



Condensed consolidated interim financial statements

For the three months ended March 31, 2017 and 2016

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

(Unaudited)

Notice of No Auditor Review of Interim Financial Statements

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

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

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

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

As at	Note	March 31, 2017	December 31, 2016
Assets			
Current assets			
Cash		\$ 3,776	\$ 4,585
Trade and other receivables	8, 11	982	1,551
Dividend receivable	5	975	-
Prepaid expenses and inventory	13	371	345
		6,104	6,481
Non-current assets			
Equity investments	5, 6	16,711	15,902
Property, plant and equipment	7	8,255	7,453
Non-current receivables	8	594	340
		25,560	23,695
Total assets		\$ 31,664	\$ 30,176
Liabilities			
Current liabilities			
Trade and other payables		\$ 3,223	\$ 3,226
Loan from KUB-Gas - current portion	12	1,662	-
		4,885	3,226
Non-current liabilities			
Loan from KUB-Gas	12	3,087	4,332
Line of credit	10	2,000	2,000
Provisions	7	357	346
		5,444	6,678
Total liabilities		10,329	9,904
Shareholders' equity			
Share capital		61,989	61,989
Contributed surplus	14	5,177	5,110
Other reserve	12	2,289	2,509
Share of change in equity in associated company	5, 12	(2,187)	(2,187)
Accumulated other comprehensive loss		(44,758)	(45,058)
Deficit		(1,175)	(2,091)
Total shareholders' equity		21,335	20,272
Total shareholders' equity and liabilities		\$ 31,664	\$ 30,176

Nature of operations and going concern (Note 1)

Commitments and contingencies (Note 18)

Subsequent events (Note 23)

These Condensed consolidated interim financial statements for the three months ended March 31, 2017 and 2016, were approved by the board of directors of the Company on May 16, 2017.

Approved by the Board

“Mikhail Afendikov”

Director (Signed)

“John Booth”

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)

Three months ended March 31,	<i>Note</i>	2017	2016
Revenue		\$ 18	\$ 1,456
Revenue from gas trading	5	3,995	-
Royalty expense		2	391
Revenue, net of royalty		4,011	1,065
Income from equity investment	5, 6	2,063	1,653
Operating expenses			
Cost of sales for gas trading	5	3,835	-
Selling and general administrative expenses	16	1,031	1,092
Finance loss, net	10, 12	189	(47)
Share-based payments	14	67	-
Depletion and depreciation	7	18	319
Accretion of decommissioning obligation		10	3
Cost of sales		8	129
Gain on sale of subsidiary	1	-	(235)
		5,158	1,261
Net income		916	1,457
Other comprehensive income (loss)			
Items that may be reclassified to profit or loss			
Foreign currency translation adjustment on foreign operations		300	(1,720)
Comprehensive income (loss)		\$ 1,216	\$ (263)
Income (loss) per share			
Basic	15	0.00	0.00
Diluted	15	0.00	0.00

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

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

	<i>Note</i>	Number of shares	Share capital	Warrants	Contributed surplus	Other reserve	Share of change in equity in associated company	Accumulated other comprehensive loss	Deficit	Total
Balances as at January 1, 2016		311,746,285	\$ 62,133	\$ 26	\$ 4,845	\$ -	\$ -	\$ (43,395)	\$ (6,022)	17,587
Share-based payments	14	-	-	-	8	-	-	-	-	8
Expiry of warrants		-	-	(26)	26	-	-	-	-	-
Currency translation adjustment		-	-	-	-	-	-	(1,720)	-	(1,720)
Net loss		-	-	-	-	-	-	-	1,457	1,457
Balances as at March 31, 2016		311,746,285	\$ 62,133	\$ -	\$ 4,879	\$ -	\$ -	\$ (45,115)	\$ (4,565)	17,332
Balances as at January 1, 2017		312,015,355	\$ 61,989	\$ -	\$ 5,110	\$ 2,509	\$ (2,187)	\$ (45,058)	\$ (2,091)	20,272
Share-based payments	14	-	-	-	67	-	-	-	-	67
Related party contribution	12	-	-	-	-	(220)	-	-	-	(220)
Currency translation adjustment		-	-	-	-	-	-	300	-	300
Net income		-	-	-	-	-	-	-	916	916
Balances as at March 31, 2017		312,015,355	\$ 61,989	\$ -	\$ 5,177	\$ 2,289	\$ (2,187)	\$ (44,758)	\$ (1,175)	21,335

