MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Introduction

The following management discussion and analysis ("MD&A") is a review of operations, current financial position and outlook for Cub Energy Inc. (the "Company" or "Cub") and should be read in conjunction with the audited consolidated financials for the years ended December 31, 2019 and 2018. Amounts are reported in United States dollars, unless otherwise stated, based upon the financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A is dated as of March 27, 2020.

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

Corporate Overview and Strategy

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

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

Barrels of Oil Equivalent Conversion

A barrel of oil equivalent ("boe") or units of natural gas equivalents ("Mcfe") are calculated using the conversion factor of 6 Mcf (thousand cubic feet) of natural gas being equivalent to one barrel of oil. A boe conversion ratio of 6 Mcf:1 bbl (barrel), or a Mcfe conversion ratio of 1 bbl:6 Mcf, is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and is not based on either energy content or current prices. While the boe ratio is useful for comparative measures, it does not accurately reflect individual product values and might be misleading, particularly if used in isolation. As well, given that the value ratio, based on the current price of crude oil to natural gas, is significantly different from the 6:1 energy equivalency ratio, using a 6:1 conversion ratio may be misleading as an indication of value. Test results are not necessarily indicative of long-term performance or of ultimate recovery. The test data contained herein is considered preliminary until full pressure transient analysis is complete.

Forward Looking Information

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

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

Reported Results and Equity Investment

As at December 31, 2019, the Company had an effective 35% ownership interest in KUB-Gas LLC, a Ukrainian company which owns assets representing a substantial portion of the Company's core operating properties, income and cashflow. The Company also owns 100% ownership of Tysagaz, whose RK Field in western Ukraine has been producing at a reduced rate. In addition, the Company has an effective 50% ownership interest in CNG LLC, a Ukrainian company with a production licence in western Ukraine that has no current production.

All of the KUB-Gas shares are held through KUBGAS Holdings Limited ("KUB Holdings"), a private company incorporated in Cyprus, which is 35% owned by the Company. The results for three and year ended December 31, 2019 and 2018 reflect the 35% ownership in KUB Holdings. The Company does not control KUB Holdings nor CNG Holdings and is required under IFRS to record their investment under the equity method of accounting. In doing so, it reports none of the revenues, royalties or production expenses for KUB Holdings and CNG Holdings within its consolidated statements of operations and cash flows. Similarly, the Company does not report the individual consolidated assets and liabilities of KUB Holdings and CNG Holdings on its consolidated statements of financial position.

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

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

Year ended December 31, 2019	As Reported	Deduct Equity Investments	Add Allocated from Equity Investments	Pro-rata Net to Cub
Average Daily Production (boe/d)	21	-	763	784
Revenue from gas sales	$ 247,000	$ -	$ 9,157,000	$ 9,404,000
Revenue from gas trading(1)	11,455,000	(10,630,000)	-	825,000
Royalty	(69,000)	-	(2,993,000)	(3,062,000)
Gross profit	**11,633,000**	**(10,630,000)**	**6,164,000**	**7,167,000**
Income from equity investment	3,087,000	(3,087,000)	-	-
Operating expenses				
Cost of sales for gas trading(1)	10,630,000	(10,630,000)	-	-
Impairment of KUB Holdings	5,864,000	-	-	5,864,000
Impairment of property, plant and equipment	5,014,000	-	-	5,014,000
Selling and general administrative	3,431,000	-	7,000	3,438,000
Depletion and depreciation	93,000	-	1,342,000	1,435,000
Cost of sales	209,000	-	1,696,000	1,905,000
Provision for bad debt	444,000	-	-	444,000
Finance loss (income), net	10,000	-	(617,000)	(607,000)
Accretion of decommissioning Obligation	74,000	-	6,000	80,000
Loss on the sale of property, plant and equipment	17,000	-	-	17,000
	25,786,000	**(10,630,000)**	**2,434,000**	**17,590,000**
Income (loss) before tax	**(11,066,000)**	**(3,087,000)**	**3,730,000**	**(10,423,000)**
Income tax recovery (expense)	**6,000**	**-**	**(643,000)**	**(637,000)(2)**
Net income (loss)	**$ (11,060,000)**	**$ (3,087,000)**	**$ 3,087,000**	**$(11,060,000)**

