



## **Condensed consolidated interim financial statements**

For the three and nine months ended September 30, 2019 and 2018

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

(Unaudited)

### **Notice of No Auditor Review of Interim Financial Statements**

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

The accompanying unaudited condensed consolidated interim financial statements of Cub Energy Inc. (the "Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada 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 Operations and Comprehensive Income (Loss)**

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

|   |        | Three months ended September 30, |                 | Nine months ended September 30, |                 |
|---|--------|----------------------------------|-----------------|---------------------------------|-----------------|
|   | Note   | 2019                             | 2018            | 2019                            | 2018            |
| Revenue from gas sales  |        | \$ 62                            | \$ 50           | \$ 188                          | \$ 68           |
| Revenue from gas trading                                      | 5      | 2,514                            | 4,848           | 9,968                           | 13,597          |
| Royalty expense   |        | (14)                             | (14)            | (54)                            | (19)            |
| <b>Revenue, net of royalty</b>                                |        | <b>2,562</b>                     | <b>4,884</b>    | <b>10,102</b>                   | <b>13,646</b>   |
| <b>Income from equity investment</b>                          | 5, 6   | <b>471</b>                       | <b>1,786</b>    | <b>2,350</b>                    | <b>4,953</b>    |
| <b>Operating expenses</b>                                     |        |                                  |                 |                                 |                 |
| Cost of sales for gas trading                                 | 5      | 2,432                            | 4,481           | 9,288                           | 12,874          |
| Selling and general administrative expenses                   | 17     | 881                              | 737             | 2,554                           | 2,467           |
| Finance loss (gain), net                                      | 11, 12 | 122                              | 236             | 28                              | 530             |
| Cost of sales   |        | 54                               | 44              | 182                             | 64              |
| Depletion and depreciation                                    | 7      | 24                               | 24              | 73                              | 100             |
| Accretion of decommissioning obligation                       | 7      | 17                               | 11              | 50                              | 32              |
| Loss on sale of property plant and equipment                  | 7      | -                                | -               | 17                              | -               |
| Share-based payments  | 15, 21 | -                                | 4               | -                               | 24              |
|   |        | 3,530                            | 5,537           | 12,192                          | 16,091          |
| <b>Net income (loss)</b>                                      |        | <b>(497)</b>                     | <b>1,133</b>    | <b>260</b>                      | <b>2,508</b>    |
| <b>Other comprehensive income (loss)</b>                      |        |                                  |                 |                                 |                 |
| Items that may be reclassified to profit or loss              |        |                                  |                 |                                 |                 |
| Foreign currency translation adjustment on foreign operations |        | 1,832                            | (1,721)         | 3,011                           | (376)           |
| <b>Comprehensive income</b>                                   |        | <b>\$ 1,335</b>                  | <b>\$ (588)</b> | <b>\$ 3,271</b>                 | <b>\$ 2,132</b> |
| <b>Income (loss) per share</b>                                |        |                                  |                 |                                 |                 |
| Basic   | 16     | (0.00)                           | \$ 0.00         | \$ 0.00                         | \$ 0.01         |
| Diluted   | 16     | (0.00)                           | \$ 0.00         | \$ 0.00                         | \$ 0.01         |

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<br>shares | Share capital | Contributed<br>surplus | Other reserve | Share of<br>change in<br>equity in<br>associated<br>company | Accumulated other<br>comprehensive loss | Deficit     | Total     |
|--|-------------|---------------------|---------------|------------------------|---------------|---|---|-------------|-----------|
| Balances as at January 1, 2018           |             | 312,015,355         | \$ 62,057     | \$ 5,430               | \$ 2,509      | \$ (2,187)  | \$ (45,585)                             | \$ (16,433) | \$ 5,791  |
| Share-based payments                     | 15          | -                   | -             | 24                     | -             | -   | -                                       | -           | 24        |
| Currency translation adjustment          |             | -                   | -             | -                      | -             | -   | (376)                                   | -           | (376)     |
| Net income                               |             | -                   | -             | -                      | -             | -   | -                                       | 2,508       | 2,508     |
| <b>Balances as at September 30, 2018</b> |             | 312,015,355         | 62,057        | 5,454                  | 2,509         | (2,187)   | (45,961)                                | (13,925)    | 7,947     |
| Balances as at January 1, 2019           |             | 314,215,355         | \$ 62,057     | \$ 5,454               | \$ 3,787      | \$ (2,187)  | \$ (45,533)                             | \$ (13,355) | \$ 10,223 |
| Related party contributions              | 12          | -                   | -             | -                      | (1,594)       | -   | -                                       | -           | (1,594)   |
| Currency translation adjustment          |             | -                   | -             | -                      | -             | -   | 3,011                                   | -           | 3,011     |
| Net income                               |             | -                   | -             | -                      | -             | -   | -                                       | 260         | 260       |
| <b>Balances as at September 30, 2019</b> |             | 314,215,355         | \$ 62,057     | \$ 5,454               | \$ 2,193      | \$ (2,187)  | \$ (42,522)                             | \$ (13,095) | \$ 11,900 |

