



### **Condensed consolidated interim financial statements**

For the three months ended March 31, 2021 and 2020

(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	Note	March 31, 2021	December 31, 2020
<b>Assets</b>			
Current assets			
Cash and cash equivalents	9	\$ 4,205	\$ 4,424
Prepaid expenses and inventory	13	66	116
Trade and other receivables	7	88	38
		4,359	4,578
Non-current assets			
Equity investments	4, 5	2,885	2,805
Property, plant and equipment	6	1,577	1,423
Non-current receivables and prepayments	8	857	859
Right of use lease asset	19	-	116
		5,319	5,203
<b>Total assets</b>		\$ 9,678	\$ 9,781
<b>Liabilities</b>			
Current liabilities			
Loan from KUB-Gas	11	\$ 5,109	\$ 5,005
Trade and other payables		3,183	3,331
Shareholder loan	10	1,650	1,800
Lease liability	19	-	27
		9,942	10,163
Non-current liabilities			
Provisions	6	326	313
Lease liability	19	-	91
		326	404
<b>Total liabilities</b>		10,268	10,567
<b>Shareholders' equity (deficit)</b>			
Share capital	14	62,057	62,057
Contributed surplus	14	5,454	5,454
Other reserve	11	2,193	2,193
Share of change in equity in associated company	4, 11	(2,187)	(2,187)
Accumulated other comprehensive loss		(41,846)	(41,779)
Deficit		(26,261)	(26,524)
<b>Total shareholders' equity (deficit)</b>		(590)	(786)
<b>Total shareholders' equity (deficit) and liabilities</b>		\$ 9,678	\$ 9,781

*Nature of operations and going concern (Note 1)*

*Commitments and contingencies (Note 18)*

*Subsequent event (Note 24)*

*These condensed consolidated interim financial statements for the three months ended March 31, 2021 and 2020, were approved by the board of directors of the Company on May 26, 2021.*

Approved by the Board

\_\_\_\_\_  
“Patrick McGrath”  
Director (**Signed**)

\_\_\_\_\_  
“Timothy Marchant”  
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)

<b>Three months ended March 31,</b>	<i>Note</i>	<b>2021</b>	<b>2020</b>
Revenue from gas sales		\$ 94	\$ 66
Revenue from gas trading	4	1,653	2,204
Royalty expense		(32)	(20)
<b>Revenue, net of royalty</b>		<b>1,715</b>	<b>2,250</b>
<b>Income from equity investment</b>	4, 5	<b>41</b>	<b>79</b>
<b>Operating expenses</b>			
Cost of sales for gas trading	4	944	2,070
Selling and general administrative expenses	16	490	866
Cost of sales		51	74
Finance loss (gain), net	10, 11	-	12
Accretion of decommissioning obligation	6	8	13
		<b>1,493</b>	<b>3,035</b>
<b>Net income (loss)</b>		<b>263</b>	<b>(706)</b>
<b>Other comprehensive income (loss)</b>			
Items that may be reclassified to profit or loss			
Foreign currency translation adjustment on foreign operations		(67)	485
<b>Comprehensive income (loss)</b>		<b>\$ 196</b>	<b>\$ (221)</b>
<b>Loss per share</b>			
Basic	15	\$ 0.00	\$ (0.00)
Diluted	15	\$ 0.00	\$ (0.00)

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

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

	<i>Note</i>	Number of shares	Share capital	Contributed surplus	Other reserve	Share of change in equity in associated company	Accumulated other comprehensive loss	Deficit	Total
Balances as at January 1, 2020		314,215,355	\$ 62,057	\$ 5,454	\$ 2,193	\$ (2,187)	\$ (42,689)	\$ (24,415)	\$ 413
Currency translation adjustment		-	-	-	-	-	485	-	485
Net loss		-	-	-	-	-	-	(706)	(706)
<b>Balances as at March 31, 2020</b>		314,215,355	62,057	5,454	2,193	(2,187)	(42,204)	(25,121)	192
Balances as at January 1, 2021		314,215,355	\$ 62,057	\$ 5,454	\$ 2,193	\$ (2,187)	\$ (41,779)	\$ (26,524)	\$ (786)
Currency translation adjustment		-	-	-	-	-	(67)	-	(67)
Net income		-	-	-	-	-	-	263	263
<b>Balances as at March 31, 2021</b>		314,215,355	\$ 62,057	\$ 5,454	\$ 2,193	\$ (2,187)	\$ (41,846)	\$ (26,261)	\$ (590)