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

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

Three months ended March 31,	<i>Note</i>	2017	2016
Operating activities			
Net income		\$ 916	\$ 1,457
<i>Adjustments for:</i>			
Income from equity investment	5	(2,063)	(1,653)
Dividends from equity investment	5	282	-
Recognition of interest rate benefit	12	(220)	-
Share-based payments	14	67	-
Depletion and depreciation	7	18	319
Accretion of decommissioning obligation		10	3
Gain on sale of subsidiary	1	-	(235)
		(990)	(109)
Changes in working capital	9	278	(84)
Cash flows used in operating activities		(712)	(193)
Investing activities			
Additions to property, plant and equipment	7	(798)	(138)
Cash provided by (used in) investing activities		(798)	(138)
Financing activities			
Proceeds from KUB-Gas loan	12	-	1,176
Cash provided by financing activities		-	1,176
Net change in cash		(1,510)	845
Effect of foreign exchange on cash		701	(234)
Cash at beginning of period		4,585	1,360
Cash at end of period		\$ 3,776	\$ 1,971
Supplemental cash flow information			
Cash taxes paid		\$ -	\$ -
Cash interest paid		\$ 52	\$ -

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

Cub Energy Inc.

For the three months ended March 31, 2017 and 2016

Notes to the condensed consolidated interim financial statements

(Unaudited, expressed in thousands of US dollars)

1 Nature of operations and going concern

Cub Energy Inc. (the “Company”) is engaged in the exploration, development and production of natural gas properties in Ukraine. The Company was incorporated pursuant to the provisions of the Business Corporations Act (Ontario) and continued under the Canadian Business Corporations Act in February 2012. The address of the Company’s registered office is 4500 Bankers Hall East, 855 - 2nd Street SW, Calgary, Alberta, T2P 4K7, Canada and the records office is Suite 10010, 5120 Woodway Drive, Houston, Texas, 77056. The Company is listed on the TSX Venture Exchange (“TSXV”) under the trading symbol “KUB”.

The Company, through its subsidiary Gastek LLC (“Gastek”), owns a 35% equity interest (increased from 30% to 35% effective February 8, 2016) in KUBGAS Holdings Limited (“KUB Holdings”) which in turn owns a 100% equity interest in KUB-Gas LLC (“KUB-Gas”). KUB Holdings is governed by a shareholders agreement amongst the two shareholders. KUB-Gas and its subsidiary own and operate six licenced gas and gas condensate fields in the Dnieper-Donetsk Basin of eastern Ukraine (five operating under production licences and one under exploration licence). Gastek received the additional 5% ownership in KUB Holdings for no additional consideration in return for revoking a right of first refusal. Gastek has the ability to earn an additional 5% of KUB Holdings (up to 40% in total). See Note 5.

The Company, through its subsidiary Tysagaz LLC, also owns a 100% working interest in two production licences in western Ukraine. The Rusko-Komarivske (“RK”) field was in production until April 1, 2016 when it was temporarily suspended due to a termination of a gas blending contract that reduced the nitrogen content of the gas to meet local pipeline specifications. The RK Field continued to be materially suspended through March 31, 2017 except some minor production from testing at RK-1. During 2016, the Company purchased a nitrogen rejection unit (“NRU”) so it can produce gas without blending. There are no assurances that the NRU will be successful in its implementation and production will resume at the RK field. These conditions could result in a material write-down in future periods.

On July 8, 2016, the Company entered into a share purchase agreement (“SPA”) and shareholders’ agreement with a third party, whereby the third party earned a 50% interest in the Company’s newly formed subsidiary, CNG Holdings Netherlands B.V. (“CNG Holdings”), which, in turn, owns CNG LLC (“CNG LLC”), the 100% owner of the Uzhgorod production licence in western Ukraine. The Company and the third party respectively own 50% of the common shares of CNG Holdings (Note 6). Pursuant to the terms of the SPA, the third party is to:

- (i) Pay the Company €1,500 (\$1,649) upon transfer of the 50% shares (“Closing”) (Paid);
- (ii) Fund a 100 square kilometre 3D seismic survey within 20 months of Closing (Completed);
- (iii) Fund the drilling of the first three wells within four three months of Closing; and
- (iv) Fund the tie-in costs of the first three wells up to a maximum €200 (\$225) per well within four three months of Closing.