Year ended December 31, 2019	As Reported	Deduct Equity Investments	Add Equity Investments	Pro-rata Net to Cub
Netback ($/boe)				
Revenue	-	-	$32.72	$32.72
Royalty	-	-	(10.75)	(10.75)
Production expenses	-	-	(6.09)	(6.09)
Field netback ($/boe)	**-**	**-**	**$ 15.88**	**$ 15.88**
Field netback ($/mcfe)	**-**	**-**	**$ 2.65**	**$ 2.65**

Three months ended December 31, 2019	As Reported	Deduct Equity Investments	Add Allocated from Equity Investments	Pro-rata Net to Cub
Average Daily Production (boe/d)	29	-	664	693
Revenue from gas sales	$ 59,000	$ -	$ 1,410,000	$ 1,469,000
Revenue from gas trading[(1)]	1,487,000	(1,342,000)	-	145,000
Royalty	(15,000)	-	(494,000)	(509,000)
Gross profit	**1,531,000**	**(1,342,000)**	**916,000**	**1,105,000**
Income from equity investment	737,000	(737,000)	-	-
Operating expenses				
Impairment of KUB Holdings	5,864,000	-	-	5,864,000
Impairment of property, plant and equipment	5,014,000	-	-	5,014,000
Cost of sales for gas trading[(1)]	1,342,000	(1,342,000)	-	-
Selling and general administrative	877,000	-	6,000	883,000
Finance loss (income), net	(18,000)	-	(640,000)	(658,000)
Cost of sales	27,000	-	491,000	518,000
Provision for bad debt	444,000	-	-	444,000
Depletion and depreciation	20,000	-	298,000	318,000
Accretion of decommissioning Obligation	24,000	-	-	24,000
	13,594,000	**(1,342,000)**	**155,000**	**12,407,000**
Income (loss) before tax	**(11,326,000)**	**(737,000)**	**761,000**	**(11,302,000)**
Income tax (recovery) expense	**6,000**	**-**	**(24,000)**	**(18,000)[(2)]**
Net income (loss)	**$ (11,320,000)**	**$ (737,000)**	**$ 737,000**	**$ (11,320,000)**

Three months ended December 31, 2019	As Reported	Deduct Equity Investments	Add Allocated from Equity Investments	Pro-rata Net to Cub
Netback ($/boe)				
Revenue	-	-	$22.75	$22.75
Royalty	-	-	(8.09)	(8.09)
Production expenses	-	-	(8.05)	(8.05)
Field netback ($/boe)	**-**	**-**	**$ 6.61**	**$ 6.61**
Field netback ($/mcfe)	**-**	**-**	**$ 1.10**	**$ 1.10**

(1) Commencing August 2016, the Company's wholly-owned subsidiary, Tysagaz, began taking possession of its 35% ownership of gas produced at KUB-Gas. Tysagaz purchased its share of gas from KUB-Gas at the same price that KUB-Gas sold its gas to an affiliate of the majority owner. The Company agreed to this arrangement so it could attempt to earn additional net income from the gas sales price to the majority owner's affiliate. For purposes of these pro-rata disclosures, the cost of sales is eliminated as it's already included in the equity investment revenue.

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

Results of Operations

(in thousands of US Dollars)	Three Months Ended December 31, 2019	Three Months Ended December 31, 2018	Year Ended December 31, 2019	Year Ended December 31, 2018
Petroleum and natural gas revenue	59	74	247	142
Pro-rata petroleum and natural gas revenue(1)	1,468	4,385	9,404	14,864
Revenue from gas trading(2)	1,487	6,831	11,455	20,428
Net income (loss)	(11,320)	570	(11,060)	3,078
Income (loss) per share – basic and diluted	(0.04)	0.00	(0.04)	0.01
Funds generated from (used in) operations	(1,345)	2,353	(995)	2,690
Capital expenditures(3)	77	2	86	221
Pro-rata capital expenditures(3)	819	222	2,092	1,682
Pro-rata netback ($/boe)	6.61	35.28	15.88	29.33
Pro-rata netback ($Mcfe)	1.10	5.88	2.65	4.88

	December 31, 2019	December 31, 2018
Cash and cash equivalents	6,206	7,236

Notes:

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

(2) During the three and twelve months ended December 31, 2019, the Company recorded $1,487,000 (2018 - $6,831,000) and $11,455,000 (2018 - $20,428,000) in revenue for gas trading and $1,342,000 (2018 - $6,276,000) and $10,632,000 (2018 - $19,150,000) for the cost of the sales for a net profit from gas trading of $145,000 (2018 - $555,000) and $823,000 (2018 - $1,278,000), respectively.

