CUB ENERGY INC

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017

Introduction

The following management discussion and analysis ("MD&A") is a review of operations, current financial position and outlook for Cub Energy Inc. (the "Company" or "Cub") and should be read in conjunction with the unaudited condensed consolidated interim financials for the three months ended March 31, 2018 and 2017. Amounts are reported in United States dollars, unless otherwise stated, based upon the financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A is dated as of May 15, 2018.

This MD&A provides management's view of the financial condition of the Company and the results of its operations for the reporting periods indicated. Additional information related to the Company and risk factors is available in the Company's Annual Information Form ("AIF") as filed on the Canadian Securities Administrators' website at www.sedar.com or on the Company's website at www.cubenergyinc.com.

Corporate Overview and Strategy

The Company is a publicly-traded, international energy company engaged in exploration and development of onshore oil and gas properties in Ukraine. Key to success in this region is the Company's strong local relationships, key operating partnerships and a history of management experience operating in-country.

Current production is driven by a 35% interest in KUB-Gas LLC ("KUB-Gas") in eastern Ukraine and the Company's 100% operated interest in western Ukraine in Tysagaz LLC ("Tysagaz"). The Company also holds a 50% interest in CNG Holdings Netherland B.V. ("CNG Holdings") which in turn owns CNG LLC ("CNG LLC") to jointly explore a production licence in western Ukraine.

Barrels of Oil Equivalent Conversion

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

Forward Looking Information

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

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

Reported Results and Equity Investment

As at March 31, 2018, the Company had an effective 35% ownership interest in KUB-Gas, a Ukrainian company which owns assets representing a substantial portion of the Company's core operating properties, income and cashflow. The Company also owns 100% ownership of Tysagaz, whose producing assets are in western Ukraine but have been suspended since April 1, 2016 other than minor production from RK-1 testing. In addition, the Company has an effective 50% ownership interest in CNG LLC, a Ukrainian company with a production licence in western Ukraine that has no current production.

All of the KUB-Gas shares are held through KUBGAS Holdings Limited ("KUB Holdings"), a private company incorporated in Cyprus, which at March 31, 2018 was 35% owned by the Company. The results for the three months ended March 31, 2018 reflect the 35% ownership in KUB Holdings. The Company does not control KUB Holdings nor CNG Holdings and is required under IFRS to record their investment under the equity method of accounting. In doing so, it reports none of the revenues, royalties or production expenses for KUB Holdings and CNG Holdings within its consolidated statements of operations and cash flows. Similarly, the Company does not report the individual consolidated assets and liabilities of KUB Holdings and CNG Holdings on its consolidated statements of financial position.

The historical 35% share of the net assets of KUB Holdings and 50% share of net assets of CNG Holdings attributable to the Company are presented as an "Equity investments" within non-current assets on the consolidated statement of financial position. Net profits or losses from the historical 35% interest of KUB Holdings and 50% of CNG Holdings are presented as a single line item "income from equity investment" on the consolidated statements of operations.

A substantial portion of the financial analysis in this MD&A does not reflect the Company's interest in the results of KUB Holdings and CNG Holdings. The table below summarizes the results reported by the Company in accordance with IFRS, then deducts the single line item "income from equity investment" and adds the 35% KUB Holdings share and 50% CNG Holdings share allocable to its equity investment to reflect the gross results of operations attributable to the Company's 35% and 50% economic interest, respectively, and finally the pro-rata net to Cub results which is a non-IFRS measure.

Three months ended March 31, 2018	As Reported	Deduct Equity Investments	Add Allocated from Equity Investments	Pro-rata Net to Cub
Average Daily Production (boe/d)	-	-	837	837
Revenue from gas sales	$ -	$ -	$ 3,427,000	$ 3,427,000
Revenue from gas trading[(1)]	5,670,000	(5,516,000)	-	154,000
Royalty	-	-	(1,024,000)	(1,024,000)
Gross profit	**5,670,000**	**(5,516,000)**	**2,403,000**	**2,557,000**
Income from equity investment	1,706,000	(1,706,000)	-	-
Operating expenses				
Cost of sales for gas trading[(1)]	5,516,000	(5,616,000)	-	-
Selling and general administrative	826,000	-	2,000	828,000
Depletion and depreciation	30,000	-	261,000	291,000
Cost of sales	-	-	302,000	302,000
Finance loss (income), net	199,000	-	(280,000)	(81,000)
Share-based payments	15,000	-	-	15,000
Accretion and decommissioning Obligation	11,000	-	5,000	16,000
	6,597,000	**(5,616,000)**	**290,000**	**1,371,000**
Income (loss) before tax	**779,000**	**(1,706,000)**	**2,113,000**	**1,186,000**
Income tax expense	**-**	**-**	**(407,000)**	**(407,000)[(2)]**
Net income (loss)	**$ 779,000**	**$ (1,706,000)**	**$ 1,706,000**	**$ 779,000**