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

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

Three months ended March 31,	<i>Note</i>	2021	2020
<b>Operating activities</b>			
Net income (loss)		\$ 263	\$ (706)
<i>Adjustments for:</i>			
Income from equity investment	4	(41)	(79)
Accretion of decommissioning obligation	6	8	13
Interest expense		(3)	-
Amortization of right of use asset	19	7	-
Gain on derecognition of lease	19	2	-
		236	(772)
Changes in working capital	9	(220)	1,122
<b>Cash provided by (used in) operating activities</b>		16	350
<b>Investing activities</b>			
Additions to property, plant and equipment	6	(134)	-
Payments under lease liability	19	(8)	(15)
Loan to CNG	8(i)	-	(71)
<b>Cash used in investing activities</b>		(142)	(86)
<b>Financing activities</b>			
Repayment of shareholder loan	10(ii)	(150)	-
<b>Cash used in financing activities</b>		(150)	-
Net change in cash and cash equivalents		(276)	264
Effect of foreign exchange on cash and cash equivalents		57	(370)
Cash and cash equivalents at beginning of period		4,424	6,206
<b>Cash and cash equivalents at end of period</b>		\$ 4,205	\$ 6,100
<b>Supplemental cash flow information</b>			
Taxes paid		\$ -	\$ -
Interest paid		\$ 45	\$ 60

**Supplemental cash flow information (Note 9)**

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

## **Cub Energy Inc.**

**For the three months ended March 31, 2021 and 2020**

**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, power generation 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 3300, 205 5<sup>th</sup> Avenue SW, Calgary, AB, T2P 2V7. 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 4. Gastek has the ability to earn an additional 5% of KUB Holdings (up to 40% in total, see Note 4).

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 is currently producing at a reduced rate and the Company is planning to generate power utilizing the gas. See Note 6.

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 (Notes 5 and 24). 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 (\$228) 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. 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 2% against the US dollar during the three months ended March 31, 2021.

As of March 31, 2021, the Company had working capital deficit of \$5,583 (December 31, 2020 – \$5,585) and accumulated deficit of \$26,261 (December 31, 2020 – \$26,524) since its inception and may incur future losses in the development of its business. With the current cash resources, uncertainty surrounding the successful completion and installation of the power generation units, 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.

**Cub Energy Inc.**  
**For the three months ended March 31, 2021 and 2020**  
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(Unaudited, expressed in thousands of US dollars)

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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.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

## 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 three months ended March 31, 2021.

### (b) 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 December 31, 2020:

<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 Inc.	100%	Texas	US

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 "€".

**Cub Energy Inc.****For the three months ended March 31, 2021 and 2020****Notes to the condensed consolidated interim financial statements**(Unaudited, expressed in thousands of US dollars)

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**(c) Transactions eliminated on consolidation**

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

**(d) 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.

**(e) Use of estimates and judgments**

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

- To value the equity investment in KUB Holdings, management obtains financial information from the majority owner. The recoverability of the Company's equity investment in KUB Holdings is subject to all estimates included in the financial information from the majority owner, as well as estimates of the recoverable amount of the natural gas reserves held by its wholly-owned subsidiary KUB-Gas. Additionally, the Company estimates the ability of KUB Holdings to generate future dividends.
- 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

## Cub Energy Inc.

For the three months ended March 31, 2021 and 2020

### Notes to the condensed consolidated interim financial statements

(Unaudited, expressed in thousands of US dollars)

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*.
- Judgment is required to determine the value of its petroleum and natural gas interests (RK field) and the recent purchase of new equipment to utilize the field for power generation.
- The Company applies judgment in assessing its ability to continue as a going concern for at least 12 months. In making this assessment, the Company considers the facts and circumstances disclosed in Note 1. The Company concluded that there is a material uncertainty that may cast doubt on its ability to continue as a going concern.

### 3 Significant accounting policies

These condensed consolidated interim financial statements are prepared in accordance with IFRS and follow the same accounting policies and methods of their application as the most recent audited financial statements for the three months ended March 31, 2021. These financial statements should be read in conjunction with those consolidated financial statements.