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

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

|   | <i>Note</i> | Three month ended September 30, |          | Nine month ended September 30, |          |
|---|-------------|---------------------------------|----------|--------------------------------|----------|
|   |             | 2019                            | 2018     | 2019                           | 2018     |
| <b>Operating activities</b>                             |             |                                 |          |                                |          |
| Net income (loss)                                       |             | \$ (497)                        | \$ 1,133 | \$ 260                         | \$ 2,508 |
| <i>Adjustments for:</i>                                 |             |                                 |          |                                |          |
| Income from equity investment                           | 5           | (471)                           | (1,786)  | (2,350)                        | (4,953)  |
| Depletion and depreciation                              | 7           | 24                              | 24       | 73                             | 100      |
| Accretion of decommissioning obligation                 | 7           | 17                              | 11       | 50                             | 32       |
| Loss on sale of property, plant and equipment           |             | -                               | -        | 17                             | -        |
| Amortization of transaction costs (finance loss)        | 11(ii)      | -                               | 5        | 2                              | 30       |
| Accretion of interest rate benefit                      | 12          | -                               | 232      | -                              | 484      |
| Share-based payments                                    | 15          | -                               | 4        | -                              | 24       |
|   |             | (927)                           | (377)    | (1,948)                        | (1,775)  |
| Dividends from equity investment                        | 5           | 1,106                           | 1,456    | 2,790                          | 3,847    |
| Changes in working capital                              | 10          | (472)                           | (819)    | (492)                          | (1,735)  |
| <b>Cash provided by (used in) operating activities</b>  |             | (293)                           | 260      | 350                            | 337      |
| <b>Investing activities</b>                             |             |                                 |          |                                |          |
| Loan to CNG   | 9(i)        | -                               | -        | (86)                           | -        |
| Additions to property, plant and equipment              | 7           | -                               | (8)      | (9)                            | (219)    |
| <b>Cash used in investing activities</b>                |             | -                               | (8)      | (95)                           | (219)    |
| <b>Financing activities</b>                             |             |                                 |          |                                |          |
| Repayment of shareholder loan                           | 11(ii)      | -                               | (250)    | (500)                          | (250)    |
| Proceeds from repaument of Kub Holdings Loan            | 9(iii)      | -                               | 300      | -                              | 300      |
| Repayment of Kub-Gas loan                               | 12          | -                               | -        | -                              | (1,067)  |
| <b>Cash used in financing activities</b>                |             | -                               | 50       | (500)                          | (1,017)  |
| Net change in cash and cash equivalents                 |             | (293)                           | 302      | (245)                          | (899)    |
| Effect of foreign exchange on cash and cash equivalents |             | 379                             | (622)    | 524                            | (347)    |
| Cash and cash equivalents at beginning of period        |             | 7,429                           | 5,264    | 7,236                          | 6,190    |
| <b>Cash and cash equivalents at end of period</b>       |             | \$ 7,515                        | \$ 4,944 | \$ 7,515                       | \$ 4,944 |
| <b>Supplemental cash flow information</b>               |             |                                 |          |                                |          |
| Taxes paid  |             | \$ -                            | \$ -     | \$ -                           | \$ -     |
| Interest paid   |             | \$ 63                           | \$ 75    | \$ 130                         | \$ 224   |

**Supplemental cash flow information (Note 10)**

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

## **Cub Energy Inc.**

**For the three and nine months ended September 30, 2019 and 2018**

**Notes to the condensed consolidated interim financial statements**

(Unaudited, expressed in thousands of US dollars)

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### **1 Nature of operations and going concern**

Cub Energy Inc. (the “Company”) is engaged in the exploration, development and production of natural gas properties and gas trading 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 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 its two shareholders. KUB-Gas and its subsidiary, KUB-Gas Borova LLC, 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). See Note 5. 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, Rusko-Komarivske (“RK”) and Stanivske. The RK field was in production until April 1, 2016 when it was 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 is currently producing at a reduced rate and the Company is constructing a nitrogen rejection unit (“NRU”) for its plan to increase production.

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 (Completed);
- (iii) Fund the drilling of the first three wells within four years of Closing (First well drilled in 2019); and
- (iv) Fund the tie-in costs of the first three wells up to a maximum €200 (\$218) per well within four years of Closing.

Ukraine’s political and economic situation has been volatile since late November 2013 with no material impact on KUB-Gas operations.

The political unrest and ongoing military conflicts have also led to the deepening of the ongoing economic crisis, widening of the state budget deficit, depletion of the National Bank of Ukraine (“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 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. The NBU eased certain capital controls by allowing Ukraine companies to issue limited dividends accrued during 2014 and 2015 to a maximum €7 million a month. Other recent easements include lowering the requirement to convert 50% of foreign transfers to 30% and the ban on early repayment of foreign debts was relinquished. The NBU introduced more than 20 points of easing on foreign currency controls in February 2019.

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(Unaudited, expressed in thousands of US dollars)

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On January 1, 2018, the natural gas royalty rate was reduced from 29% to 12% on new wells drilled after January 1, 2018 for a minimum of five years.

The political and economic uncertainty in Ukraine has contributed to volatility of the Ukrainian currency, Hryvnya (“UAH”), against major currencies. The UAH appreciated approximately 15% against the US dollar during the nine months ended September 30, 2019.

Pelicourt Limited (“Pelicourt”), a significant shareholder of the Company which the Company’s CEO is a principal of, provided a shareholder loan of \$2,000. See Note 11.

As of September 30, 2019, the Company had working capital deficit of \$1,189 (December 31, 2018 – working capital of \$3,798) and accumulated deficit of \$13,095 (December 31, 2018 – \$13,355) since its inception and may incur future losses in the development of its business. With the current cash resources, limited production from the RK Field, uncertainty surrounding the successful completion and installation of the NRU, limited Ukraine dividend restrictions, currency fluctuations, reliance on a few customers and impact on carrying values, the Company may not have sufficient cash to continue operations. 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 or subsidiaries. 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 22.

## **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, 2018.

### **(b) New standards adopted during the period**

Effective January 1, 2018, the following standard was adopted but did not have a material impact on the consolidated financial statements: IFRS 9 and 15: There were no significant changes to the financial instruments under IFRS 9 and 15 (Note 23).

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

**Cub Energy Inc.****For the three and nine months ended September 30, 2019 and 2018****Notes to the condensed consolidated interim financial statements**

(Unaudited, expressed in thousands of US dollars)

**(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 September 30, 2019:

| <b>Name of Subsidiary/ Equity Accounted Investment</b> | <b>Percentage of Voting Securities Owned</b> | <b>Jurisdiction of Incorporation, Continuance or Formation</b> | <b>Functional Currency</b> |
|--|--|--|----------------------------|
| 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                    |
| Tysagaz 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                   |
| Tysa Solar Holdings Limited                            | 100%   | United Kingdom   | UK Sterling                |
| Tysa Solar LLC   | 100%   | Ukraine  | Hryvnia                    |

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 consolidated 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 "€".

