



Condensed consolidated interim financial statements

For the three and six months ended June 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 Financial Position
(Unaudited, expressed in thousands of US dollars)

As at	<i>Note</i>		June 30, 2019	December 31, 2018
Assets				
Current assets				
Cash and cash equivalents	10	\$	7,429	\$ 7,236
Prepaid expenses and inventory	14		1,301	1,607
Trade and other receivables	8		559	771
			9,289	9,614
Non-current assets				
Equity investments	5, 6		9,046	7,967
Property, plant and equipment	7		4,055	3,588
Non-current receivables	9		619	919
			13,720	12,474
Total assets		\$	23,009	\$ 22,088
Liabilities				
Current liabilities				
Trade and other payables		\$	4,530	\$ 5,318
Loan from KUB-Gas - current portion	12		5,391	-
Shareholder loans - current portion	11		-	498
			9,921	5,816
Non-current liabilities				
Shareholder loans	11		2,000	2,000
Provisions	7		523	458
Loan from KUB-Gas	12		-	3,591
			2,523	6,049
Total liabilities			12,444	11,865
Shareholders' equity				
Share capital	15		62,057	62,057
Contributed surplus	15		5,454	5,454
Other reserve	12		2,193	3,787
Share of change in equity in associated company	5, 12		(2,187)	(2,187)
Accumulated other comprehensive loss			(44,354)	(45,533)
Deficit			(12,598)	(13,355)
Total shareholders' equity			10,565	10,223
Total shareholders' equity and liabilities		\$	23,009	\$ 22,088

Nature of operations and going concern (Note 1)

Commitments and contingencies (Note 19)

Subsequent event (Note 24)

These condensed consolidated interim financial statements for the three and six months ended June 30, 2019 and 2018, were approved by the board of directors of the Company on August 26, 2019.

Approved by the Board

“Mikhail Afendikov”
Director (Signed)

“John Booth”
Director (Signed)

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

Cub Energy Inc.**Condensed Consolidated Interim Statements of Operations and Comprehensive Income (Loss)**

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

	<i>Note</i>	Three months ended June 30,		Six months ended June 30,	
		2019	2018	2019	2018
Revenue from gas sales		\$ 77	\$ 18	\$ 126	\$ 18
Revenue from gas trading	5	2,975	3,079	7,454	8,749
Royalty expense		(26)	(5)	(40)	(5)
Revenue, net of royalty		3,026	3,092	7,540	8,762
Income from equity investment	5, 6	357	1,461	1,879	3,167
Operating expenses					
Cost of sales for gas trading	5	2,616	2,877	6,856	8,393
Selling and general administrative expenses	17	836	904	1,673	1,730
Finance loss (gain), net	11, 12	(31)	95	(94)	294
Cost of sales		109	20	128	20
Depletion and depreciation	7	25	46	49	76
Accretion of decommissioning obligation	7	16	10	33	21
Loss on sale of property plant and equipment	7	17	-	17	-
Share-based payments	15, 21	-	5	-	20
		3,588	3,957	8,662	10,554
Net income (loss)		(205)	596	757	1,375
Other comprehensive income (loss)					
Items that may be reclassified to profit or loss					
Foreign currency translation adjustment on foreign operations		742	(113)	1,179	1,345
Comprehensive income		\$ 537	\$ 483	\$ 1,936	\$ 2,720
Income (loss) per share					
Basic	16	(0.00) \$	0.00 \$	0.00 \$	0.00
Diluted	16	(0.00) \$	0.00 \$	0.00 \$	0.00

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

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

	<i>Note</i>	Number of shares	Share capital	Contributed surplus	Other reserve	Share of change in equity in associated company	Accumulated other 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	-	-	20	-	-	-	-	20
Currency translation adjustment		-	-	-	-	-	1,345	-	1,345
Net income		-	-	-	-	-	-	1,375	1,375
Balances as at June 30, 2018		312,015,355	62,057	5,450	2,509	(2,187)	(44,240)	(15,058)	8,531
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		-	-	-	-	-	1,179	-	1,179
Net income		-	-	-	-	-	-	757	757
Balances as at June 30, 2019		314,215,355	\$ 62,057	\$ 5,454	\$ 2,193	\$ (2,187)	\$ (44,354)	\$ (12,598)	\$ 10,565