### 4 Equity investment in KUB Holdings

The Company's share of the consolidated income of its 35% ownership interest in KUB Holdings for the three months ended March 31, 2021 was \$41 (2020 – \$79). As of March 31, 2021, the carrying value of the Company's 35% ownership investment was \$2,885 (December 31, 2020 - \$2,805). The continuity of the Company's investment in KUB Holdings is as follows:

Investment in KUB Holdings as at January 1, 2020	\$	4,600
Income from equity investment		79
Currency translation adjustment		(718)
Investment in KUB Holdings as at March 31, 2020	\$	3,961
Investment in KUB Holdings as at January 1, 2021	\$	2,805
Income from equity investment		41
Currency translation adjustment		39
Investment in KUB Holdings as at March 31, 2021	\$	2,885

As at March 31, 2021 and 2020, KUB Holdings on a gross basis includes the following:

As at		March 31, 2021		December 31, 2020
Current assets	\$	11,050	\$	11,380
Non-current assets		2,504		2,073
Current liabilities		(4,931)		(5,086)
Non-current liabilities		(380)		(352)

**Cub Energy Inc.****For the three months ended March 31, 2021 and 2020****Notes to the condensed consolidated interim financial statements**

(Unaudited, expressed in thousands of US dollars)

<b>Three months ended March 31,</b>	<b>2021</b>	<b>2020</b>
Capital expenditures	\$ -	\$ 2,431
Revenues	3,000	3,418
Royalty expense	1,576	1,306
Net income	119	228
Other comprehensive income (loss)	112	(2,050)

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 three months ended March 31, 2021, the Company recorded \$1,653 (2020 - \$2,204) in gas sales and \$944 (2020 - \$2,070) for the cost of the sales for a net profit from gas trading of \$709 (2020 - \$134). For clarity, the \$944 (2020 - \$2,070) cost of sales is included in the KUB Holdings revenue in the tables above. As at March 31, 2021, \$nil (December 31, 2020 - \$Nil) of the Company's trade and other receivables relates to these gas sales to third parties and included in current receivables (see Note 7). In addition, at March 31, 2021, \$2,320 (December 31, 2020 - \$2,202) 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 11.

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 December 31, 2020. 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.

## 5 Equity investment in CNG Holdings

The Company's share of the consolidated net income from its 50% ownership interest in CNG Holdings for the three months ended March 31, 2021 was \$180 (2020 – net loss of \$655). 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. As at December 31, 2020, the Company's share of its cumulative losses at CNG Holdings is \$2,398 (December 31, 2020 - \$2,578) which exceeds the cumulative carry value of 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 March 31, 2021, the Company's 50% ownership investment was \$Nil (December 31, 2020 - \$Nil).

As at March 31, 2021 and 2020, CNG Holdings on a gross basis includes the following:

<b>As at</b>	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Current assets	\$ 334	\$ 375
Non-current assets	3,928	3,677
Current liabilities	(24)	(12)
Non-current liabilities	(8,496)	(8,448)
Net liabilities	\$ (4,258)	\$ (4,408)

**Cub Energy Inc.****For the three months ended March 31, 2021 and 2020****Notes to the condensed consolidated interim financial statements**

(Unaudited, expressed in thousands of US dollars)

Three months ended March 31,	2021	2020
Capital expenditures	\$ -	\$ -
Net income (loss)	360	(1,309)
Other comprehensive income (loss)	\$ 206	\$ 507

**6 Property, plant and equipment**

Cost	Petroleum and Natural Gas Interests	Equipment, Furniture and Fixtures	Total
Balance as at January 1, 2020	\$ 3,748	\$ 978	\$ 4,726
Additions	-	1,423	1,423
Balance as at December 31, 2020	3,748	2,401	6,149
Additions	-	134	134
Currency translation adjustment	-	20	20
Balance as at March 31, 2021	\$ 3,748	\$ 2,555	\$ 6,303

Accumulated depletion and depreciation	Petroleum and Natural Gas Interests	Equipment, Furniture and Fixtures	Total
Balance as at January 1, 2020 and March 31, 2021	\$ 3,748	\$ 978	\$ 4,726

**Carrying amounts**

Balance as at December 31, 2020	\$ -	\$ 1,423	\$ 1,423
Balance as at March 31, 2021	\$ -	\$ 1,577	\$ 1,577