**(d) Transactions eliminated on consolidation**

Intercompany balances and transactions, and any unrealized gains arising from intercompany transactions, are eliminated in preparing the consolidated 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.

**(e) Basis of measurement**

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these consolidated 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.

**(f) 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 consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates. Significant estimates include:

## **Cub Energy Inc.**

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### **Notes to the condensed consolidated interim financial statements**

(Unaudited, expressed in thousands of US dollars)

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- 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 (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 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/reduction in production 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 sufficient 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.

## Cub Energy Inc.

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Notes to the condensed consolidated interim financial statements

(Unaudited, expressed in thousands of US dollars)

### 3 Significant accounting policies

These condensed consolidated interim financial statements are prepared in accordance with IFRS and follow the same accounting policies and methods of their application as the most recent audited financial statements for the year ended December 31, 2018. 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.

- 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 does not believe this new standard will have a material impact on the consolidated financial statements as the Company does not have any material leases.

### 5 Equity investment in KUB Holdings

The Company's share of the consolidated income from its 35% ownership interest in KUB Holdings for the nine months ended September 30, 2019 was \$2,350 (2018 – \$4,593). As of September 30, 2019, the carrying value of the Company's 35% ownership investment was \$9,912 (December 31, 2018 - \$7,967). The continuity of the Company's investment in KUB Holdings is as follows:

|   |    |         |
|---|----|---------|
| Investment in KUB Holdings as at January 1, 2018    | \$ | 7,342   |
| Income from equity investment                       |    | 4,953   |
| Dividends received                                  |    | (3,847) |
| Currency translation adjustment                     |    | 105     |
| Investment in KUB Holdings as at September 30, 2018 | \$ | 8,553   |
| Investment in KUB Holdings as at January 1, 2019    | \$ | 7,967   |
| Income from equity investment                       |    | 2,350   |
| Dividends received                                  |    | (2,790) |
| Currency translation adjustment                     |    | 2,385   |
| Investment in KUB Holdings as at September 30, 2019 | \$ | 9,912   |

As at September 30, 2019 and 2018, KUB Holdings on a gross basis includes the following:

| As at                   | September 30,<br>2019 | December 31,<br>2018 |
|-------------------------|-----------------------|----------------------|
| Current assets          | \$ 31,325             | \$ 26,835            |
| Non-current assets      | 2,426                 | 3,376                |
| Current liabilities     | (4,883)               | (6,991)              |
| Non-current liabilities | (547)                 | (457)                |
| Net assets              | \$ 28,321             | \$ 22,763            |

**Cub Energy Inc.**  
**For the three and nine months ended September 30, 2019 and 2018**  
**Notes to the condensed consolidated interim financial statements**  
(Unaudited, expressed in thousands of US dollars)

| Nine months ended September 30, | 2019     | 2018     |
|---------------------------------|----------|----------|
| Capital expenditures            | \$ 1,226 | \$ 3,444 |
| Revenues                        | 22,136   | 29,746   |
| Royalty expense                 | 7,139    | 8,981    |
| Net income                      | 6,719    | 14,153   |
| Other comprehensive income      | 6,815    | 279      |

| Three months ended September 30,  | 2019   | 2018     |
|-----------------------------------|--------|----------|
| Capital expenditures              | \$ 423 | \$ 1,919 |
| Revenues                          | 5,532  | 10,424   |
| Royalty expense                   | 1,730  | 3,180    |
| Net income                        | 1,351  | 5,103    |
| Other comprehensive income (loss) | 4,288  | (3,015)  |

The Company received dividends of \$2,790 (2018 - \$3,847) during the nine months ended September 30, 2019.

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 the nine months ended September 30, 2019, the Company recorded \$9,968 (2018 - \$13,597) in gas sales and \$9,288 (2018 - \$12,874) for the cost of the sales for a net profit from gas trading of \$680 (2018 - \$723). For clarity, the \$9,288 (2018 - \$12,874) cost of sales is included in the KUB Holdings revenue in the tables above. As at September 30, 2019, \$535 (December 31, 2018 - \$409) of the Company's trade and other receivables relates to these gas sales to third parties of which \$112 is in current receivables and \$423 is in non-current receivables (see Notes 8 and 9(ii)). In addition, at September 30, 2019, \$2,961 (December 31, 2018 - \$3,286) of trade and other payables is owed to KUB-Gas.

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 of the Company. See Note 12.

Per Note 1, the Company has the ability to further increase its ownership interest in KUB Holdings from 35% to 40% on meeting certain benchmarks and optional payments. The Company can earn an additional 2.5% ownership interest when the majority owner of KUB Holdings has received a cumulative \$25,000 in dividends from KUB Holdings of which they have received \$16,873 as at September 30, 2019. The Company also has an option to purchase, within one year of the above-mentioned 2.5% transfer from the majority owner, a further 2.5% ownership interest in KUB Holdings at a price equal to 2.5% of the net present value of 2P reserves of KUB-Gas at a 10% discount at the time of exercise.