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

Highlights

- The Company reported income from equity investment of $3,087,000 during the year ended December 31, 2019 as compared to income of $6,121,000 in 2018.
- The Company received $2,790,000 in dividends from KUB Holdings during the year December 31, 2019 compared with $5,676,000 in dividends in 2018.
- The Company reported a net loss of $11,060,000 or $0.04 per share during the year December 31, 2019 as compared to net income of $3,078,000 or $0.01 per share during 2018. Excluding the one-time impairment and provision charges in 2019, the Company would have had net income of $262,000.

- Production averaged 784 boe/d (97% weighted to natural gas and the remaining to condensate) for the year December 31, 2019 as compared to 836 boe/d for 2018.
- Netbacks of $15.88/boe or $2.65/Mcfe were achieved for the year December 31, 2019 as compared to netback of $29.33/Boe or $4.88/Mcfe for 2018.
- Achieved average natural gas price of $5.36/Mcf and condensate price of $49.51/bbl during the year December 31, 2019 as compared to $7.94/Mcf and $70.47/bbl for 2018.
- During the year ended December 31, 2019, Kub-Gas performed several recompletions that resulted in an increase in initial production followed by natural decline rates. There are approximately ten other wells with "behind pipe pays" that may be attractive recompletion opportunities. As the currently producing intervals deplete, the production team can recomplete these additional zones in the existing wells. Kub-Gas uses its own completion equipment and personnel.
- CNG drilled the U101 well that showed that the prospective reservoir sands were water saturated with traces of natural gas that indicate there was gas migration, but no viable trapping mechanism in this particular prospect. The U101 well obtained valuable subsurface geological and petrophysical data that will be used to refine the seismic mapping and geo-modelling expected to be completed in Q2-2020. The U101 well costs were 100% borne by the Company's partner and the Company is awaiting the partners review of the updated CNG data to determine the next operations at CNG.
- Subsequent to the year ended December 31, 2019, Kub-Gas drilled the Makeevskoye-30 ("M-30"). Logging was performed on several horizons and was evaluated as having non-commercial gas shows.
- Subsequent to the year ended December 31, 2019, the Company had an independent engineering firm evaluate the Nitrogen Rejection Unit ("NRU") and their conclusion was the NRU required additional investment in re-engineering and improvements to make the unit operational to meet pipeline specifications. At the present natural gas price environment in Ukraine and the added cost and risk of getting the NRU operational, the Company believes it would not be prudent to spend additional funds on the NRU. The Company is looking at alternatives for the NRU and RK field, including possible natural gas power generation.

Eastern Ukraine KUB-Gas Assets (35%)

During the year ended December 31, 2019, Kub-Gas performed several recompletions that resulted in an increase in initial production followed by natural decline rates. There are approximately ten other wells with "behind pipe pays" that may be attractive recompletion opportunities. As the currently producing intervals deplete, the production team can recomplete these additional zones in the existing wells. Kub-Gas uses its own completion equipment and personnel.

Subsequent to the year ended December 31, 2019, Kub-Gas drilled the Makeevskoye-30 ("M-30"). Logging was performed on several horizons and was evaluated as having non-commercial gas shows.

On the West Olgovskoye licence, Kub-Gas expects to commence a 270 km^2 3D seismic program in 2020 to delineate known structures found from 2D seismic.

Western Ukraine CNG Assets (50% Interest)

CNG drilled the U101 well that showed that the prospective reservoir sands were water saturated with traces of natural gas that indicate there was gas migration, but no viable trapping mechanism in this particular prospect. The U101 well obtained valuable subsurface geological and petrophysical data that will be used to refine the seismic mapping and geo-modelling expected to be completed in Q2-2020. The U101 well costs were 100% borne by the Company's partner and the Company is awaiting the partners review of the updated CNG data to determine the next operations at CNG.