During the year ended December 31, 2020, the Company signed a contract for the purchase of capital equipment to utilize the natural gas from the RK field for power generation. The Company recorded \$134 in capital expenditures during the three months ended March 31, 2021 related to the fulfillment of this contract. A further \$239 is included in non-current receivables (Note 8(iii)) for a prepayment to a local Ukraine power company for services to be performed in relation to the power grid connection for the power generation units. No depreciation was recorded in 2021 as the equipment was not commissioned and connected to the local grid by March 31, 2021. The Company expects to depreciate the equipment using the unit of production method based on the useful estimated hours for the equipment's life. The carrying value at March 31, 2021 was \$1,577 (December 31, 2020 - \$1,423).

The Company's long term provision consists of the decommissioning obligation of wells. The 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 2027 through to 2033.

**Cub Energy Inc.****For the three months ended March 31, 2021 and 2020****Notes to the condensed consolidated interim financial statements**

(Unaudited, expressed in thousands of US dollars)

**7 Trade and other receivables**

As at	March 31, 2021	December 31, 2020
VAT receivable, net of liabilities	\$ 81	\$ 31
Interest receivable on GICs	5	5
GST receivable	2	2
	\$ 88	\$ 38

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.

**8 Non-current receivables and prepayments**

As at December 31,	March 31, 2021	December 31, 2020
(i) Due from CNG Holdings	\$ 589	\$ 594
(ii) Due from KUB Holdings	29	29
(iii) Prepayment related to power generation	239	236
	\$ 857	\$ 859

(i) During the three months ended March 31, 2020, the Company provided CNG Holdings with an additional \$71 loan (2021 - \$Nil) 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 of which no payments were made and the parties are negotiating an extension based on the terms of the shareholders agreement (See Note 24). The loan accrued interest of \$9 (2020 - \$7) during the three months ended March 31, 2021. The balance also includes \$10 (December 31, 2020- \$10) for a reimbursement of costs on behalf of CNG that is considered a long term receivable.

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

(iii) The Company has made a prepayment to a local Ukraine power company for the costs associated with connecting to the local power grid totaling \$239 (December 31, 2020 - \$236) to utilize the natural gas from the RK field for power generation.

**9 Supplemental cash flow information**

Three months ended March 31,	2021	2020
<b>Cash flows relating to:</b>		
Changes in trade and other receivables	\$ (58)	\$ 412
Changes in prepaid expenses and inventory	47	991
Changes in trade and other payables	(209)	(280)
Changes in non-current receivables	-	(1)
	\$ (220)	\$ 1,122

During the three months ended March 31, 2021, derecognized \$109 (2020 - \$Nil) for a terminated office lease. There were no other non-cash investing or financing activities during the three months ended March 31, 2021 and 2020.

**Cub Energy Inc.****For the three months ended March 31, 2021 and 2020****Notes to the condensed consolidated interim financial statements**

(Unaudited, expressed in thousands of US dollars)

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

As at	March 31, 2021	December 31, 2020
Cash	\$2,113	\$1,649
Cash equivalents	2,092	2,775
Total cash and cash equivalents	\$4,205	\$4,424

The Company purchased Guaranteed Investment Certificates with a Canadian financial institution with annual interest rates between 0.20% and 0.75% that are redeemable at any time.

**10 Shareholder Loan**

Pelicourt Limited ("Pelicourt") is a significant shareholder of the Company over which the former CEO of the Company had significant influence. During 2014, Pelicourt loaned the Company the principal sum of \$2,000 with an interest rate of 12% paid quarterly. In May 2020, \$200 of the principal was repaid and the interest rate was reduced to 10.8%. In January 2021, the Pelicourt loan was extended by three years to March 31, 2024. The repayment of the facility will be \$150 per quarter with the first payment made on January 27, 2021. The loan can be called at any time with 60 days written notice. The balance of the Pelicourt loan at March 31, 2021 was \$1,650. 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. During the three months ended March 31, 2021, the Company paid interest of \$45 (2020 - \$60). A summary of the shareholder loan is presented below.