## **6 Equity investment in CNG Holdings**

The Company's share of the consolidated income from its 50% ownership interest in CNG Holdings for the nine months ended September 30, 2019 was \$32 (2018 - \$24). However, per IAS 28, the Company is only to report its share of cumulative losses up to the Company's total interest in the equity investment. No additional losses are provided for as the Company does not have a legal or constructive obligation to make payments on behalf of CNG Holdings or CNG LLC. As of September 30, 2019, the Company's 50% ownership investment

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was \$Nil (December 31, 2018 - \$Nil). The continuity of the Company's investment in CNG Holdings is as follows:

|   |    |      |
|---|----|------|
| Investment in CNG Holdings as at January 1, 2017                          | \$ | 15   |
| Loss from equity investment   |    | (35) |
| Currency translation adjustment   |    | 20   |
| Investment in CNG Holdings as at September 30, 2019 and December 31, 2018 | \$ | -    |

As at September 30, 2019 and 2018, CNG Holdings on a gross basis includes the following:

| <b>As at</b>                            | <b>September 30,</b> |             | <b>December 31,</b> |             |
|---|----------------------|-------------|---------------------|-------------|
|   | <b>2019</b>          |             | <b>2018</b>         |             |
| Current assets                          | \$                   | 2,990       | \$                  | 809         |
| Non-current assets                      |                      | 4,129       |                     | 2,458       |
| Current liabilities                     |                      | (585)       |                     | (34)        |
| Non-current liabilities                 |                      | (6,897)     |                     | (4,013)     |
| Net assets (liabilities)                | \$                   | (363)       | \$                  | (780)       |
| <b>Nine months ended September 30,</b>  |                      |             |                     |             |
|   |                      | <b>2019</b> |                     | <b>2018</b> |
| Capital expenditures                    | \$                   | 1,670       | \$                  | 71          |
| Net income                              |                      | 502         |                     | 47          |
| Other comprehensive income (loss)       | \$                   | (104)       | \$                  | 213         |
| <b>Three months ended September 30,</b> |                      |             |                     |             |
|   |                      | <b>2019</b> |                     | <b>2018</b> |
| Capital expenditures                    | \$                   | 1,534       | \$                  | -           |
| Net income                              |                      | 438         |                     | 198         |
| Other comprehensive loss (income)       | \$                   | (71)        | \$                  | 169         |

## 7 Property, plant and equipment

| <b>Cost</b>                      | <b>Petroleum and</b> |                  | <b>Equipment,</b>    |                 | <b>Total</b> |
|----------------------------------|----------------------|------------------|----------------------|-----------------|--------------|
|                                  | <b>Natural Gas</b>   |                  | <b>Furniture and</b> |                 |              |
|                                  |                      | <b>Interests</b> |                      | <b>Fixtures</b> |              |
| Balance as at January 1, 2018    | \$                   | 5,186            | \$                   | 1,403           | \$ 6,589     |
| Additions                        |                      | 165              |                      | 56              | 221          |
| Currency translation adjustment  |                      | (26)             |                      | (11)            | (37)         |
| Balance as at December 31, 2018  |                      | 5,325            |                      | 1,448           | 6,773        |
| Additions                        |                      | -                |                      | 9               | 9            |
| Dispositions                     |                      | -                |                      | (167)           | (167)        |
| Currency translation adjustment  |                      | 987              |                      | 477             | 1,464        |
| Balance as at September 30, 2019 | \$                   | 6,312            | \$                   | 1,767           | \$ 8,079     |

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| <b>Accumulated depletion and depreciation</b> | <b>Petroleum and<br/>Natural Gas<br/>Interests</b> | <b>Equipment,<br/>Furniture and<br/>Fixtures</b> | <b>Total</b> |
|---|--|--|--------------|
| Balance as at January 1, 2018                 | \$ 2,327   | \$ 770   | \$ 3,097     |
| Depletion and depreciation for the year       | -  | 114  | 114          |
| Currency translation adjustment               | (20)   | (6)  | (26)         |
| Balance as at December 31, 2018               | 2,307  | 878  | 3,185        |
| Depletion and depreciation for the period     | -  | 73   | 73           |
| Dispositions                                  | -  | (150)  | (150)        |
| Currency translation adjustment               | 32   | 16   | 48           |
| Balance as at September 30, 2019              | \$ 2,339   | \$ 817   | \$ 3,156     |
| <b>Carrying amounts</b>                       |  |  |              |
| Balance as at December 31, 2018               | \$ 3,018   | \$ 570   | \$ 3,588     |
| Balance as at September 30, 2019              | \$ 3,973   | \$ 950   | \$ 4,923     |

Management assessed whether there were indications of impairment of the Company's property, plant and equipment assets as at September 30, 2019. While impairment indications exist, such as the reduction of production on the RK field, the Company believes no impairment is warranted as at September 30, 2019 as the net present value of expected future cash flows supports the carrying value. During the nine months ended September 30, 2019, the Company sold certain non-core office equipment and recorded a loss of \$17 (2018 – \$Nil) on the sale.

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 periods. The costs are expected to be settled between 2020 through to 2030. The liability has been discounted using a risk-free interest rate of 15% (2018 – 11%).

**8 Trade and other receivables**

| <b>As at</b>      | <b>September 30,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|-------------------|-------------------------------|------------------------------|
| Trade receivables | \$ 112                        | \$ 409                       |
| VAT receivable    | 143                           | 360                          |
| GST receivable    | 2                             | 2                            |
|                   | \$ 257                        | \$ 771                       |

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.

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**9 Non-current receivables**

| As at                                    | September 30,<br>2019 | December 31,<br>2018 |
|--|-----------------------|----------------------|
| (i) Due from CNG Holdings                | \$ 390                | \$ 302               |
| (ii) Non-current trade receivable        | 423                   | 192                  |
| (iii) Due from KUB Holdings              | 29                    | 29                   |
| (iv) Financial guarantee for gas trading | -                     | 396                  |
|  | \$ 842                | \$ 919               |

(i) During the nine months ended September 30, 2019, the Company provided CNG Holdings with an additional €80 loan (\$86) as part of its contribution to its share of ongoing general administrative costs. The loan has an interest rate of 6% and is due in installments between September 14, 2020 and September 14, 2023. The loan accrued interest of \$15 (2018 - \$13) during the nine months ended September 30, 2019. The balance also includes \$10 (December 31, 2018- \$10) for a reimbursement of costs on behalf of CNG that is considered a long term receivable.