On February 11, 2016, the Company’s subsidiary, Cub Energy Ltd. (formerly Listren Holding Company), sold its 100% owned subsidiary Technogasindustria LLC (“TGI”) for nominal value. TGI held three exploration licences in the rebel held territory that had been written off during the year ended March 31, 2014 and the licences expired in January 2017. TGI also held 100% of Hydrocarbon Invest LLC which had no assets or liabilities. The Company recorded a gain of \$235 as a result of TGI’s net working capital deficit at the time of sale.

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

The political unrest and ongoing military conflicts has also led to the deepening of the ongoing economic crisis, widening of the state budget deficit, depletion of the National Bank of Ukraine’s (“NBU”) foreign currency reserves and, as a result, a further downgrading of the Ukrainian sovereign debt credit ratings. In February 2014, following the significant devaluation of the national currency, Ukraine implemented several changes, including: the NBU introduced certain administrative restrictions on currency conversion

Cub Energy Inc.**For the three months ended March 31, 2017 and 2016****Notes to the Condensed consolidated interim financial statements**

(Expressed in thousands of US dollars)

transactions that require Ukrainian companies to convert 50% of all incoming foreign transfers to the local Ukrainian currency; the NBU imposed a restriction that US and other foreign denominated loans in Ukraine could not be repaid in advance of their maturity dates; the NBU passed resolutions prohibiting the payment of dividends to foreign shareholders and the Ukraine parliament increased the natural gas royalty rate to 55% for production at or above depth of 5,000 metres. On December 31, 2015, the Ukraine parliament decreased the natural gas royalty rate from 55% to 29% for production at or above depth of 5,000 metres. On June 7, 2016, the NBU eased certain capital controls by allowing Ukraine companies to issue limited dividends related directly to 2014 and 2015 earnings and quicker processing times for foreign exchange purchases.

The political and economic uncertainty in Ukraine has contributed to a significant devaluation of the Ukrainian currency, Hryvnya (“UAH”), against major currencies. The UAH was stable during the three months ended March 31, 2017 with relatively no change. During the year ended December 31, 2016, the UAH devalued approximately 32%.

Pelicourt Limited (“Pelicourt”), a significant shareholder of the Company which the Company’s CEO is a principal of, provided a line of credit which is currently fully drawdown at \$2,000. See Note 10.

As of March 31, 2017, the Company had working capital of \$1,219 (December 31, 2016 – \$3,255) and accumulated deficit of \$1,175 (December 31, 2016 – \$2,091) since its inception and may incur future losses in the development of its business. With the current cash resources, temporary suspension of the RK Field, uncertainty surrounding the successful installation of the NRU, Ukraine dividend restrictions, 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.

The continued operations of the Company and the recoverability of amounts shown for its 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 natural gas properties does not necessarily represent present or future value of those properties. Changes in future conditions could result in a material change in the amount recorded for the natural gas properties.

The Company is exposed to commodity price risk with respect to natural gas prices and foreign exchange rate risk with respect to its foreign assets and liabilities. 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 natural gas properties. See further financial risk disclosures in Note 23.

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(Expressed in thousands of US dollars)

2 Basis of preparation

(a) Statement of compliance

These Condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) and their interpretations as issued by the International Accounting Standards Board (“IASB”). The condensed consolidated interim financial statements have been prepared in conformity with IAS 34 *Interim Financial Reporting* and do not include all the information required for full annual consolidated financial statements in accordance with IFRS and should be read in conjunction with the audited consolidated financials for the year ended December 31, 2016.

(b) New standards adopted during the period

Effective January 1, 2017, the following standards were adopted but did not have a material impact on the Condensed consolidated interim financial statements: IFRS 7: Amended to require additional disclosures on transition from IAS 39 and IFRS 9.-

Refer to Note 4 for new standards and interpretations not yet adopted.

(c) Basis of consolidation

(i) Subsidiaries and functional and reporting currencies

The following table describes the Company’s subsidiaries and equity accounted investments, their jurisdiction of incorporation, functional currency, continuance or formation and the percentage of securities beneficially owned, controlled or directed by the Company as at March 31, 2017:

Name of Subsidiary/ Equity Accounted Investment	Percentage of Voting Securities Owned	Jurisdiction of Incorporation, Continuance or Formation	Functional Currency
Gastek LLC	100%	California	US
KUBGAS Holdings Limited	35%	Cyprus	US
KUB-Gas LLC	35%	Ukraine	Hryvnia
KUB-Gas Borova LLC	35%	Ukraine	Hryvnia
3P International Energy Limited	100%	Cyprus	US
3P Energy Consulting LLC	100%	Ukraine	Hryvnia
Tysgaz LLC	100%	Ukraine	Hryvnia
CNG Holdings Netherlands B.V.	50%	Netherlands	Euro
CNG LLC	50%	Ukraine	Hryvnia
Cub Energy Ltd.	100%	Cyprus	US
Cub Energy Inc.	100%	Texas	US
Galizien Energy Corp.	100%	Ontario	Canadian

The Company accounts for its 35% indirect ownership in KUB Holdings and KUB-Gas as an investment in associate subject to significant influence under the equity method. The Company also accounts for its 50% direct ownership in CNG Holdings and CNG LLC under the equity method.