	Shareholder Loan
January 1, 2020	\$2,000
Repayment	(200)
December 31, 2020	\$1,800
Repayment	(150)
March 31, 2021	\$1,650

**11 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. The schedule of the loans is as follows:

Due date	UAH
December 31, 2022, callable by Kub-Gas	30,000
December 31, 2022, callable by Kub-Gas	60,000
December 31, 2022, callable by Kub-Gas	22,500
December 31, 2022, callable by Kub-Gas	30,000
Principal loan value, March 31, 2021	142,500
Carrying value, January 1, 2020	\$6,016
Currency translation adjustment	(1,011)
Carrying value, December 31, 2020	\$5,005
Currency translation adjustment	104
Carrying value, March 31, 2021	\$5,109

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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 4.

The Kub-Gas loans were amended in 2019 to include a callable feature whereby Kub-Gas can call the loans at any time prior to 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.

During the year ended December 31, 2020, the maturity of the loans from Kub-Gas were all extended to December 31, 2022 and includes a callable feature whereby Kub-Gas can call the loans at any time prior to the December 31, 2022 maturity date.

**12 Bank Guarantee**

During the year ended December 31, 2018, the Company's subsidiary, Tysagaz, entered into a bank guarantee for 25,000 UAH (\$890) with a state-owned Ukrainian bank to guarantee its working capital requirement for the gas trading business. 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 (\$356). In December 2019, the Company's subsidiary, Tysagaz, entered into a new bank guarantee for 8,000 UAH (\$285) as a result of a change in structure of the pipeline operator and the 10,000 UAH bank guarantee was terminated in January 2020.

**Restricted Cash**

During 2019, the Company pledged 4,500 UAH (\$160) of its cash in the Ukraine bank for the bank guarantee. During the year ended December 31, 2020, the pledged amount was decreased to 2,600 UAH (\$92) of which 2,400 UAH (\$85) relates to the gas trading business and 200 UAH (\$7) relates to the power generation line of business. During the three months ended March 31, 2021, 1,960 UAH (\$70) was returned leaving 640 UAH (\$23) remaining.

**13 Prepaid Expenses and Inventory**

<b>As at</b>	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Prepaid expenses	\$ 40	\$ 70
Inventory - materials	17	18
Inventory - natural gas	9	28
	\$ 66	\$ 116

As at March 31, 2021, natural gas inventory included \$9 (December 31, 2020 - \$28) held with a Ukraine pipeline operator as part of its gas trading activities.

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

(a) Share capital

During the three months ended March 31, 2020 and 2020, 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. There were 14,200,000 stock options outstanding during the three months ended March 31, 2021. The continuity and schedule of the stock options is presented below:

	Number of Options	Weighted Avg Exercise Price (CAD)
Balance as at January 1, 2020	15,300,000	\$ 0.08
Options forfeited	(1,100,000)	0.08
Balance at December 31, 2020	14,200,000	\$ 0.08
Options granted	100,000	0.05
Balance at March 31, 2021	14,300,000	\$ 0.08

Issuance Date	Expiry Date	Exercise price (CAD)	Issued	Exercisable	Weighted Avg Remaining Life (years)
December 7, 2016	December 7, 2026	\$ 0.08	11,700,000	11,700,000	5.69
May 19, 2017	May 19, 2027	\$ 0.06	2,500,000	2,500,000	6.14
January 4, 2021	January 4, 2026	\$ 0.05	100,000	-	4.77
Total			14,300,000	14,200,000	5.73

The stock options vest a quarter every three months and are fully vested twelve months after the date of grant. The Company uses a graded vesting methodology to expense the options over the vesting period. The Company recorded no material share-based payments of during the three months ended March 31, 2021 and 2020.

(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 or outstanding as at March 31, 2021 (December 31, 2020 – Nil) and there was no RSU activity for the years presented.