(ii) The \$423 (2018 - \$192) non-current trade receivable amount is a receivable from a customer of the gas trading activity (2018 – only portion of the receivable). The customer was making periodic payments towards its debt but did not make any payments in the third quarter of 2019. The full collection of the receivable may take greater than twelve months. Without a material payment of the receivable in the near term, it will likely face a material impairment. The total exposure to this creditor is approximately \$423. See Note 5.

(iii) The balance is for the reimbursement of expenses with no repayment terms. During the nine months ended September 30, 2018, KUB Holdings repaid the \$300 loan to the Company.

(iv) In 2017, Tysgaz was required to place a financial guarantee with a Ukraine regulator as part of its gas trading activities. This amount is in conjunction with a local Ukraine bank guarantee and fluctuates with gas volumes. The amount was repaid during the nine months ended September 30, 2019. See Note 13.

**10 Supplemental cash flow information**

|   | Three months ended September 30, |          | Nine months ended September 30, |            |
|---|----------------------------------|----------|---------------------------------|------------|
|   | 2019                             | 2018     | 2019                            | 2018       |
| <b>Cash flows relating to:</b>            |                                  |          |                                 |            |
| Changes in trade and other receivables    | \$ 254                           | \$ (321) | \$ 448                          | \$ (493)   |
| Changes in non-current receivables        | (206)                            | (145)    | 163                             | 76         |
| Changes in prepaid expenses and inventory | 317                              | (2,722)  | 622                             | (2,509)    |
| Changes in trade and other payables       | (837)                            | 2,369    | (1,725)                         | 1,191      |
|   | \$ (472)                         | \$ (819) | \$ (492)                        | \$ (1,735) |

The Company's cash and cash equivalents consists of the following:

| As at                          | September<br>30<br>2019 | December 31,<br>2018 |
|--------------------------------|-------------------------|----------------------|
| Cash                           | \$2,615                 | \$3,486              |
| Cash equivalent                | 4,900                   | 3,750                |
| Total cash and cash equivalent | \$7,515                 | \$7,236              |

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During the year ended December 31, 2018 and the nine months ended September 30, 2019, the Company purchased Guaranteed Investment Certificates with a Canadian financial institution with annual interest rates between 2.26% and 2.5% that are redeemable at any time.

**11 Shareholder Loans**

## (i) Shareholder Loan I

Pelicourt is a significant shareholder of the Company over which the CEO of the Company has significant influence. The shareholder loan has a principal of \$2,000 with an interest rate of 12% effective February 1, 2017 (9% prior to February 1, 2017). During the year ended December 31, 2016, the due date was extended from January 31, 2017 to January 31, 2019 and the interest is paid quarterly. During the year ended December 31, 2018, the due date of the loan was further extended to January 31, 2020 and on March 29, 2019, the expiry was extended to January 31, 2021. 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. The due date extension was not considered a substantial modification in the context of IFRS.

During the nine months ended September 30, 2019, the Company paid interest of \$180 (2018 - \$180). A summary of the loan is presented in the table at the end of this note.

## (ii) Shareholder Loan II

In June 2017, the Company entered into a second shareholder loan agreement with an officer of the Company. The shareholder loan has a principal of \$1,000 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 as a bonus for entering into the loan. The Company amortized the value of the common shares over the term of the loan and included in finance loss during the nine months ended September 30, 2019 was \$2 (2018 - \$28). In addition, the lender was granted the same rights as 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 nine months ended September 30, 2019, the Company paid interest of \$11 (2018 - \$60) and a principal repayment of \$500 (2018 - \$250) was made which represents a payment in full of the loan. A summary of the shareholder loans is presented below.

|                                   | Shareholder<br>Loan I | Shareholder<br>Loan II |
|-----------------------------------|-----------------------|------------------------|
| December 31, 2017                 | \$2,000               | \$ 967                 |
| Repayment                         | -                     | (500)                  |
| Amortization of transaction costs | -                     | 31                     |
| December 31, 2018                 | \$2,000               | \$498                  |
| Repayment                         | -                     | (500)                  |
| Amortization of transaction costs | -                     | 2                      |
| September 30, 2019                | \$2,000               | \$ -                   |
| December 31, 2018                 |                       |                        |
| Current portion                   | \$ -                  | \$498                  |
| Non-current portion               | \$2,000               | \$ -                   |
| September 30, 2019                |                       |                        |
| Current portion                   | \$ -                  | \$ -                   |
| Non-current portion               | \$2,000               | \$ -                   |

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**12 Loan from KUB-Gas**

During the year ended December 31, 2016, the Company's Ukraine subsidiaries, Tysagaz 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. During the year ended December 31, 2018, the Company repaid 30,000 UAH (US \$1,067). The schedule of the loans is as follows:

| Due date                                 | UAH     |
|--|---------|
| December 31, 2020, callable by Kub-Gas   | 30,000  |
| December 31, 2020, callable by Kub-Gas   | 60,000  |
| December 31, 2020, callable by Kub-Gas   | 22,500  |
| December 31, 2020, callable by Kub-Gas   | 30,000  |
| Principal loan value, September 30, 2019 | 142,500 |
| Carrying value, December 31, 2017        | \$5,118 |
| Repayment of loan                        | (1,067) |
| Recognition of interest rate benefit     | (1,278) |
| Accretion of interest rate benefit       | 768     |
| Currency translation adjustment          | 50      |
| Carrying value, December 31, 2018        | \$3,591 |
| Derecognition of interest rate benefit   | 1,594   |
| Currency translation adjustment          | 732     |
| Carrying value, September 30, 2019       | \$5,917 |

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. The loan discount recognizes the interest rate benefit assuming an effective interest rate in Ukraine of approximately 21% based on market rates for comparable transactions. The discount amount is to be amortized over the life of the loans. 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 during the year ended December 31, 2016 and treated the fair value of the benefit as a non-cash distribution to shareholders in its shareholders' equity. The Company's share of the amount recognized in 2016 was \$2,187 which includes the recognition of the fair value of the interest rate 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.

