(21)
Finance (cost) income, net of expenses	-	163	(9)	-	154
Income from equity investment	8,319	-	-	-	8,319
Income tax expense	(108)	-	-	-	(108)
Net profit (loss)	\$ 7,529	\$ (2,318)	\$ (3,719)	\$ (15)	\$ 1,477

	Ukraine	Canada	USA	Turkey	Total
As at September 30, 2014					
Total current assets	\$ 1,085	\$ 2,164	\$ 112	\$ 11	\$ 3,372
Total non-current assets	\$ 40,037	\$ 466	\$ 1,137	\$ -	\$ 41,640
Total liabilities	\$ 4,551	\$ 2,232	\$ 774	\$ 3	\$ 7,560
As at December 31, 2013					
Total current assets	\$ 1,374	\$ 1,209	\$ 95	\$ 598	\$ 3,276
Total non-current assets	\$ 88,680	\$ 7	\$ 1,116	\$ -	\$ 89,803
Total liabilities	\$ 6,477	\$ 248	\$ 610	\$ 90	\$ 7,425

Revenue and the related accounts receivable are represented by two to three customers during the nine months ended September 30, 2014 and 2013.

17 Commitments

Ukraine

The Company has an obligation to incur certain capital expenditures to comply with the Ukrainian exploration license requirements. Under these license maintenance commitments, the Company is required to explore its licensed fields. Although these commitments are not binding and may be modified based on results of exploration work, the Company's potential capital expenditures relating to qualifying activities on gas and gas condensate fields will be material during the period from 2014 to 2015 as part of the planned exploration

Cub Energy Inc.
For the three and nine months ended September 30, 2014 and 2013
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited, expressed in thousands of US dollars)

and development program. Justified deviation from the capital expenditures is permitted and should be agreed with the licensor, while failure to commit exploration works and substantiate the different capital expenditure schedule may result in termination of the exploration license.

Office Space

The Company has a lease agreement for office space in Houston, Texas which expires in May 2020. The commitment is approximately \$166 per year for the term of the lease.

18 Related Party Transactions

Transactions with related parties are incurred in the normal course of business and are measured at the fair value, which is the amount of consideration established and approved by the related parties. During the nine months ended September 30, 2014 and 2013, there were no related party transactions other than the Pelicourt line of credit (Note 10).

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 program. Non-executive directors also participate in the Corporation’s stock option program. Key management personnel compensation is comprised of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Director fees	\$ 95	\$ 164	\$ 338	\$ 293
Director share-based compensation	23	100	115	174
Management wages	307	318	983	693
Management share-based compensation	92	302	389	324
Total	\$ 517	\$ 884	\$ 1,825	\$ 1,484

20 Restricted cash

The Company through its subsidiary, Anatolia, was a party to executed joint venture agreements to earn working interests in certain petroleum licences in Turkey. During the nine months ended September 30, 2014, the Company and its Turkish partner entered into a settlement agreement in which the Company relinquished its interest in the eleven Turkish licences in consideration of receipt of \$250 from the restricted cash account, consisting of a reimbursement of past expenditures and a return of half the balance in the restricted cash account. The remaining balance of \$324 in the restricted cash account was transferred to the Turkish partner. The Company was also released from any and all claims, liabilities and commitments. The balance in the escrow account as at September 30, 2014 was \$Nil (December 31, 2013 – \$574).

21 Financial risk management

(a) Overview

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

- credit risk
- liquidity risk

Cub Energy Inc.**For the three and nine months ended September 30, 2014 and 2013****Notes to the Condensed Consolidated Interim Financial Statements**

(Unaudited, expressed in thousands of US dollars)

- 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.

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 cash equivalents.

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 and its investment in deposits with high credit quality Canadian, US, Turkish and Ukrainian financial institutions.

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

	September 30, 2014	December 31, 2013
Cash	\$ 2,655	\$ 1,617
Trade and other receivables	587	842
Non-current trade and other receivables and other assets	38	38
	\$ 3,280	\$ 2,497

The Company, through its wholly owned subsidiary and owner of the 30% interest in KUB Holdings, has provided a cross-indemnity of up to 30% to KUB Holdings' majority shareholder with respect to a guarantee provided by KUB Holdings' majority shareholder to the European Bank for Reconstruction and Development ("EBRD") for a loan facility advanced to KUB-Gas. As at September 30, 2014, KUB-Gas had approximately \$4,200 of loan proceeds outstanding with EBRD. The Company's maximum guarantee exposure as at September 30, 2014, amounts to \$1,260.

Cub Energy Inc.
For the three and nine months ended September 30, 2014 and 2013
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited, expressed in thousands of US dollars)

(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.

The Company was recently notified by Pelicourt that it may not be able to provide any further funding under the line of credit. The line of credit has \$3,000 undrawn funds as at September 30, 2014. See Note 10. As at September 30, 2014, the Company had current assets of \$3,372 and had the following financial liabilities:

	Carrying Amount	Contractual Cash Flows	< 1 year
Trade and other payables	\$ 2,371	\$ 2,371	\$ 2,371
Current portion of line of credit	46	46	46
Line of credit	2,000	2,000	-
Provisions	111	-	-
	\$ 4,528	\$ 4,417	\$ 2,417

(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 September 30, 2014			Total
	UAH	CAD	Total	
Cash	\$ 361	\$ 24	\$ 385	\$ 385
Trade and other receivables	585	2	587	587
Trade and other payables	(1,083)	27	(1,056)	(1,056)
Provisions	(111)	-	(111)	(111)
	\$ (248)	\$ 53	\$ (195)	\$ (195)
Effect of +/- 10% change in exchange rate	\$ (25)	\$ 5	\$ (20)	\$ (20)

(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 income (loss) and retained earnings (deficit) in the definition of capital. As at September 30, 2014, the Company has total shareholders' equity of \$37,452 (December 31, 2013 - \$85,654). The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund the identification and evaluation of potential acquisitions. To secure the additional capital

Cub Energy Inc.
For the three and nine months ended September 30, 2014 and 2013
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited, expressed in thousands of US dollars)

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 nine months ended September 30, 2014.

(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 by reference to the Russian imported gas price, while the market price of Brent crude oil is impacted by market risk factors. The Company has no commodity hedge program in place which could potentially mitigate the price risk.

22 Financial instruments

The Company's financial instruments consist of cash, restricted cash, trade and other receivables, line of credit, trade and other payables. The fair values of financial instruments other than cash approximate their carrying values because of their current nature.

	September 30, 2014	December 31, 2013
Fair value through profit or loss (i)	\$ 2,655	\$ 2,191
Loans and receivables (ii)	\$ 625	\$ 1,443
Other financial liabilities (iii)	\$ 4,417	\$ 2,334

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

- (i) Cash and restricted cash
- (ii) Trade and other receivables and Non-current trade and other receivables (VAT)
- (iii) Trade and other payables and line of credit

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 September 30, 2014				
Cash	\$ 2,655	\$ -	\$ -	\$ 2,655
As at December 31, 2013				
Cash and restricted cash	\$ 2,191	\$ -	\$ -	\$ 2,191

23 Comparative figures

The Company has reclassified certain prior period comparative figures to conform to the current period's presentation. Net earnings previously reported is not affected by this reclassification.