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 June 30,		Six month ended June 30,	
		2019	2018	2019	2018
Operating activities					
Net income (loss)		\$ (205)	\$ 596	\$ 757	\$ 1,375
<i>Adjustments for:</i>					
Income from equity investment	5	(357)	(1,461)	(1,879)	(3,167)
Depletion and depreciation	7	25	46	49	76
Accretion of decommissioning obligation	7	16	10	33	21
Loss on sale of property, plant and equipment		17	-	17	-
Amortization of transaction costs (finance loss)	11(ii)	-	10	2	25
Accretion of interest rate benefit	12	-	53	-	252
Share-based payments	15	-	5	-	20
		(504)	(741)	(1,021)	(1,398)
Dividends from equity investment	5	-	1,337	1,684	2,391
Changes in working capital	10	1,182	(2,287)	(20)	(916)
Cash provided by (used in) operating activities		678	(1,691)	643	77
Investing activities					
Loan to CNG	9(i)	-	-	(69)	-
Additions to property, plant and equipment	7	(9)	(77)	(9)	(211)
Cash used in investing activities		(9)	(77)	(78)	(211)
Financing activities					
Repayment of shareholder loan	11(ii)	(250)	-	(500)	-
Repayment of Kub-Gas loan	12	-	-	-	(1,067)
Cash used in financing activities		(250)	-	(500)	(1,067)
Net change in cash and cash equivalents		419	(1,768)	65	(1,201)
Effect of foreign exchange on cash and cash equivalents		52	44	128	275
Cash and cash equivalents at beginning of period		6,958	6,988	7,236	6,190
Cash and cash equivalents at end of period		\$ 7,429	\$ 5,264	\$ 7,429	\$ 5,264
Supplemental cash flow information					
Taxes paid		\$ -	\$ -	\$ -	\$ -
Interest paid		\$ 63	\$ 74	\$ 130	\$ 149

Supplemental cash flow information (Note 10)

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

Cub Energy Inc.

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Notes to the condensed consolidated interim financial statements

(Unaudited, expressed in thousands of US dollars)

1 Nature of operations and going concern

Cub Energy Inc. (the “Company”) is engaged in the exploration, development and production of natural gas properties 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; and
- (iv) Fund the tie-in costs of the first three wells up to a maximum €200 (\$225) 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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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. However, the US/UAH exchange rate was relatively flat during the six months ended June 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 June 30, 2019, the Company had working capital deficit of \$632 (December 31, 2018 – working capital of \$3,798) and accumulated deficit of \$12,598 (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.

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(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 June 30, 2019:

Name of Subsidiary/ Equity Accounted Investment	Percentage of Voting Securities Owned	Jurisdiction of Incorporation, Continuance or Formation	Functional Currency
Gastek LLC	100%	California	US
KUBGAS Holdings Limited	35%	Cyprus	US
KUB-Gas LLC	35%	Ukraine	Hryvnia
KUB-Gas Borova LLC	35%	Ukraine	Hryvnia
3P International Energy Limited	100%	Cyprus	US
3P Energy Consulting LLC	100%	Ukraine	Hryvnia
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 as 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:

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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.