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

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(c) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized gains arising from intercompany transactions, are eliminated in preparing the Condensed consolidated interim financial statements. Unrealized gains arising on transactions with equity accounted 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.

(d) Basis of measurement

These Condensed consolidated interim financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments as fair value through profit and loss, which are stated at their fair value. In addition, these Condensed consolidated interim financial statements have been prepared using the accrual basis of accounting except for cash flow information. All dollar amounts are expressed in US dollars unless otherwise specified.

(e) Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these 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 in Note 1.
- The determination of Cash Generating Units ("CGU") requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.
- 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-

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(Expressed in thousands of US dollars)

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 purchased and installed a NRU. However until the 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 in Note 1. The Company concluded that there is a material uncertainty that may cast doubt on its ability to continue as a going concern.

3 Significant accounting policies

These condensed consolidated interim financial statements are prepared in accordance with IFRS and follow the same accounting policies and methods of their application as the most recent audited financial statements for the year ended December 31, 2016. These financial statements should be read in conjunction with those consolidated financial statements.

4 New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for future accounting periods. The following have not yet been adopted by the Company and are being evaluated to determine their impact.

- IFRS 9: New standard that replaced IAS 39 for classification and measurement, tentatively effective for annual periods beginning on or after January 1, 2018.
- IFRS 15: New standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers, effective for annual periods beginning on or after January 1, 2018.
- 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, 2017.
- 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.

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(Expressed in thousands of US dollars)

5 Equity investment in KUB Holdings

The Company's share of the consolidated income from its 35% ownership interest in KUB Holdings for the three months ended March 31, 2017 was \$2,095 (2016 – \$1,653). As of March 31, 2017, the Company's 35% ownership investment was \$16,705 (December 31, 2016 - \$15,887). The continuity of the Company's investment in KUB Holdings is as follows:

Investment in KUB Holdings as at January 1, 2016	\$	13,562
Income from equity investment		1,653
Currency translation adjustment		(910)
Investment in KUB Holdings as at March 31, 2016	\$	14,305
Investment in KUB Holdings as at January 1, 2017	\$	15,887
Income from equity investment		2,095
Dividends received		(1,257)
Currency translation adjustment		(20)
Investment in KUB Holdings as at March 31, 2017	\$	16,705

As at March 31, 2017 and 2016, KUB Holdings on a gross basis includes the following:

As at		March 31, 2017		December 31, 2016
Current assets	\$	16,478	\$	7,995
Non-current assets		39,132		45,481
Current liabilities		(7,459)		(7,668)
Non-current liabilities		(422)		(417)
Net assets	\$	47,729	\$	45,391

Three months ended March 31,		2017		2016
Capital expenditures	\$	475	\$	425
Revenues		11,901		12,705
Royalty expense		3,358		3,365
Net income		5,984		4,724
Other comprehensive loss	\$	56	\$	(2,599)

The Company recorded dividends of \$1,257 (2016 - \$Nil) during the three months ended March 31, 2017 of which \$282 was received during the quarter and \$975 was received subsequent to the quarter end (see Note 23).

During the year ended December 31, 2016, KUB Holdings' 100% owned subsidiary, KUB-Gas, entered into unsecured, non-interest bearing loan agreements with related parties. See Note 12. KUB-Gas recognized the fair value of these transactions and treated it as a non-cash distribution to shareholders in its shareholders equity. The amount allocated to the Company's 35% interest in 2016 was \$2,187 and was treated as a reduction of its investment of KUB Holdings.

During the three months ended March 31, 2017, KUB Holdings recorded \$56 in other comprehensive income (2016 – loss of \$2,599) as a result of the Ukrainian currency appreciation/devaluation against the US dollar.

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(Expressed in thousands of US dollars)

The Ukraine currency was relatively flat during the three months ended March 31, 2017 as compared to an 11% devaluation during the comparative 2016 period.