Three months ended March 31, 2018	As Reported	Deduct Equity Investments	Add Allocated from Equity Investments	Pro-rata Net to Cub
Netback ($/boe)				
Revenue	-	-	$43.53	$43.53
Royalty	-	-	(13.59)	(13.59)
Production expenses	-	-	(4.01)	(4.01)
Field netback ($/boe)	**-**	**-**	**$ 25.93**	**$ 25.93**
Field netback ($/mcfe)	**-**	**-**	**$ 4.32**	**$ 4.32**

(1) Commencing August 2016, the Company's wholly-owned subsidiary, Tysagaz, began taking possession of its 35% ownership of gas produced at KUB-Gas. Tysagaz purchased its share of gas from KUB-Gas at the same price that KUB-Gas sold its gas to an affiliate of the majority owner. The Company agreed to this arrangement so it could attempt to earn additional net income from the gas sales price to the majority owner's affiliate. During the three months ended March 31, 2018, the Company recorded $5,670,000 in gas sales and $5,516,000 as the cost of the sales for a net profit from gas trading of $154,000. For purposes of these pro-rata disclosures, the cost of sales is eliminated as it's already included in the equity investment revenue.

(2) The pro-rata income tax expense represents the income tax incurred at KUB-Gas, the Company's 35% owned Ukraine subsidiary, which had material net income during the three months ended March 31, 2018. The effective income tax rate for KUB-Gas was 20%.

Results of Operations

(in thousands of US Dollars)	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Petroleum and natural gas revenue	-	18
Pro-rata petroleum and natural gas revenue(1)	3,427	4,183
Revenue from gas trading(2)	5,670	3,995
Net income	779	916
Income per share – basic and diluted	0.00	0.00
Funds generated from operations(3)	397	(990)
Pro-rata funds generated from operations(4)	(3,232)	1,391
Capital expenditures(5)	134	798
Pro-rata capital expenditures(5)	335	1,468
Pro-rata netback ($/boe)	25.93	27.50
Pro-rata netback ($Mcfe)	4.32	4.58

	March 31, 2018	December 31, 2017
Working capital (deficit)	(1,094)	(478)
Cash and cash equivalents	6,988	6,190
Long-term debt	4,770	5,451

Notes:

(1) Pro-rata petroleum and natural gas revenue is a non-IFRS measure that adds the Company's petroleum and natural gas revenue earned in the respective periods to the Company's 35% equity share of the KUB-Gas natural gas sales that the Company has an economic interest in.

(2) During the three months ended March 31, 2018, the Company recorded $5,670,000 (2017 - $3,995,000) in revenue for gas trading and $5,516,000 (2017 - $3,835,000) for the cost of the sales for a net profit from gas trading of $154,000 (2017 - $160,000).

(3) Funds from operations is a non-IFRS measure and is defined as cash flow from operating activities, excluding changes in non-cash working capital.

(4) Pro-rata funds from operations is a non-IFRS measure that adds the Company's funds from operations in the respective periods to the Company's 35% equity share of the KUB-Gas and 50% equity share of CNG Holdings funds from operations that the Company has an economic interest in.

(5) Capital expenditures includes the purchase of property, plant and equipment and the purchase of exploration and evaluation assets. Pro-rata capital expenditures are a non-IFRS measure that adds the Company's capital expenditures in the respective periods to the Company's 35% equity share of the KUB-Gas and 50% equity share of CNG Holdings capital expenditures that the Company has an economic interest in.