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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 six months ended June 30, 2019 was \$1,879 (2018 – \$3,167). As of June 30, 2019, the carrying value of the Company's 35% ownership investment was \$9,046 (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		3,167
Dividends received		(2,391)
Currency translation adjustment		1,160
Investment in KUB Holdings as at June 30, 2018	\$	9,278
Investment in KUB Holdings as at January 1, 2019	\$	7,967
Income from equity investment		1,879
Dividends received		(1,684)
Currency translation adjustment		884
Investment in KUB Holdings as at June 30, 2019	\$	9,046

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

As at	June 30, 2019	December 31, 2018
Current assets	\$ 29,360	\$ 26,835
Non-current assets	585	3,376
Current liabilities	(3,603)	(6,991)
Non-current liabilities	(497)	(457)
Net assets	\$ 25,845	\$ 22,763

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Six months ended June 30,		2019		2018
Capital expenditures	\$	803	\$	1,525
Revenues		16,604		19,322
Royalty expense		5,409		5,801
Net income		5,368		9,050
Other comprehensive income		2,527		3,294

Three months ended June 30,		2019		2018
Capital expenditures	\$	644	\$	1,234
Revenues		6,880		9,531
Royalty expense		2,197		2,875
Net income		1,019		4,178
Other comprehensive income (loss)		1,831		(43)

The Company received dividends of \$1,684 (2018 - \$2,391) during the six months ended June 30, 2019. Subsequent to the six months ended June 30, 2019, the Company recorded \$1,107 in dividends from KUB Holdings. See Note 24.

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 six months ended June 30, 2019, the Company recorded \$7,454 (2018 - \$8,749) in gas sales and \$6,856 (2018 - \$8,393) for the cost of the sales for a net profit from gas trading of \$598 (2018 - \$356). For clarity, the \$6,856 (2017 - \$8,393) cost of sales is included in the KUB Holdings revenue in the tables above. As at June 30, 2019, \$743 (December 31, 2018 - \$409) of the Company's trade and other receivables relates to these gas sales to third parties of which \$551 is in current receivables and \$192 is in non-current receivables (see Notes 8 and 9(ii)). In addition, at June 30, 2019, \$3,368 (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 June 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 six months ended June 30, 2019 was \$32 (2018 - \$4). 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

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of CNG Holdings or CNG LLC. As of June 30, 2019, the Company's 50% ownership investment 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 June 30, 2019 and December 31, 2018	\$	-

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

As at	June 30, 2019	December 31, 2018
Current assets	\$ 2,060	\$ 809
Non-current assets	2,749	2,458
Current liabilities	(17)	(34)
Non-current liabilities	(5,513)	(4,013)
Net assets (liabilities)	\$ (721)	\$ (780)

Six months ended June 30,	2019	2018
Capital expenditures	\$ 136	\$ 233
Net income	64	7
Other comprehensive income (loss)	\$ (33)	\$ 106

Three months ended June 30,	2019	2018
Capital expenditures	\$ 65	\$ 34
Net income (loss)	17	(17)
Other comprehensive loss (income)	\$ (246)	\$ 200

7 Property, plant and equipment

Cost	Petroleum and Natural Gas Interests	Equipment, Furniture and Fixtures	Total
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
Currency translation adjustment	362	162	524
Balance as at June 30, 2019	\$ 5,687	\$ 1,619	\$ 7,306

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Accumulated depletion and depreciation	Petroleum and Natural Gas Interests	Equipment, Furniture and Fixtures	Total
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	-	49	49
Currency translation adjustment	12	5	17
Balance as at June 30, 2019	\$ 2,319	\$ 932	\$ 3,251
Carrying amounts			
Balance as at December 31, 2018	\$ 3,018	\$ 570	\$ 3,588
Balance as at June 30, 2019	\$ 3,368	\$ 687	\$ 4,055

Management assessed whether there were indications of impairment of the Company's property, plant and equipment assets as at June 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 June 30, 2019 as the net present value of expected future cash flows supports the carrying value. During the six months ended June 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% (2017 – 11%).

8 Trade and other receivables

As at	June 30, 2019	December 31, 2018
Trade receivables	\$ 480	\$ 409
VAT receivable	74	360
GST receivable	5	2
	\$ 559	\$ 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.