Commencing August 2016, the Company's wholly owned subsidiary, Tysagaz, began taking possession of the Company's 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 shareholder of KUB-Gas. The Company agreed to this arrangement so it could attempt to earn additional net income over the gas sales price sold to the majority shareholders' affiliate. During three months ended March 31, 2017, the Company recorded \$3,995 in gas sales and \$3,835 for the cost of the sales for a net profit from gas trading of \$160 as compared to no such transactions during the comparative period in 2016. For clarity, the \$3,835 cost of sales is included in the KUB Holdings revenue in the tables above. As at March 31, 2017, \$603 (December 31, 2016 - \$1,358) of the Company's accounts receivable relates to these gas sales to third parties and \$1,203 (December 31, 2016 - \$705) of accounts payable is owed to KUB-Gas.

6 Equity investment in CNG Holdings

CNG Holdings was incorporated as a wholly-owned subsidiary during the year ended December 31, 2016. As described in Note 1, the Company entered into a SPA with a third party resulting in the sale of 50% of the Company's interest in CNG Holdings. At which time, CNG Holdings became an equity accounting investment.

The Company's share of the consolidated loss from its 50% ownership interest in CNG Holdings for the three months ended March 31, 2017 was \$33 (2016 - \$Nil). As of March 31, 2017, the Company's 50% (2016 - Nil) ownership investment was \$6 (December 31, 2016 - \$15). The continuity of the Company's investment in CNG Holdings is as follows:

Investment in CNG Holdings as at January 1, 2016 and March 31, 2016	\$	-
Investment in CNG Holdings as at January 1, 2017	\$	15
Loss from equity investment		(33)
Currency translation adjustment		24
Investment in CNG Holdings as at March 31, 2017	\$	6

As at March 31, 2017 and 2016, CNG Holdings on a gross basis includes the following:

As at		March 31, 2017		December 31, 2016
Current assets	\$	1,926	\$	445
Non-current assets		1,151		303
Current liabilities		(391)		70
Non-current liabilities		(2,673)		(648)
Net assets	\$	13	\$	170

Three months ended March 31,		2017		2016
Capital expenditures	\$	1,008	\$	-
Net loss		(66)		-
Other comprehensive loss	\$	47	\$	-

Cub Energy Inc.

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(Expressed in thousands of US dollars)

7 Property, plant and equipment

Cost	Petroleum and Natural Gas Interests	Equipment, Furniture and Fixtures	Total
Balance as at January 1, 2016	\$ 8,924	\$ 1,320	\$ 10,244
Additions	1,172	178	1,350
Currency translation adjustment	(1,020)	(103)	(1,123)
Balance as at December 31, 2016	9,076	1,395	10,471
Additions	759	39	798
Currency translation adjustment	17	5	22
Balance as at March 31, 2017	\$ 9,852	\$ 1,439	\$ 11,291

Accumulated depletion and depreciation	Petroleum and Natural Gas Interests	Equipment, Furniture and Fixtures	Total
Balance as at January 1, 2016	\$ 2,074	\$ 556	\$ 2,630
Depletion and depreciation for the year	456	92	548
Currency translation adjustment	(135)	(25)	(160)
Balance as at December 31, 2016	2,395	623	3,018
Depletion and depreciation for the period	-	18	18
Balance as at March 31, 2017	\$ 2,395	\$ 641	\$ 3,036

Carrying amounts			
Balance as at December 31, 2016	\$ 6,681	\$ 772	\$ 7,453
Balance as at March 31, 2017	\$ 7,457	\$ 798	\$ 8,255

Management assessed whether there were indications of impairment of the Company's property, plant and equipment assets as at March 31, 2017. While impairment indications exist, such as the suspension of production of the RK field commencing April 1, 2016, the Company believes no impairment is warranted as at March 31, 2017 as the net present value of expected future cash flows supports the carrying value.

The Company's 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 three months. The costs are expected to be settled between 2019 and 2024. The liability has been discounted using a risk-free interest rate of 12% (2016 – 7%).

8 Trade and other receivables

As at December 31,	March 31, 2017	December 31, 2016
Trade receivables	\$ 603	\$ 1,358
VAT receivable	378	192
HST receivables	1	1
	\$ 982	\$ 1,551

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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.

9 Changes in working capital

Three months ended March 31,	2017	2016
Cash flows relating to:		
Changes in trade and other receivables	\$ 565	\$ (455)
Changes in non-current receivables	(254)	-
Changes in prepaid expenses and inventory	(26)	7
Changes in trade and other payables	(7)	319
Changes in interest payable	-	45
	\$ 278	\$ (84)

The working capital cashflows shown above may differ from the statement of financial position due to the effects from currency fluctuations. Share-based payments of \$Nil (2016 - \$57) is included as a reduction to trade and other payables relating to the restricted share unit plan (Note 14 (b)).