Western Ukraine Tysagaz Assets (100% Interest)

The RK field was temporarily suspended on April 1, 2016 because the nitrogen concentration exceeded the allowable limit stipulated by the gas pipeline operator. The Company is currently selling a modest amount of rich gas from a deep well to evaluate the Mesozoic formation on the RK field.

During the year ended December 31, 2019, and due to continued delays in the completion of the NRU, the Company and the NRU manufacturer entered into a mutual release agreement, including the release of the arbitration claim, in exchange for the Company taking physical possession of the NRU "as is". The Company has determined that the NRU requires process improvements before it can be deployed to Ukraine. Subsequent to the year ended December 31, 2019, the Company had an independent engineering firm evaluate the Nitrogen Rejection Unit ("NRU") and their conclusion was the NRU required additional investment in re-engineering and improvements to make the unit operational to meet pipeline specifications. At the present natural gas price environment in Ukraine and the added cost and risk of getting the NRU operational, the Company believes it would not be prudent to spend additional funds on the NRU. The Company is looking at alternatives for the NRU and RK field, including possible natural gas power generation.

Ukraine Gas Prices and Currency

The Ukrainian exchange, the Hryvnya ("UAH") rate versus the USD was 23.69 UAH/USD at December 31, 2019, which appreciated approximately 17% as compared to the 27.76 UAH/USD at December 31, 2018.

During the year ended December 31, 2019, gas prices realized were $5.36/Mcf which decreased approximately 32% relative to the comparative 2018 price of $7.94/Mcf. The future of natural gas prices in Ukraine is currently subject to a high degree of uncertainty and it is unknown what the future prices the Company will receive on its Ukraine production.

Ukraine Cross-Border Dividend and Going Concern

In 2014, the NBU issued a temporary resolution which, among other things, prohibits the payment of cross-border dividends. On June 7, 2016, the NBU eased certain capital controls by allowing Ukraine companies to issue limited dividends related directly to 2014, 2015 and 2016 earnings. In 2018 Ukrainian Parliament adopted a law introducing a new system of control over operations with currency in Ukraine, including cross-border operations. The new system is based on the principle of free currency market, though the NBU keeps an authority to introduce temporary restrictions. The applicable NBU rules currently allow KUB-Gas to transfer up to a maximum of €7 million in dividends per month. During the year ended December 31, 2019, the Company received $2,790,000 in dividends from KUB Holdings compared with $5,676,000 in dividends in 2018.

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

Management Change

Effective September 1, 2019, the Company appointed Sergey Panchuk as Chief Operating Officer, replacing Kerry Kendrick. Mr. Kendrick will remain with the Company as a senior advisor. Mr. Panchuk is a mechanical engineer and previously served as the Chief Executive Officer of KUB-Gas from 2006 to 2017. During Mr. Panchuk's tenure at Kub-Gas, the company grew to be the third largest private oil and gas producer in Ukraine. Since 2017, Mr. Panchuk, a resident of Ukraine, has been overseeing the Company's working interests in Ukraine.

Summary of Annual Results

The selected audited consolidated financial information contained below is taken from the consolidated financial statements of the Company for each of the aforementioned years.

Years ended December 31,	2019	2018	2017
Revenue from gas sales	247,000	142,000	24,000
Revenue from gas trading	11,455,000	20,428,000	13,099,000
Income from equity Investment	3,087,000	6,121,000	6,767,000
Operating expenses	25,786,000	23,573,000	34,218,000
Net income (loss)	(11,060,000)	3,078,000	(14,342,000)
Income (loss) per share	(0.04)	0.01	(0.05)
Working Capital (deficit)	(2,055,000)	3,798,000	(478,000)

Material Variations in Annual Results

The 2019 financial results were impacted by a 28% decrease in natural gas prices as well as impairment charges that impacted the net losses in 2017 and 2019.

There were impairment charges that impacted net losses in 2019. During the quarter ended December 31, 2019, the Company recorded impairment charges due to the carrying value of its petroleum and natural gas assets exceeding the net present value of expected future cash flows using a discount rate of 26%. The high discount rate relates to the local discount rate in Ukraine and related country risk at that time. During the fourth quarter of 2019, the Company took a $5,014,000 impairment charge relating to the RK field and an impairment on its equity investment in Kub Holdings of $5,864,000.