9 Non-current receivables

As at	June 30, 2019	December 31, 2018
(i) Due from CNG Holdings	\$ 398	\$ 302
(ii) Non-current trade receivable	192	192
(iii) Due from KUB Holdings	29	29
(iv) Financial guarantee for gas trading	-	396
	\$ 619	\$ 919

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(i) During the six months ended June 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 \$10 (2018 - \$9) during the six months ended June 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 \$192 (2018 - \$192) non-current trade receivable amount is a portion of a receivable from a customer of the gas trading activity. The customer is making periodic payments towards its debt and the full collection of the receivable may take greater than twelve months. See Note 5. The Company has determined the allowance for doubtful accounts to be \$Nil.

(iii) The balance is for the reimbursement of expenses with no repayment terms.

(iv) In 2017, Tysagaz 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 six months ended June 30, 2019. See Note 13.

10 Supplemental cash flow information

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Cash flows relating to:				
Changes in trade and other receivables	\$ 66	\$ 110	\$ 194	\$ (172)
Changes in non-current receivables	(32)	-	369	221
Changes in prepaid expenses and inventory	(600)	(422)	305	213
Changes in trade and other payables	64	(1,975)	(888)	(1,178)
Changes in dividends receivable	1,684	-	-	-
	\$ 1,182	\$ (2,287)	\$ (20)	\$ (916)

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

	June 30	December 31,
As at	2019	2018
Cash	\$1,429	\$3,486
Cash equivalent	6,000	3,750
Total cash and cash equivalent	\$7,429	\$7,236

During the year ended December 31, 2018 and the six months ended June 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%

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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. The principal of this loan cannot be repaid until the principal of the loan referenced in Note 11 (ii) is paid in full.

During the six months ended June 30, 2019, the Company paid interest of \$119 (2018 - \$119). 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 will amortize the value of the common shares over the term of the loan and included in finance loss during the six months ended June 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 six months ended June 30, 2019, the Company paid interest of \$11 (2018 - \$30) and a principal repayment of \$500 (2018 - \$Nil) was made which represents a payment in full of the loan. A summary of the shareholder loans is presented below.

	Shareholder Loan I	Shareholder 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
June 30, 2019	\$2,000	\$500
December 31, 2018		
Current portion	\$ -	\$498
Non-current portion	\$2,000	\$ -
June 30, 2019		
Current portion	\$ -	\$ -
Non-current portion	\$2,000	\$ -

12 Loan from KUB-Gas

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

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December 31, 2020, callable by Kub-Gas	30,000
Principal loan value, June 30, 2019	142,500
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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
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Carrying value, December 31, 2018	\$3,591
Derecognition of interest rate benefit	1,594
Currency translation adjustment	206
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Carrying value, June 30, 2019	\$5,391

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, Tysgaz, 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 guarantee in place. The Company is also a party to the guarantee. In February 2019, the bank guarantee was reduced to 10,000 UAH (\$370).

14 Prepaid Expenses and Inventory

As at	June 30, 2019	December 31, 2018
Inventory - natural gas	\$ 355	\$ 1,457
Prepaid expenses	925	118
Inventory - materials	21	32
	<hr/>	<hr/>
	\$ 1,301	\$ 1,607

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As at June 30, 2019, natural gas inventory included \$355 (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 six months ended June 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 Options	Weighted Avg Exercise Price (CAD)
Balance as at January 1, 2017	17,500,000	\$ 0.08
Options forfeited	(2,200,000)	0.08
Balance at June 30, 2019 and December 31, 2018	15,300,000	\$ 0.08

Issuance Date	Expiry Date	Exercise price (CAD)	Issued	Exercisable	Weighted Avg Remaining Life (years)
December 7, 2016	December 7, 2026	\$ 0.08	12,800,000	12,800,000	7.44
May 19, 2017	May 19, 2027	\$ 0.06	2,500,000	2,500,000	7.89
Total			15,300,000	15,300,000	7.52

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 - \$20) during the six months ended June 30, 2019.