10 Line of credit

During November 2016, the Pelicourt Line of Credit was revised with an effective date of February 1, 2017. Pelicourt is a significant shareholder of the Company and a related party to the CEO of the Company. The line of credit will be the \$2,000 currently outstanding with no additional amounts available to be drawn down. The interest rate was amended from 9% to 12% effective February 1, 2017. The due date was extended from January 31, 2017 to January 31, 2019 and the interest will be paid quarterly. In addition, 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 line of credit including principal and interest. The due date extension is not considered a substantial modification in the context of IFRS.

During the three months ended March 31, 2017, the Company paid interest of \$52 (2016 - \$46). The outstanding balance as at March 31, 2017 was \$2,000 (December 31, 2016 - \$2,000) in principal and \$Nil (December 31, 2016 - \$Nil) in accrued interest.

11 Offsetting of financial instruments

During the year ended December 31, 2015, the Company’s Ukraine subsidiary, Tysgaz, entered into an unsecured non-interest bearing loan agreement with KUB-Gas, whereby KUB-Gas agreed to lend Tysgaz approximately \$446 at the then applicable exchange rate for general working capital. The loan is due and payable on December 31, 2017, as amended. The loan is subject to an enforceable right to offset the loans with a dividend receivable in certain circumstances including an event of bankruptcy or default of either party to the loan agreements.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where the parties have a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The parties expect to settle the offsetting financial instruments once the NBU lifts the dividend restrictions in Ukraine. The following table presents the recognized financial instruments that are offset with a resulting \$Nil (2016 - \$38) included in trade and other receivables.

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As at	March 31, 2017	December 31, 2016
Financial aid loan payable	\$ (348)	\$ (348)
Dividend receivable	348	348
Net receivable	\$ -	\$ -

12 Loan from KUB-Gas

During the year ended December 31, 2016, the Company's Ukraine subsidiaries, Tysgaz and 3P Consulting, entered into unsecured, non-interest bearing loan agreements with KUB-Gas, whereby KUB-Gas agreed to lend approximately 172,500 UAH for general working capital. The loans are due and payable as follows:

	UAH	Total
January 1, 2018	30,000	\$ 1,107
March 31, 2018	30,000	1,107
May 31, 2019	30,000	1,107
July 31, 2019	60,000	2,215
August 31, 2019	22,500	831
Principal loan value, March 31, 2017	172,500	\$6,367
Recognition of interest rate benefit		(2,509)
Accretion of interest rate benefit		720
Currency translation adjustment		171
Carrying value, March 31, 2017		\$4,749

The KUB-Gas loan agreements are denominated in UAH and subject to currency fluctuations. The KUB-Gas loans are interest free and below market rates. At the outset of the loans in 2016, the Company recognized a loan discount amount of \$2,509 and the loan was carried at the then amortized cost of \$4,332. The loan discount recognizes the interest rate benefit assuming an effective interest rate in Ukraine of approximately 21%. The discount amount will be amortized over the life of the loans and approximately \$220 was recorded as interest accretion expense for the three months ended March 31, 2017 (year ended December 31, 2016 – \$500). The accretion of the interest rate benefit is recorded to profit or loss within finance loss. In addition, KUB-Gas recognized the fair value of these transactions in its financial statements and treated the fair value of the benefit as a non-cash distribution to shareholders in its shareholders' equity. The amount recognized in 2016 was \$2,187 which includes the recognition of the fair value of the benefit for financial aid provided by KUB-Gas to parties controlled by the majority shareholder of KUB-Gas and the Company. This was treated as a reduction of its investment of KUB Holdings. See Note 5.

13 Prepaid Expenses and Inventory

As at	March 31, 2017	December 31, 2016
Prepaid expenses	\$ 112	\$ 104
Inventory - natural gas	238	228
Inventory - materials	21	13
	\$ 371	\$ 345

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14 Share-based payments

(a) Stock options

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.