Highlights

- The Company reported income from equity investment of $1,706,000 during the three months ended March 31, 2018 as compared to income of $2,063,000 in the comparative 2017 period.
- The Company reported net income of $779,000 or $0.00 per share during the three months ended March 31, 2018 as compared to net income of $916,000 or $0.00 per share during the comparative 2017 period.
- The Company made a loan repayment of $1,067,000 to KUB-Gas during the first quarter of 2018 in conjunction with its maturity.
- During the three months ended March 31, 2018, the Company received $1,054,000 in dividends from KUB Holdings as compared to $282,000 in dividends in the comparative 2017 period.
- Production averaged 837 boe/d (97% weighted to natural gas and the remaining to condensate) for the three months ended March 31, 2018, which decreased 24% as compared to the 1,107 boe/d average during the comparative 2017 period.
- Netbacks of $25.93/boe or $4.32/Mcfe for the three months ended March 31, 2018 as compared to netback of $27.50/Boe or $4.58/Mcfe for the comparative 2017.
- Achieved average natural gas price of $7.16/Mcf and condensate price of $60.60/bbl during the three months ended March 31, 2018 as compared to $6.88/Mcf and $62.70/bbl for the comparative 2017 period.
- On December 30, 2017, a new law was passed in Ukraine reducing the royalties on new wells drilled after January 1, 2018 to 12% from 29% for a period of five years.
- On March 1, 2018, a new law was passed in Ukraine intended to simplify regulatory procedures for the oil and gas sector which should increase the speed and efficiency of approvals.
- The new Nitrogen Rejection Unit ("NRU") is being constructed and the Company expects to re-commence production on the wholly-owned RK field in western Ukraine in the latter half of 2018.
- The Company and its partner plan to start a three well exploration program at Uzhgorod in the latter half of 2018.
- KUB-Gas expects to spud the first well on the West Olgovskoye field in the first half of 2018.

Eastern Ukraine KUB-Gas Assets (35%)

KUB-Gas completed a 150 kilometer 2D seismic survey on the West Olgovskoye licence in eastern Ukraine in 2017. KUB-Gas will utilize the seismic survey to further delineate the best location for a 3D seismic survey with the goal of identifying drill targets. KUB-Gas anticipates drilling its first exploration well on the West Olgovskoye licence in the first half of 2018 and commencing a 3D seismic program to delineate structures already found from 2D seismic surveys.

Western Ukraine Tysagaz Assets (100% Interest)

The RK field was suspended on April 1, 2016 due to the nitrogen content exceeding the allowable limit per local pipeline specifications. The Company is purchasing a new nitrogen rejection unit ("NRU") to re-commence production on the RK field. The new NRU is being manufactured in the United States by Sep-Pro Systems Inc. (www.sepprosystems.com), which specializes in the design and manufacture of NRUs, as well other separation and recovery processes in the oil and gas sector. The new NRU is expected to be operational in the latter half of 2018.

Western Ukraine CNG Assets (50% Interest)

During 2017, CNG LLC completed a 118 square kilometre 3D seismic survey on the Uzhgorod production licence in western Ukraine. The results were interpreted and identified multiple drill targets. The Company and its partner plan to start a three well exploration program at Uzhgorod in the latter half of 2018.

Ukraine Gas Prices and Currency

The Ukrainian exchange, the Hryvnya ("UAH") rate versus the USD was 26.3 UAH/USD at March 31, 2018, which appreciated 7% compared to the 28.1 UAH/USD at December 31, 2017.

During the three months ended March 31, 2018, gas prices realized were $7.16/Mcf which was slightly higher than the 2017 comparative period price of $6.88/Mcf. The future of natural gas prices in Ukraine is currently subject to a high degree of uncertainty and it is unknown what the future prices the Company will receive on its Ukraine production.

Ukraine Cross-Border Dividend and Going Concern

In 2014, the NBU issued a temporary resolution which, among other things, prohibits the payment of cross-border dividends. On June 7, 2016, the NBU eased certain capital controls by allowing Ukraine companies to issue limited dividends related directly to 2014, 2015 and 2016 earnings. The recent amendments allow KUB-Gas to issue up to a maximum of $5 million in dividends per month. During the three months ended March 31, 2018, the Company received dividends of $1,054,000 from Kub Holdings and subsequent to March 31, 2018, the Company received a further $1,344,000 in dividends from Kub Holdings.

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

Summary of Quarterly Results

The following table sets out selected unaudited consolidated financial information for each of the last eight quarters ended up to and including March 31, 2018. The information contained herein is taken from the consolidated financial statements of the Company for each of the aforementioned quarters.