During the year ended December 31, 2018, the maturity of the loans from Kub-Gas were all extended to December 31, 2020 and the Company recorded a further loan discount of \$1,278 which was recorded to reserves in shareholders' equity as per IFRS accounting treatment of a related party loan and is to be amortized over the remaining term of the loan.

The Kub-Gas loans were recently amended to include a callable feature whereby Kub-Gas can call the loans at any time prior to the December 31, 2020 maturity date. The callable feature reclassifies the loans from a long-term liability to a current liability and the balance of the loan discount, being \$1,594, was derecognized and recorded to other reserves and the loans are now carried at face value.

**13 Bank Guarantee**

During the year ended December 31, 2018, the Company's subsidiary, Tysagaz, entered into a bank guarantee for 25,000 UAH (\$952) with a state-owned Ukrainian bank to guarantee its working capital requirement for the gas trading business (see Note 9(iv)). The term of the bank guarantee is a 3% annual fee to keep the

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guarantee in place. The Company is also a party to the guarantee. In February 2019, the bank guarantee was reduced to 10,000 UAH (\$415).

**14 Prepaid Expenses and Inventory**

| As at                   | September 30,<br>2019 | December 31,<br>2018 |
|-------------------------|-----------------------|----------------------|
| Inventory - natural gas | \$ 876                | \$ 1,457             |
| Prepaid expenses        | 79                    | 118                  |
| Inventory - materials   | 23                    | 32                   |
|                         | \$ 978                | \$ 1,607             |

As at September 30, 2019, natural gas inventory included \$876 (December 31, 2018 - \$1,457) with a Ukraine pipeline operator as part of its gas trading activities.

**15 Share capital and share-based payments**

## (a) Share capital

During the nine months ended September 30, 2019 and 2018, there were no issuances of common shares.

## (b) 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 and schedule are presented below:

|   | Number of<br>Options | Weighted Avg<br>Exercise Price<br>(CAD) |
|---|----------------------|---|
| Balance as at January 1, 2017                       | 17,500,000           | \$ 0.08                                 |
| Options forfeited                                   | (2,200,000)          | 0.08                                    |
| Balance at September 30, 2019 and December 31, 2018 | 15,300,000           | \$ 0.08                                 |

| Issuance Date    | Expiry Date      | Exercise<br>price<br>(CAD) | Issued     | Exercisable | Weighted Avg<br>Remaining Life<br>(years) |
|------------------|------------------|----------------------------|------------|-------------|---|
| December 7, 2016 | December 7, 2026 | \$ 0.08                    | 12,800,000 | 12,800,000  | 7.19                                      |
| May 19, 2017     | May 19, 2027     | \$ 0.06                    | 2,500,000  | 2,500,000   | 7.64                                      |
| Total            |                  |                            | 15,300,000 | 15,300,000  | 7.26                                      |

The stock options vest a third every six months and are fully vested eighteen months after the date of grant. The Company uses a graded vesting methodology to expense the options over the vesting period. The Company recorded share-based payments of \$Nil (2018 - \$24) during the nine months ended September 30, 2019.

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The fair value of the stock options granted was estimated using the Black-Scholes option pricing model with weighted-average inputs during 2016 and 2017.

## (c) 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 years, have a 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. No RSU’s were issued as at September 30, 2019 (December 31, 2018 – Nil)

**16 Income per share**

|  | Three months ended September 30, |          | Nine months ended September 30, |          |
|--|----------------------------------|----------|---------------------------------|----------|
|  | 2019                             | 2018     | 2019                            | 2018     |
| Numerator  |                                  |          |                                 |          |
| Income (loss) for the period - basic and diluted | \$ (497)                         | \$ 1,133 | \$ 260                          | \$ 2,508 |
| Denominator (in 000's)                           |                                  |          |                                 |          |
| Weighted average shares - basic                  | 314,215                          | 314,215  | 314,215                         | 314,215  |
| Effect of warrants                               | -                                | -        | -                               | -        |
| Effect of stock options                          | -                                | -        | -                               | -        |
| Effect of RSUs                                   | -                                | -        | -                               | -        |
| Weighted average shares - diluted                | 314,215                          | 314,215  | 314,215                         | 314,215  |
| Basic income (loss) per share                    | \$ (0.00)                        | \$ 0.00  | \$ 0.00                         | \$ 0.01  |
| Diluted income per share                         | \$ (0.00)                        | \$ 0.00  | \$ 0.00                         | \$ 0.01  |

**17 Selling and general administrative expenses**

|                                    | Three months ended September 30, |        | Nine months ended September 30, |          |
|------------------------------------|----------------------------------|--------|---------------------------------|----------|
|                                    | 2019                             | 2018   | 2019                            | 2018     |
| Salaries (Note 21)                 | \$ 511                           | \$ 475 | \$ 1,479                        | \$ 1,620 |
| Office and administration expenses | 217                              | 192    | 663                             | 601      |
| Professional fees                  | 50                               | 36     | 191                             | 111      |
| Travel                             | 58                               | 34     | 113                             | 109      |
| Consulting fees                    | 45                               | -      | 108                             | 26       |
|                                    | \$ 881                           | \$ 737 | \$ 2,554                        | \$ 2,467 |