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

Summary of Quarterly Results

The following table sets out selected unaudited consolidated financial information for each of the last eight quarters ended up to and including December 31, 2019. The information contained herein is taken from the consolidated financial statements of the Company for each of the aforementioned quarters.

Quarter Ended	Dec 31, 2019	Sept 30, 2019	June 30, 2019	Mar 31, 2019
Revenue from gas sales	59,000	62,000	77,000	49,000

Revenue from gas trading	1,487,000	2,514,000	2,975,000	4,479,000
Income from equity Investment	737,000	471,000	357,000	1,522,000
Operating expenses	13,594,000	3,530,000	3,588,000	5,074,000
Net income (loss)	(11,320,000)	(497,000)	(205,000)	962,000
Income (loss) per share	(0.04)	(0.00)	(0.00)	0.00
Working Capital (deficit)	(2,055,000)	(1,189,000)	(632,000)	127,000

Quarter Ended	Dec 31, 2018	Sept 30, 2018	June 30, 2018	Mar 31, 2018
Revenue from gas sales	74,000	50,000	18,000	-
Revenue from gas trading	6,831,000	4,848,000	3,079,000	5,670,000
Income from equity Investment	1,168,000	1,786,000	1,461,000	1,706,000
Operating expenses	7,482,000	5,537,000	3,957,000	6,597,000
Net income (loss)	570,000	1,133,000	596,000	779,000
Income (loss) per share	0.00	0.00	0.00	0.00
Working Capital deficit	3,798,000	(4,568,000)	(1,862,000)	(1,094,000)

Material Variations in Quarterly Results

The Company's working capital deficit increased during the quarters ended March 31, 2019 and December 31, 2018 due to the reclassification of loans from KUB Holdings from non-current liabilities to current liabilities as their maturity dates are within twelve months of the balance sheet date. The working capital improved in the quarter ended December 31, 2018, when the maturity date of the KUB-Gas loans were extended to December 31, 2020 and become long term liabilities. During 2019, the KUB-Gas loans were considered current liability as the maturity date is within 12 months.

The Company also experienced declining natural gas prices in 2019 that also contributed to material impairments to its assets in the fourth quarter of 2019.

Revenue from Gas Sales, Net of Royalty

The Company began selling a modest amount of rich gas from the RK field in western Ukraine from a deep well (RK-1) in the Mesozoic formation resulting in revenue during the three months ended December 31, 2019 amounted to $59,000 as compared to $74,000 in the comparative 2018 period. During the year ended December 31, 2019, gas sales amounted to $247,000 as compared to $142,000 in 2018.

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

Commencing August 2016, the Company's wholly owned subsidiary, Tysagaz, began taking possession of some of its 35% ownership of gas produced at KUB-Gas. Tysagaz purchased the gas from KUB-Gas at the same price that KUB-Gas sold its gas to an affiliate of the majority shareholder of KUB-Gas. The Company agreed to this arrangement so it could attempt to earn additional net income from the gas sales price sold to the majority owner's affiliate. During the three months ended December 31, 2019, the Company recorded $1,487,000 in gas trading revenue (2018 - $6,831,000) and $1,342,000 for the cost of the gas trading (2018- $6,276,000) for a net profit of $145,000 (2018 - $555,000). During the year ended December 31, 2019, the Company recorded $11,455,000 in gas trading revenue (2018 - $20,428,000) and $10,630,000 for the cost of the gas trading (2018 - $19,150,000) for a net profit of $825,000 (2018 - $1,278,000).

Income from Equity Investments

The Company accounts for its 35% indirect ownership in KUB Holdings and 50% ownership of CNG Holdings as investments under the equity method. During the three months ended December 31, 2019, KUB-Gas generated gross revenues of approximately $4,026,000 (2018 - $12,316,000) and had net income of $2,101,000 (2018 – $3,333,000). This resulted in a net income to the Company from its equity investment for the quarterly period of $737,000 (2018 – $1,168,000). During the year ended December 31, 2019, KUB-Gas generated gross revenues of approximately $26,162,000 (2018 - $42,062,000) and had net income of $8,820,000 (2018 – $17,486,000). This resulted in a net income to the Company from its equity investment for the nine month period of $3,087,000 (2018 – $6,121,000).