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 June 30, 2019 (December 31, 2018 - Nil)

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

(Unaudited, expressed in thousands of US dollars)

16 Income per share

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Numerator				
Income (loss) for the period - basic and diluted	\$ (205)	\$ 596	\$ 757	\$ 1,375
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	\$ 0.00
Diluted income per share	\$ (0.00)	\$ 0.00	\$ 0.00	\$ 0.00

17 Selling and general administrative expenses

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Salaries (Note 21)	\$ 498	\$ 568	\$ 968	\$ 1,145
Office and administration expenses	197	253	446	404
Professional fees	75	36	141	75
Travel	26	32	55	75
Consulting fees	40	15	63	26
Exploration expenses	-	-	-	5
	\$ 836	\$ 904	\$ 1,673	\$ 1,730

18 Operating segments

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

	Ukraine	Canada	USA	Total
Six months ended June 30, 2019				
Revenue, net of royalties	\$ 7,540	\$ -	\$ -	\$ 7,540
Cost of sales for gas trading	(6,856)	-	-	(6,856)
Income from equity investment	1,879	-	-	1,879
Selling and general administrative expenses, accretion, cost of sales and loss on sale of property, plant and equipment	(722)	(210)	(791)	(1,723)
Finance loss, net	370	(263)	(13)	94
Depletion and depreciation	(21)	-	(28)	(49)
Cost of sales	(128)	-	-	(128)
Net income (loss)	\$ 2,062	\$ (473)	\$ (832)	\$ 757

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	Ukraine	Canada	USA	Total
Three months ended June 30, 2019				
Revenue, net of royalties	\$ 3,026	\$ -	\$ -	\$ 3,026
Cost of sales for gas trading	(2,616)	-	-	(2,616)
Income from equity investment	357	-	-	357
Selling and general administrative expenses, accretion, cost of sales and loss on sale of property, plant and equipment	(377)	(113)	(379)	(869)
Finance loss, net	178	(142)	(5)	31
Depletion and depreciation	(13)	-	(12)	(25)
Cost of sales	(109)	-	-	(109)
Net income (loss)	\$ 446	\$ (255)	\$ (396)	\$ (205)

	Ukraine	Canada	USA	Total
Three months ended June 30, 2019				
Revenue, net of royalties	\$ 3,026	\$ -	\$ -	\$ 3,026
Cost of sales for gas trading	(2,616)	-	-	(2,616)
Income from equity investment	357	-	-	357
Selling and general administrative expenses, accretion, cost of sales and loss on sale of property, plant and equipment	(377)	(113)	(379)	(869)
Finance loss, net	178	(142)	(5)	31
Depletion and depreciation	(13)	-	(12)	(25)
Cost of sales	(109)	-	-	(109)
Net income (loss)	\$ 446	\$ (255)	\$ (396)	\$ (205)

	Ukraine	Canada	USA	Total
Six months ended June 30, 2018				
Revenue, net of royalties	\$ 8,762	\$ -	\$ -	\$ 8,762
Cost of sales for gas trading	(8,393)	-	-	(8,393)
Income from equity investment	3,167	-	-	3,167
Selling and general administrative expenses, accretion and cost of sales	(795)	(119)	(857)	(1,771)
Finance loss, net	(128)	(134)	(32)	(294)
Depletion and depreciation	(22)	-	(54)	(76)
Share-based payments	-	(20)	-	(20)
Net loss	\$ 2,591	\$ (273)	\$ (943)	\$ 1,375

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	Ukraine	Canada	USA	Total
Three months ended June 30, 2018				
Revenue, net of royalties	\$ 3,092	\$ -	\$ -	\$ 3,092
Cost of sales for gas trading	(2,877)	-	-	(2,877)
Income from equity investment	1,461	-	-	1,461
Selling and general administrative expenses, accretion and	(292)	(191)	(451)	(934)
Finance loss, net	4	(83)	(16)	(95)
Depletion and depreciation	(10)	-	(36)	(46)
Share-based payments	-	(5)	-	(5)
Net income (loss)	\$ 1,378	\$ (279)	\$ (503)	\$ 596
As at December 31, 2018				
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
As at June 30, 2019				
Property, plant and equipment	\$ 3,149	\$ -	\$ 906	\$ 4,055
Total assets	\$ 14,511	\$ 7,318	\$ 1,180	\$ 23,009
Total liabilities	\$ 9,464	\$ 2,739	\$ 241	\$ 12,444