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**15 Loss per share**

<b>Three months ended March 31,</b>	<b>2021</b>		<b>2020</b>	
Numerator				
Income (loss) for the period - basic and diluted	\$	263	\$	(706)
Denominator (in 000's)				
Weighted average shares - basic		314,215		314,215
Effect of warrants		-		-
Effect of stock options		-		-
Effect of RSUs		-		-
Weighted average shares - diluted		314,215		314,215
Basic income (loss) per share	\$	0.00	\$	(0.00)
Diluted income (loss) per share	\$	0.00	\$	(0.00)

**16 Selling and general administrative expenses**

<b>Three months ended March 31,</b>	<b>2021</b>		<b>2020</b>	
Salaries (Note 21)	\$	216	\$	438
Office and administration expenses		104		215
Professional fees		67		145
Consulting fees		54		55
Travel		49		13
	\$	490	\$	866

**17 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>Three months ended March 31, 2021</b>								
Revenue, net of royalties	\$	1,715	\$	-	\$	-	\$	1,715
Cost of sales for gas trading		(944)		-		-		(944)
Income from equity investment		41		-		-		41
Selling and general administrative expenses and accretion		(226)		52		(324)		(498)
Cost of sales		(51)		-		-		(51)
Finance gain, net		(103)		104		(1)		-
Net loss	\$	432	\$	156	\$	(325)	\$	263

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	Ukraine	Canada	USA	Total
<b>Three months ended March 31, 2020</b>				
Revenue, net of royalties	\$ 2,250	\$ -	\$ -	\$ 2,250
Cost of sales for gas trading	(2,070)	-	-	(2,070)
Selling and general administrative expenses and accretion	(361)	(108)	(410)	(879)
Income from equity investment	79	-	-	79
Cost of sales	(74)	-	-	(74)
Finance loss, net	(63)	52	(1)	(12)
Net income (loss)	\$ (239)	\$ (56)	\$ (411)	\$ (706)
<b>As at December 31, 2020</b>				
Total assets	\$ 6,347	\$ 3,300	\$ 134	\$ 9,781
Total liabilities	\$ 8,150	\$ 2,296	\$ 121	\$ 10,567
<b>As at March 31, 2021</b>				
Total assets	\$ 7,106	\$ 2,541	\$ 31	\$ 9,678
Total liabilities	\$ 8,418	\$ 1,833	\$ 17	\$ 10,268

The Company has one principal reportable segment being the revenue from the sale of gas from the Company's RK field and the sale of gas from its investment in KUB Holdings (gas trading). This reportable segment was 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.

For the three months ended March 31, 2021, there was one (2020 - four) customer which accounted for greater than 10% of total gas trading revenue, and the revenue amounted to \$1,643 (2020 - \$390, \$357, \$262 and \$241). During the three months ended March 31, 2021, there was just one customer for the Company's gas sales (2020 - one). All the Company's revenues were earned from sales to customers in the Ukraine.

## 18 Commitments and contingencies

### Ukraine

The Company has an obligation to incur certain capital expenditures to comply with the Ukrainian licence requirements. Under these licence maintenance commitments, the Company is required to explore its licenced 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 2021 to 2025 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.

### 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

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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, but remains dormant.

**19 Leases**

The Company adopted IFRS 16 on January 1, 2019. On initial adoption, the Company elected to record a right-of use asset and lease obligation of \$120 and \$109, respectively, for an office lease obligation. During the three months ended March 31, 2021, payments for short-term and low value leases were \$8 (2020 - \$22). During the three months ended March 31, 2021, the original office lease obligation was terminated by paying a one-time \$20 payment and the Company currently has no material office lease obligations.

<b>Right of use asset</b>	
Balance, January 1, 2020	\$ 68
Disposition	(37)
Addition	124
Amortization	(33)
Effect of foreign exchange	(6)
Balance, December 31, 2020	\$ 116
Disposition	(109)
Amortization	(7)
Balance, March 31, 2021	\$ -

  

<b>Lease Liability</b>	
Balance, January 1, 2020	\$ 56
Disposition	(44)
Addition	124
Lease payments made	(19)
Interest expense on lease liability	7
Effect of foreign exchange	(6)
Balance, December 31, 2020	\$ 118
Disposition	(113)
Lease payments made	(8)
Interest expense on lease liability	3
Balance, March 31, 2021	\$ -

**20 Related party transactions**

Transactions with related parties are incurred in the normal course of business. During the three months ended March 31, 2021 and 2020, there were no related party transactions other than the shareholder loan (Note 10), the transactions and balances with KUB Holdings and KUB-Gas, and the loan to CNG Holdings (Note 8 (i)) (Notes 4, 5, 10 and 11).