Quarter Ended	Mar 31, 2018	Dec 31, 2017	Sept 30, 2017	June 30, 2017
Revenue from gas sales	-	-	-	6,000
Revenue from gas trading	5,670,000	3,957,000	3,107,000	2,040,000
Income from equity				
Investment	1,706,000	2,042,000	1,148,000	1,514,000
Operating expenses	6,597,000	21,279,000	4,236,000	3,545,000
Net income (loss)	779,000	(15,290,000)	17,000	15,000

Income (loss) per share	0.00	(0.05)	0.00	0.00
Working Capital (deficit)	(1,094,000)	(478,000)	(442,000)	556,000

Quarter Ended	Mar 31, 2017	Dec 31, 2016	Sept 30, 2016	June 30, 2016
Revenue from gas sales	18,000	-	-	-
Revenue from gas trading	3,995,000	4,793,000	2,122,000	-
Income (loss) from equity Investment	2,063,000	1,272,000	1,498,000	1,574,000
Operating expenses	5,158,000	6,335,000	1,421,000	991,000
Net income (loss)	916,000	(308,000)	2,199,000	583,000
Income (loss) per share	0.00	(0.00)	0.01	0.00
Working Capital (deficit)	1,219,000	3,255,000	822,000	(2,467,000)

Material Variations in Quarterly Results

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

There were impairment charges that impacted net losses in 2017. During the three months ended December 31, 2017, the Company recorded impairment charges due to the carrying value of its petroleum and natural gas assets exceeding the net present value of expected future cash flows using a discount rate of 26%. The high discount rate relates to the local discount rate in Ukraine and related country risk at that time. During the fourth quarter of 2017, the Company took a $5,300,000 impairment charge relating to the RK field and an impairment on its equity investment in Kub Holdings of $10,700,000.

Revenue from Gas Sales, Net of Royalty

The RK Field in western Ukraine was suspended effective April 1, 2016 and had minor production from testing in 2017.

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

Commencing August 2016, the Company's wholly owned subsidiary, Tysagaz, began taking possession of some of its 35% ownership of gas produced at KUB-Gas. Tysagaz purchased the gas from KUB-Gas at the same price that KUB-Gas sold its gas to an affiliate of the majority shareholder of KUB-Gas. The Company agreed to this arrangement so it could attempt to earn additional net income from the gas sales price sold to the majority owner's affiliate. During the three months ended March 31, 2018, the Company recorded $5,670,000 in gas trading revenue and $5,516,000 for the cost of the gas trading for a net profit of $154,000 as compared to $3,995,000 in gas sales and $3,835,000 for the cost of the sales for a net profit from gas trading of $160,000 during the comparative 2017 quarter.

Income from Equity Investments

The Company accounts for its 35% indirect ownership in KUB Holdings as an investment under the equity method. During the three months ended March 31, 2018, KUB-Gas generated gross revenues of approximately $9,791,000 (2017 - $11,901,000) and had net income of $4,872,000 (2017 – $5,984,000). This resulted in a net income to the Company from its equity investment for the quarterly period of $1,706,000 (2017 – $2,095,000).

The net income from the Company's 50% ownership of CNG Holdings was $8,000 (2017 – net loss of $33,000) during the three months ended March 31, 2018. Net income and losses in both periods primarily related to finance income/losses, effects of foreign exchange and general and administrative costs to support the exploration activities. The Company only records income/losses in its consolidated financial statements from its equity investment in CNG Holdings to the extent of interest in the equity investment which amounted to nil for the three months ended March 31, 2018 versus 2017 when the full loss of $33,000 was recorded.

Selling and General Administrative Expenses

Selling and general administrative expenses were $826,000 during the quarter ended March 31, 2018, as compared to $1,031,000 in the comparative 2017 quarter for a decrease of $205,000. Some of the significant items contained within selling and general administrative expenses are as follow:

Salaries

During the first quarter of 2018, salaries to staff and director's fees were $577,000 which was relatively flat compared to $623,000 during the comparative 2017 quarter.

Office and administration

Office and administration costs were $151,000 in the first quarter ended March 31, 2018, as compared to $186,000 in the comparative 2017 quarter. During both three month periods, administrative costs absorbed certain overhead costs at Tysagaz that were previously allocated to cost of sales before the suspension of the RK field on April 1, 2016.

Consulting

Consulting fees were $11,000 during the first quarter which decreased significantly from the 2017 comparative quarter when the consulting fees were $124,000. During 2017, the Company retained several technical consultants in to assists in the evaluation and optimization of the old NRU.

Professional fees

Professional fees were $39,000 during the first quarter ended March 31, 2018 as compared to $26,000 in the comparative 2017 quarter. The Company's professional costs include the costs of being a public issuer including third party legal advice, engineering reports and financial audits.