A summary of the stock option continuity is presented below:

	Number of Options	Weighted Avg Exercise Price (CAD)
Balance as at January 1, 2016	-	\$ -
Options granted	15,000,000	0.08
Balance as at December 31, 2016 and March 31, 2017	15,000,000	\$ 0.08

The stock options granted in 2016 vest a third every six months and are fully vested eighteen months after the date of grant. No stock options were exercisable as at March 31, 2017 (2016 – Nil). The Company uses a graded vesting methodology to expense the options over the vesting period. The Company recorded share based payments of \$67 (2016 - \$Nil) during the three months ended March 31, 2017. The fair value of the stock options granted was estimated using the Black-Scholes option pricing model with the following weighted-average inputs:

For the period ended March 31,	2017	2016
Per option fair value at grant date (CAD\$)	\$0.029	Nil
Volatility	68%	Nil
Expected option life	10 years	Nil
Dividends	Nil	Nil
Risk-free interest rate	1.0%	Nil

(b) Restricted stock units

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

During the three months ended March 31, 2017, the Company cancelled 1,224,547 RSUs granted to the CEO as per its election. There remains 1,224,548 RSU’s subject to vesting on January 23, 2018. During the three months ended March 31, 2017, the Company recorded share based payments of \$Nil (2016 – \$8) which represents the graded vesting methodology of the RSUs over the vesting period. This amount is offset against the accrued payable to the CEO. As summary of the RSU continuity is presented below:

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	Number of RSUs	Price (CAD)
Balance as at January 1, 2016	3,673,642	\$ 0.05
RSUs exercised	(1,224,547)	0.05
Balance at December 31, 2016	2,449,095	\$ 0.05
RSUs cancelled	(1,224,547)	0.05
Balance at March 31, 2017	1,224,548	\$ 0.05

15 Income (loss) per share

Three months ended March 31,	2017	2016
Numerator		
Income for the period - basic and diluted	\$ 916	\$ 1,457
Denominator (in 000's)		
Weighted average shares - basic	312,015	311,746
Effect of warrants	-	-
Effect of stock options	-	-
Effect of RSUs	-	-
Weighted average shares - diluted	312,015	311,746
Basic income per share	\$ 0.00	\$ 0.00
Diluted income per share	\$ 0.00	\$ 0.00

16 Selling and general administrative expenses

Three months ended March 31,	2017	2016
Salaries	\$ 623	\$ 536
Office and administration	186	160
Consulting fees	124	54
Travel	72	92
Professional fees	26	207
Business development and investor relations	-	9
Exploration expenses	-	34
	\$ 1,031	\$ 1,092

17 Operating segments

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

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	Ukraine	Canada	USA	Total
Three months ended March 31, 2017				
Revenue, net of royalties	\$ 4,011	\$ -	\$ -	\$ 4,011
Income from equity investment	2,063	-	-	2,063
Expenses	(4,311)	(200)	(647)	(5,158)
Net income (loss)	\$ 1,763	\$ (200)	\$ (647)	\$ 916
Three months ended March 31, 2016				
Revenue, net of royalties	\$ 1,065	\$ -	\$ -	1,065
Income from equity investment	1,653	-	-	1,653
Expenses, excluding gain on sale of subsidiary	(726)	(339)	(431)	(1,496)
Gain on sale of subsidiary	235	-	-	235
Net income (loss)	\$ 2,227	\$ (339)	\$ (431)	\$ 1,457
As at March 31, 2017				
Property, plant and equipment	\$ 8,043	\$ -	\$ 212	\$ 8,255
Total assets	\$ 28,591	\$ 2,712	\$ 361	\$ 31,664
Total liabilities	\$ 6,452	\$ 3,170	\$ 707	\$ 10,329
As at December 31, 2016				
Property, plant and equipment	\$ 7,223	\$ -	\$ 230	\$ 7,453
Total assets	\$ 27,685	\$ 1,905	\$ 586	\$ 30,176
Total liabilities	\$ 5,890	\$ 3,283	\$ 731	\$ 9,904

The Company has two principal reportable segments being the revenue from the sale of gas from the Company's RK field and revenue from gas trading. These reportable segments were determined based on the source of the gas obtained by the Company for sale. Reportable segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

Amounts relating to the gas trading segment include revenue from gas trading and cost of sales for gas trading. There are no other revenue, expenses, or non-current assets that relate to this segment.

For the three months ended March 31, 2017, there were three (2016 - Nil) customers which each accounted for greater than 10% of total gas trading revenue, and the revenues amounted to \$715, \$522 and \$441 (2016 - \$Nil). For the three months ended March 31, 2016, there were Nil (2016 - two) customers which each accounted for greater than 10% of total gas revenue, and the revenues amounted to \$Nil (2016 - \$1,003 and \$453).