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**18 Operating segments**

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

|   | <b>Ukraine</b> | <b>Canada</b> | <b>USA</b> | <b>Total</b> |
|---|----------------|---------------|------------|--------------|
| <b>Nine months ended September 30, 2019</b>   |                |               |            |              |
| Revenue, net of royalties   | \$ 10,102      | \$ -          | \$ -       | \$ 10,102    |
| Cost of sales for gas trading   | (9,288)        | -             | -          | (9,288)      |
| Income from equity investment   | 2,350          | -             | -          | 2,350        |
| Selling and general administrative expenses, accretion, cost of sales and loss on sale of property, plant and equipment | (1,125)        | (350)         | (1,146)    | (2,621)      |
| Finance loss, net   | 291            | (305)         | (14)       | (28)         |
| Depletion and depreciation  | (32)           | -             | (41)       | (73)         |
| Cost of sales   | (182)          | -             | -          | (182)        |
| Net income (loss)   | \$ 2,116       | \$ (655)      | \$ (1,201) | \$ 260       |
| <b>Three months ended September 30, 2019</b>  |                |               |            |              |
| Revenue, net of royalties   | \$ 2,562       | \$ -          | \$ -       | \$ 2,562     |
| Cost of sales for gas trading   | (2,432)        | -             | -          | (2,432)      |
| Income from equity investment   | 471            | -             | -          | 471          |
| Selling and general administrative expenses, accretion, cost of sales and loss on sale of property, plant and equipment | (403)          | (140)         | (355)      | (898)        |
| Finance loss, net   | (79)           | (42)          | (1)        | (122)        |
| Depletion and depreciation  | (11)           | -             | (13)       | (24)         |
| Cost of sales   | (54)           | -             | -          | (54)         |
| Net income (loss)   | \$ 54          | \$ (182)      | \$ (369)   | \$ (497)     |
| <b>Nine months ended September 30, 2018</b>   |                |               |            |              |
| Revenue, net of royalties   | \$ 13,646      | \$ -          | \$ -       | \$ 13,646    |
| Cost of sales for gas trading   | (12,874)       | -             | -          | (12,874)     |
| Income from equity investment   | 4,953          | -             | -          | 4,953        |
| Selling and general administrative expenses, accretion and cost of sales  | (985)          | (235)         | (1,279)    | (2,499)      |
| Finance loss, net   | (258)          | (224)         | (48)       | (530)        |
| Depletion and depreciation  | (22)           | -             | (78)       | (100)        |
| Cost of sales   | (64)           | -             | -          | (64)         |
| Share-based payments  | -              | (24)          | -          | (24)         |
| Net loss  | \$ 4,396       | \$ (483)      | \$ (1,405) | \$ 2,508     |

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|  | Ukraine   | Canada   | USA      | Total     |
|--|-----------|----------|----------|-----------|
| <b>Three months ended September 30, 2018</b>               |           |          |          |           |
| Revenue, net of royalties                                  | \$ 4,884  | \$ -     | \$ -     | \$ 4,884  |
| Cost of sales for gas trading                              | (4,481)   | -        | -        | (4,481)   |
| Income from equity investment                              | 1,786     | -        | -        | 1,786     |
| Selling and general administrative expenses, accretion and | (210)     | (116)    | (422)    | (748)     |
| Finance loss, net  | (130)     | (90)     | (16)     | (236)     |
| Depletion and depreciation                                 | -         | -        | (24)     | (24)      |
| Cost of sales  | (44)      | -        | -        | (44)      |
| Share-based payments                                       | -         | (4)      | -        | (4)       |
| Net income (loss)  | \$ 1,805  | \$ (210) | \$ (462) | \$ 1,133  |
| <b>As at December 31, 2018</b>                             |           |          |          |           |
| Property, plant and equipment                              | \$ 2,636  | \$ -     | \$ 952   | \$ 3,588  |
| Total assets   | \$ 15,250 | \$ 5,677 | \$ 1,161 | \$ 22,088 |
| Total liabilities  | \$ 8,018  | \$ 2,985 | \$ 862   | \$ 11,865 |
| <b>As at September 30, 2019</b>                            |           |          |          |           |
| Property, plant and equipment                              | \$ 4,030  | \$ -     | \$ 893   | \$ 4,923  |
| Total assets   | \$ 16,118 | \$ 7,205 | \$ 1,104 | \$ 24,427 |
| Total liabilities  | \$ 9,655  | \$ 2,689 | \$ 183   | \$ 12,527 |

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 nine months ended September 30, 2019, there were three (2018 - two) customers which each accounted for greater than 10% of total gas trading revenue, and the revenue amounted to \$1,668, \$1,598 and \$1,450 (2018 - \$2,157 and \$1,378). During the nine months ended September 30, 2019, there was just one customer for the Company's gas sales (2018 - one). All the Company's revenues were earned from sales to customers in the Ukraine.

## 19 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 2019 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

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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. In March of 2019, the Company subleased a material amount of the Houston office space for the remainder of the lease as a cost savings measure.

### **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 has participated in the litigation as a third party on the defendant's side. During the year ended December 31, 2017, one of the two NGO lawsuits against SGS was dismissed by the Ukraine courts. The other lawsuit is still pending, awaiting reassignment of the case to a new judge.

### **NRU**

During the year ended December 31, 2018, and due to the continued construction delays on the Nitrogen Rejection Unit ("NRU"), the Company filed a claim with American Arbitration Association ("AAA"), seeking \$300 (plus interest and attorney fees) from the NRU manufacturer in contractual delay damages. During the nine months ended September 30, 2019, due to continued delays in the completion of the NRU, the Company and the NRU manufacturer entered into a mutual release agreement, including the release of the arbitration claim, in exchange for the Company taking physical possession of the NRU "as is". The Company is currently negotiating with a vendor to complete the work on the NRU.

## **20 Related party transactions**

Transactions with related parties are incurred in the normal course of business. During the nine months ended September 30, 2019 and 2018, there were no related party transactions other than the shareholder loans (Note 11), the transactions and balances with KUB Holdings and KUB-Gas, and the loan to CNG Holdings (Note 9 (i)) (Notes 5, 6, 11, 12 and 24).