Travel

The Company incurred travel costs of $43,000 in the first quarter of 2018 and as compared to $72,000 in the comparative 2017 period. Travel expenses include costs associated with international operations and meetings with the Company's equity partners.

Share Based Payments

The Company recorded share based payments of $15,000 for the three months ended March 31, 2018, for the vesting of stock options to directors, officers, employees and consultants as determined by the Black-Scholes option price model as compared $67,000 for the comparative 2017 period.

Net Profit

During the quarter ended March 31, 2018, the Company recorded net income of $779,000 or $0.00 per share as compared to net income of $916,000 or $0.00 per share in the comparative 2017 quarter.

Foreign Currency Translation Income/Loss

During the first quarter ended March 31, 2018, the foreign currency translation income was $1,458,000 as compared to $300,000 in the comparative 2017 quarter. The income relates to the revaluation of the Company's foreign assets and liabilities from the local currency (Ukrainian, Canadian and European currencies) to the US dollar in accordance with the Company's accounting policy for the translation of its subsidiaries. The carrying value of the assets of the Ukrainian subsidiaries were materially impacted by the volatility of the local currencies in the past. During the first quarter ended March 31, 2018, the UAH appreciated approximately 7% as compared to no material change in the UAH in the comparative 2017 period. The appreciation/devaluation materially raises/lowers the carrying value of the Ukrainian property, plant and equipment and the value of the equity investment in KUB Holdings. These gains/losses do not impair the ability of those assets or liabilities to perform their intended purpose.

Liquidity, Capital Resources and Financings

At March 31, 2018, the Company had a cash balance of $6,988,000 (December 31, 2017 - $6,190,000) and a working capital deficit of $1,094,000 (December 31, 2017 – $478,000). The Company had no long-term debt or capital leases other than the shareholder loans and KUB-Gas loans. Approximately $2,750,000 of the shareholder loans are classified as current liabilities as their maturity dates are within twelve months or less. The Company is negotiating an extension of the loans although there are no assurances extensions will be provided. The Company has historically been able to raise funds through the issuance of common shares or debt although there are no assurances funds will be able in the future. Given the current geopolitical situation in Ukraine, the restrictions on the cross-border dividends and the Company's stock price, the Company does not believe it will be able to attract equity or debt at the present time or, if it is, on commercially reasonable terms.

The Company has a $2,000,000 secured shareholder loan with Pelicourt, a related party to the Company. The shareholders loan bears interest at 12% per annum payable quarterly and the principal of the shareholder loan is due on January 31, 2019 but cannot be repaid until the $1,000,000 shareholder loan, described below, is repaid in full. Pelicourt was granted security over Gastek which indirectly owns the 35% interest in KUB-Gas. The security is available on an event of default and limited only to the amount owing on the shareholder loan including principal and interest.

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

During the three months ended March 31, 2018, the Company received $1,054,000 in dividends from KUB Holdings as compared to $282,000 in dividends in 2017. Subsequent to March 31, 2018, the Company received a further $1,344,000 in dividends from KUB Holdings. The Company used the cash proceeds to repay $1,067,000 of its loan to Kub-Gas during the first quarter of 2018 as compared to no loan repayments in 2017.

During the three months ended March 31, 2018, the Company expended $134,000 on capital expenditures as compared to $798,000 in 2017, which is largely related to the NRUs.

During the three months ended March 31, 2018, KUB-Gas incurred approximately $291,000 (2017 - $475,000) of capital expenditures on property, plant and equipment of which the Company's 35% equity share was $102,000 (2017 - $166,000). The capital expenditures during 2018 related to the planning for the West Olgovskoye drilling and 3D seismic programs and for 2017 the capital primarily related to the start-up costs of the O-26 well. CNG Holdings had capital expenditures of approximately $199,000 for the interpretation of the 3D seismic program and procurement for the anticipated 2018 drill program as compared to 2017 when CNG incurred $1,008,000 related to the 3D seismic acquisition which was largely paid by the company's 50% equity partner.

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

Off Balance Sheet Arrangements

The Company has no material off balance sheet arrangements in place other than a 25,000,000 UAH ($952,000) bank guarantee at Tysagaz which was established to guarantee its gas trading business with the pipeline operator. Tysagaz pays a 3% fee per year to keep the guarantee in place.