18 Commitments and contingencies**Ukraine**

The Company has an obligation to incur certain capital expenditures to comply with the Ukrainian licence requirements. Under these licence maintenance commitments, the Company is required to explore its licenced

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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 2017 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 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 three months ended March 31, 2017, one of the two NGO lawsuits against SGS was dismissed by the Ukraine courts.

19 Related party transactions

Transactions with related parties are incurred in the normal course of business. During the three months ended March 31, 2017 and 2016, there were no related party transactions other than the Pelicourt line of credit (Note 10) and the transactions with KUB-Gas (Notes 5, 11, 12 and 23).

20 Key management compensation

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

Three months ended March 31,		2017		2016
Directors' fees	\$	38	\$	46
Directors' share-based compensation		9		-
Management wages		262		262
Management share-based compensation		31		-
Total	\$	340	\$	308

As at March 31, 2017, \$816 (December 31, 2016 - \$867) was included in trade and other payables owing to the CEO for his 2014 to 2016 accrued compensation.

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21 Financial risk management

(a) Overview

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

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

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

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, trade and other receivables (excluding sales tax), and non-current receivables.

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

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

As at	March 31, 2017	December 31, 2016
Cash	\$ 3,776	\$ 4,585
Trade and other receivables (excludes sales tax)	603	1,358
Dividend receivable	975	-
Non-current receivables	594	340
	\$ 5,948	\$ 6,283

(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.

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

The Company has a fully drawn \$2,000 Pelicourt line of credit. See Note 10. As at March 31, 2017, the Company had current assets of \$6,104 and had the following financial liabilities:

As at March 31, 2017				
	Carrying Amount	Contractual Cash Flows		< 1 year
Trade and other payables	\$ 3,223	\$ 3,223	\$ 3,223	3,223
Line of credit	2,000	2,000		-
Loan from KUB-Gas	3,087	6,367		-
Loan from KUB-Gas - current portion	1,662	1,662		1,662
Provisions	357	-		-
	\$ 10,329	\$ 13,252	\$ 4,885	

(d) Foreign exchange risk

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

As at March 31, 2017					
	UAH	€	CAD	Total	
Cash	\$ 1,986	\$ 481	\$ 9	\$ 2,476	
Trade and other receivables	981	-	1	982	
Inventory	259	-	-	259	
Trade and other payables	(1,323)	-	(70)	(1,393)	
Loan from KUB-Gas	(4,749)	-	-	(4,749)	
Provisions	(357)	-	-	(357)	
	\$ (3,203)	\$ 481	\$ (60)	\$ (2,782)	
Effect of +/- 10% change in foreign exchange rate	\$ (320)	\$ 48	\$ (6)	\$ (278)	

(e) Interest Rate

The Company has a \$2,000 line of credit (see Note 10) which is due to be repaid January 31, 2019. The line of credit's interest rate is 12% at March 31, 2017.

(f) Commodity price

The Company is exposed to risks due to fluctuations in the price of natural gas in the Ukraine. The domestic gas price within Ukraine is set by the National Electricity Regulatory Commission of Ukraine and historically referenced to the Russian imported gas price. More recently, the Company believes the natural gas prices in Ukraine are starting to reference market prices. The Company has no commodity hedge program in place which could potentially mitigate the price risk. During the three months ended March 31, 2017, the Company sold gas to its customers at an average price of \$6.88 per thousand cubic feet. A 10% fluctuation in the average

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price of gas assuming the same quantity sold, would have impacted the Company's revenue from gas sales by approximately \$150.

(g) 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 shareholders' equity, comprised of issued share capital, contributed surplus, warrants, accumulated other comprehensive loss and deficit in the definition of capital. As at March 31, 2017, the Company has total shareholders' equity of \$21,335 (December 31, 2016 - \$20,272). The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund its exploration and development work programs. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity, debt or by securing strategic partners.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the three months ended March 31, 2017.

22 Financial instruments

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

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

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

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

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

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

As at	March 31, 2017	December 31, 2016
Fair value through profit or loss (i)	\$ 3,776	\$ 4,585
Loans and receivables (ii)	\$ 3,147	\$ 1,698
Other financial liabilities (iii)	\$ 9,972	\$ 9,558

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	Level 1	Level 2	Level 3	Total
As at March 31, 2017				
Cash	\$ 3,776	\$ -	\$ -	\$ 3,776
As at December 31, 2016				
Cash	\$ 4,585	\$ -	\$ -	\$ 4,585

23 Subsequent event

Subsequent to the three months ended March 31, 2017, the Company received dividends of \$975 from KUB Holdings. See Note 5.