## **21 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:

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|                                 | Three months ended September 30, |        | Nine months ended September 30, |        |
|---------------------------------|----------------------------------|--------|---------------------------------|--------|
|                                 | 2019                             | 2018   | 2019                            | 2018   |
| Directors' fees <sup>(1)</sup>  | \$ 56                            | \$ 59  | \$ 169                          | \$ 176 |
| Directors' share-based payments | -                                | 1      | -                               | 7      |
| Management wages <sup>(1)</sup> | 198                              | 254    | 594                             | 763    |
| Consulting fees <sup>(1)</sup>  | 30                               | -      | 90                              | -      |
| Management share-based payments | -                                | 3      | -                               | 15     |
| Total                           | \$ 284                           | \$ 317 | \$ 853                          | \$ 961 |

<sup>(1)</sup> These amounts are included in salaries and consulting fees within selling and general administrative expenses.

As at September 30, 2019, \$508 (December 31, 2018 - \$661) was included in trade and other payables owing to the CEO for his 2014 to 2016 accrued compensation reflecting the payment to the CEO of \$153 during the nine months ended September 30, 2019 (2018 - \$90) as part of the debt reduction of the accrued payable.

## 22 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 was impacted by a gas trading customer during the year ended December 31, 2017 as the creditor is making periodic payments towards its debt over a longer period of time than expected (see Note 9(ii)). The Company manages its credit risk by holding its cash with high credit quality Canadian, US and Ukrainian financial institutions.

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

| <b>As at</b>                                     | <b>September 30,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|--|-------------------------------|------------------------------|
| Cash and cash equivalents                        | \$ 7,515                      | \$ 7,236                     |
| Trade and other receivables (excludes sales tax) | 112                           | 409                          |
| Non-current receivables                          | 842                           | 919                          |
|  | \$ 8,469                      | \$ 8,564                     |

**(c) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows and anticipated investing and financing activities. Officers of the Company are actively involved in the review and approval of planned expenditures.

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

The Company has \$2,000 in shareholder loans (See Note 11) and \$5,917 in loans payable to Kub-Gas (See Note 12). As at September 30, 2019, the Company had current assets of \$8,750 and had the following financial liabilities:

| <b>As at September 30, 2019</b> |                            |                                   |                    |
|---------------------------------|----------------------------|-----------------------------------|--------------------|
|                                 | <b>Carrying<br/>Amount</b> | <b>Contractual Cash<br/>Flows</b> | <b>&lt; 1 year</b> |
| Trade and other payables        | \$ 4,022                   | \$ 4,022                          | \$ 4,022           |
| Shareholder loans               | 2,000                      | 2,000                             | -                  |
| Loan from KUB-Gas               | 5,917                      | 5,917                             | 5,917              |
| Provisions                      | 588                        | -                                 | -                  |
|                                 | \$ 12,527                  | \$ 11,939                         | \$ 9,939           |

**(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:

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|   | As at September 30, 2019 |          |       |            |
|---|--------------------------|----------|-------|------------|
|   | UAH                      | €        | CAD   | Total      |
| Cash and cash equivalents                         | \$ 1,206                 | \$ 760   | \$ 68 | \$ 2,034   |
| Trade and other receivables                       | 255                      | -        | 2     | 257        |
| Non-current receivables                           | 535                      | 390      | -     | 925        |
| Trade and other payables                          | (3,103)                  | -        | (3)   | (3,106)    |
| Loan from KUB-Gas                                 | (5,917)                  | -        | -     | (5,917)    |
|   | \$ (7,024)               | \$ 1,150 | \$ 67 | \$ (5,807) |
| Effect of +/- 10% change in foreign exchange rate | \$ (702)                 | \$ 115   | \$ 7  | \$ (581)   |

**(e) Interest Rate**

The Company has a \$2,000 shareholder loan (see Note 11) which is due to be repaid by January 31, 2021 with an annual interest rate of 12%. The Company's interest rate risk is limited as it does not have any variable interest bearing financial instruments.

**(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 nine months ended September 30, 2019, KUB-Gas sold gas to its customers at an average price of \$5.85 (2018 - \$7.47) per thousand cubic feet. A 10% fluctuation in the average price of gas assuming the same quantity sold, would have impacted the Company's revenue from gas trading by approximately \$95 (2018 - \$110) per month.

**(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 September 30, 2019, the Company has total shareholders' equity of \$11,900 (December 31, 2018 - \$10,223). 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 nine months ended September 30, 2019.

**23 Financial 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 loans

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approximate fair value due to the use of market rates of interest. The loan from KUB-Gas and the loan to CNG LLC also approximate fair value as they have been discounted with an interest rate comparable to current market rates.

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

- (i) Cash
- (ii) Trade and other receivables and non-current receivables (excludes sales tax)
- (iii) Trade and other payables, shareholder loans and loan from KUB-Gas

| <b>As at</b>                          | <b>September 30,</b> |        | <b>December 31,</b> |        |
|---------------------------------------|----------------------|--------|---------------------|--------|
|                                       | <b>2019</b>          |        | <b>2018</b>         |        |
| Fair value through profit or loss (i) | \$                   | 7,515  | \$                  | 7,236  |
| Assets - amortized cost (ii)          | \$                   | 954    | \$                  | 1,328  |
| Liabilities - amortized cost (iii)    | \$                   | 11,939 | \$                  | 11,407 |

  

|                                 | <b>Level 1</b> |       | <b>Level 2</b> |   | <b>Level 3</b> |   | <b>Total</b> |       |
|---------------------------------|----------------|-------|----------------|---|----------------|---|--------------|-------|
| <b>As at September 30, 2019</b> |                |       |                |   |                |   |              |       |
| Cash and cash equivalents       | \$             | 7,515 | \$             | - | \$             | - | \$           | 7,515 |
| <b>As at December 31, 2018</b>  |                |       |                |   |                |   |              |       |
| Cash and cash equivalents       | \$             | 7,236 | \$             | - | \$             | - | \$           | 7,236 |