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 six months ended June 30, 2019, there were four (2018 - two) customers which each accounted for greater than 10% of total gas trading revenue, and the revenue amounted to \$991, \$845, \$768 and \$749 (2018 - \$2,184 and \$1,344). During the six months ended June 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 licensor, while failure to commit exploration works and substantiate the different capital expenditure schedule may result in termination of the exploration licence.

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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 six months ended June 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 NRU has been relocated to another manufacturer in the Houston, Texas area and will undergo an evaluation and testing during the summer of 2019 to determine what is required to complete the NRU.

20 Related party transactions

Transactions with related parties are incurred in the normal course of business. During the six months ended June 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 June 30 30,		Three months ended June 30 30,	
	2019	2018	2019	2018
Directors' fees ⁽¹⁾	\$ 57	\$ 58	\$ 113	\$ 117
Directors' share-based payments	-	3	-	6
Management wages ⁽¹⁾	198	255	396	509
Consulting fees ⁽¹⁾	30	-	60	-
Management share-based payments	-	6	-	12
Total	\$ 285	\$ 322	\$ 569	\$ 644

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

As at June 30, 2019, \$558 (December 31, 2018 - \$691) 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 \$103 during the six months ended June 30, 2019 (2018 - \$60) 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:

As at		June 30, 2019	December 31, 2018
Cash and cash equivalents	\$	7,429	\$ 7,236
Trade and other receivables (excludes sales tax)		483	409
Non-current receivables		619	919
	\$	8,531	\$ 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 \$5,391 in loans payable to Kub-Gas (See Note 12). As at June 30, 2019, the Company had current assets of \$9,289 and had the following financial liabilities:

As at June 30, 2019					
Contractual Cash					
	Carrying Amount		Flows		< 1 year
Trade and other payables	\$ 4,530	\$	4,530	\$	4,530
Shareholder loans	2,000		2,000		-
Loan from KUB-Gas	5,391		5,391		5,391
Provisions	523		-		-
	\$ 12,444	\$	11,921	\$	9,921

(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 June 30, 2019			
	UAH	€	CAD	Total
Cash and cash equivalents	\$ 969	\$ 163	\$ 56	\$ 1,188
Trade and other receivables	554	-	5	559
Non-current receivables	480	398	-	878
Trade and other payables	(3,504)	-	(8)	(3,512)
Loan from KUB-Gas	(5,391)	-	-	(5,391)
	\$ (6,892)	\$ 561	\$ 53	\$ (6,278)
Effect of +/- 10% change in foreign exchange rate	\$ (689)	\$ 56	\$ 5	\$ (628)

(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 six months ended June 30, 2019, KUB-Gas sold gas to its customers at an average price of \$6.28 (2018 - \$7.34) 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 \$105 (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 June 30, 2019, the Company has total shareholders' equity of \$10,565 (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 six months ended June 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

As at	June 30, 2019	December 31, 2018
Fair value through profit or loss (i)	\$ 7,429	\$ 7,236
Assets - amortized cost (ii)	\$ 1,099	\$ 1,328
Liabilities - amortized cost (iii)	\$ 11,921	\$ 11,407

	Level 1	Level 2	Level 3	Total
As at June 30, 2019				
Cash and cash equivalents	\$ 7,429	\$ -	\$ -	\$ 7,429
As at December 31, 2018				
Cash and cash equivalents	\$ 7,236	\$ -	\$ -	\$ 7,236

24 Subsequent Event

Subsequent to the six months ended June 30, 2019, the Company recorded \$1,107 in dividend from KUB Holdings. See Note 5.