Outlook

The Company expects KUB-Gas to drill two wells in 2018. It's expected that the first well will be drilled at the West Olgovskoye licence in the first half of 2018 and one well will be drilled at either the Olgovskoye or Makeevskoye licences later in 2018. KUB-Gas is also planning a 3D seismic program on the West Olgovskoye licence to delineate known structures found from 2D seismic.

In western Ukraine, the Company is purchasing a new NRU with a goal of resuming production at the RK field which is estimated to be the latter half of 2018. Also in western Ukraine, the Company and its partner plan to start a three well exploration program at Uzhgorod in the latter half of 2018.

Outstanding Share Data

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

Type	Number
Common Shares	314,215,355
Stock Options	17,500,000
Restricted Stock Units	-
Total Issued and Outstanding	331,715,355

Commitments and Contingencies

Ukraine

The Company has an obligation to incur certain capital expenditures to comply with the Ukrainian licence requirements. Under these licence maintenance commitments, the Company is required to explore its licenced fields. Although these commitments are not binding and may be modified based on results of work, the Company's potential capital expenditures relating to qualifying activities on gas and gas condensate fields will be material during the period from 2018 to 2022 as part of the planned exploration and development programs. Justified deviation from the capital expenditures is permitted and should be agreed with the licensor, while failure to commit exploration works and substantiate the different capital expenditure schedule may result in termination of the exploration licence.

Office Space

The Company has a lease agreement for office space in Houston, Texas which expires in May 2020. The commitment is approximately $166,000 per year for the term of the lease.

Lawsuits

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

Transactions with Related Parties

Transactions with related parties are incurred in the normal course of business. During the three months ended March 31, 2018 and 2017, there were no related party transactions other than the shareholder loans and KUB-Gas loans - see "Liquidity, Capital Resources and Financing".

Critical Accounting Estimates

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

- To value the equity investment in KUB Holdings, management obtains financial information from the majority owner. The recoverability of the Company's equity investment in KUB Holdings is subject to all estimates included in the financial information from the majority owner, as well as estimates of the recoverable amount of the natural gas reserves held by its wholly-owned subsidiary KUB-Gas. Additionally, the Company estimates the ability of KUB Holdings to generate future dividends and ability to repatriate funds from Ukraine due to limited dividend restrictions.
- 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 of property, plant and equipment and the assessment of these assets for impairment which includes petroleum and natural gas interests are based on estimates of proved and probable reserves, natural gas prices, future costs, royalty payments and taxes, timing, and other relevant assumptions. By their nature, the estimates of reserves are subject to measurement

uncertainty. Changes in these variables could significantly impact the reserves estimates which would affect estimates of recoverable amounts, and depletion and depreciation expense. The Company's natural gas reserves are evaluated annually and reported to the Company by independent qualified reserves evaluators. The Company expects that its estimates of reserves will change to reflect updated information. Reserve estimates can be revised upward or downward based on the results of future drilling, testing, production levels, and changes in costs, and commodity prices.

- Amounts recognized for decommissioning obligations 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 restricted stock units (RSU) are based on the fair value at the date of issuance. These instruments are subject to the estimation using pricing models such as the Black-Scholes option pricing model, which is based on assumptions such as volatility, dividend yield, risk free rate of return and expected term. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.
- Tax interpretations, regulations and legislations in the jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.
- Judgment is required to determine the functional currency of the parent and its subsidiaries. These judgments are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances, including analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates.*
- Judgement is required to determine if its petroleum and natural gas interests (RK field) is impaired due to its suspension since April 1, 2016. The Company committed to purchase a new NRU. However, until the new NRU is operational and the RK field is producing pipeline quality gas, there will be uncertainty regarding the value of the RK field.
- The Company applies judgment in assessing its ability to continue as a going concern for at least 12 months. In making this assessment, the Company considers the facts and circumstances disclosed elsewhere in this MD&A. The Company concluded that there is a material uncertainty that may cast doubt on its ability to continue as a going concern.

New Standards and Interpretations not yet adopted

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

- IFRS 9: New standard that replaced IAS 39 for classification and measurement, tentatively effective for annual periods beginning on or after January 1, 2018. The adoption of this Standard is not expected to have a significant impact on the Company's consolidated financial statements.
- 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. The adoption of this Standard is not expected to have a significant impact on the Company's consolidated financial statements.

- 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. The Company is currently assessing the impact of this Standard on the consolidated financial statements.

Financial Instruments and Other Instruments

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

Non-IFRS Measures

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