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## **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:

<b>Three months ended March 31,</b>		<b>2021</b>		<b>2020</b>
Directors' fees <sup>(1)</sup>	\$	24	\$	56
Management wages <sup>(1)</sup>		78		183
Consulting fees <sup>(1)</sup>		32		30
<b>Total</b>	\$	<b>134</b>	\$	<b>269</b>

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

As at March 31, 2021, \$Nil (December 31, 2020 - \$258) was included in trade and other payables owing to the former CEO for his 2014 to 2016 accrued compensation reflecting the payment to the former CEO estate of \$258 during the three months ended March 31, 2021 (2020 - \$60) as part of the accrued debt repayment.

## **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

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an influence on credit risk. The Company manages its credit risk by holding its cash with high credit quality Canadian, US and Ukrainian financial institutions.

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

As at		March 31, 2021	December 31, 2020
Cash and cash equivalents	\$	4,205	\$ 4,244
Trade and other receivables (excludes sales tax)		5	5
Non-current receivables		618	623
	\$	4,828	\$ 4,872

**(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 \$1,650 in shareholder loans (See Note 10) and \$5,109 in loans payable to Kub-Gas (See Note 11). As at March 31, 2021, the Company had current assets of \$4,359 and had the following financial liabilities:

As at March 31, 2021				
	Carrying Amount	Contractual	Cash Flows	< 1 year
Trade and other payables	\$ 3,183	\$	3,183	\$ 3,183
Shareholder loan	1,650		1,650	1,650
Loan from KUB-Gas	5,109		5,109	5,109
Provisions	326		-	-
	\$ 10,268	\$	9,942	\$ 9,942

**(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 March 31, 2021			
	UAH	€	CAD	Total
Cash and cash equivalents	\$ 1,692	\$ 92	\$ 35	\$ 1,819
Trade and other receivables	81	-	2	83
Non-current receivables	-	589	-	589
Trade and other payables	(2,971)	-	(33)	(3,004)
Loan from KUB-Gas	(5,109)	-	-	(5,109)
	\$ (6,307)	\$ 681	\$ 4	\$ (5,622)
Effect of +/- 10% change in foreign exchange rate	\$ (630)	\$ 68	\$ -	\$ (562)

**(e) Interest Rate**

The Company has a \$1,650 shareholder loan which has quarterly repayments of \$150 through March 31, 2024 with an annual interest rate of 10.8%. 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 Company has no commodity hedge program in place which could potentially mitigate the price risk. During the three months ended March 31, 2021, the Company sold gas to its customers at an average price of \$5.90 (2020 - \$3.45) 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 \$40 (2020 - \$75) 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 (deficit), comprised of issued share capital, contributed surplus, warrants, accumulated other comprehensive loss and deficit in the definition of capital. As at March 31, 2021, the Company has total shareholders' deficit of \$590 (December 31, 2020 - \$786). The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund its exploration and development work programs. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity, debt or by securing strategic partners.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the three months ended March 31, 2021.

**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 and cash equivalents 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 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

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comparable to current market rates. The non-current receivables approximate fair value as they include a prepayment for the new power generation business that installed in 2021 and a loan receivable at a market interest rate that is currently subject to negotiations for an extension or settlement.

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 and cash equivalents
- (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>March 31,</b>		<b>December 31,</b>	
	<b>2021</b>		<b>2020</b>	
Fair value through profit or loss (i)	\$	4,205	\$	4,424
Assets - amortized cost (ii)	\$	862	\$	864
Liabilities - amortized cost (iii)	\$	9,942	\$	10,136

	<b>Level 1</b>		<b>Level 2</b>		<b>Level 3</b>		<b>Total</b>	
<b>As at March 31, 2021</b>								
Cash and cash equivalents	\$	4,205	\$	-	\$	-	\$	4,205
<b>As at December 31, 2020</b>								
Cash and cash equivalents	\$	4,424	\$	-	\$	-	\$	4,424

**24 Subsequent event**

Subsequent to the three months ended March 31, 2021, the Company announced it had entered into a share purchase agreement ("SPA") to sell its 50% interest in CNG Holdings, which indirectly owns the Uzghorod licence in western Ukraine. In consideration, the Company is to receive €800 (US \$970) for its 50% interest in CNG Holdings. The consideration consists of €600 (US \$728) in cash on closing and €200 (US \$242) is a contingent payment on certain future events including a commercial discovery. The closing is subject to certain conditions including Ukraine regulatory approval.