The net loss at CNG Holdings was $1,899,000 (2018 – $195,000) during the three months ended December 31, 2019 and $1,457,000 for the year ended December 31, 2019 (2018 – $148,000) including $1,844,000 for exploration expenses related to the U-101 well. Net losses in both periods were also related to finance income, net of finance expense, on intercompany loans and the effects of foreign exchange, as the loans are denominated in Euros, to funds the exploration activities in Ukraine. The Company only records income/losses in its consolidated financial statements from its equity investment in CNG Holdings to the extent of interest in the equity investment which amounted to nil as at December 31, 2019 and 2018.

Selling and General Administrative Expenses

Selling and general administrative expenses were $877,000 during the fourth quarter ended December 31, 2019, as compared to $893,000 in the comparative 2018 quarter. For the year ended December 31, 2019, selling and general administrative expenses were $3,431,000 as compared to $3,360,000 for 2018 for an increase of approximately $71,000. During 2019, the Ukrainian Hryvnya increased 17% which increases in-country Ukrainian expenses and the Company also incurred extra costs for the evaluation of the NRU. Some of the significant items contained within selling and general administrative expenses are as follow:

Salaries

During the fourth quarter of 2019, salaries to staff and director's fees were $451,000 which was slightly lower compared to $476,000 during the comparative 2018 quarter. Salaries were $1,930,000 during the year ended December 31, 2019 as compared to $2,096,000 during 2018.

Office and administration

Office and administration costs were $248,000 in the third quarter ended December 31, 2019, as compared to $239,000 in the comparative 2018 quarter. Office costs were $911,000 for the year ended December 31, 2019 as compared to $840,000 in 2018.

Professional fees

Professional fees were $125,000 during the quarter ended December 31, 2019 as compared to $163,000 in the comparative 2018 quarter and were $316,000 for the year ended December 31, 2019 as compared to $272,000 in the comparative 2018 period. The Company's professional costs include the costs of being a public issuer including third party legal advice, engineering reports and financial audits. In the current year, the Company incurred legal and engineering costs dealing with the NRU.

Travel

The Company incurred travel costs of $12,000 in the fourth quarter of 2019 and as compared to $15,000 in the comparative 2018 period. During the year ended December 31, 2019, travel costs were $125,000 as compared to $126,000 in 2018. Travel expenses include costs associated with international operations and meetings with the Company's equity partners.

Consulting

Consulting fees were $41,000 during the fourth quarter of 2019 as compared to no fees during the 2018 comparative quarter. For the year ended December 31, 2019, the consulting fees were $149,000 as compared to $26,000 for the comparative 2018 period.

Impairment and Write Down of Assets

Management assesses whether there are indications of impairment of the Company's assets at each period end date. During the year ended December 31, 2019, the Company recorded an impairment charge of $5,864,000 on the value of its equity investment in KUB Holdings. The Company determined that the carrying value of its petroleum and natural gas assets exceeded the net present value of expected future cash flows (value in use) using a discount rate of 20%. The net present value decreased in 2019 due to several factors including the 40% lower estimates for future natural gas prices and a 25% natural decline of the fields.

In addition, during the year ended December 31, 2019, the Company recorded an impairment charge of $5,014,000 on the value of its property, plant and equipment which related to the RK filed in western Ukraine. The Company determined that the carrying value of its petroleum and natural gas assets exceeded the net present value of expected future cash flows (value in use). 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. As a result of the lengthy suspension, the Company's independent engineers would not assign any reserves to the RK field. In addition, the materially lower natural gas prices in Ukraine would result in sub economic returns for installing an NRU.

During the year ended December 31, 2019, a creditor of the gas trading business ceased making payments on an outstanding accounts receivable. Subsequent to the year ended December 31, 2019, the Company commenced legal action against the creditor but the collection of the receivable is unknown and the Company recorded a bad debt provision for the entire receivable in the amount of $444,000 in 2019.

In evaluating the impairments, the Company also considered other factors including, but not limited to, the market capitalization of the Company as compared to its book value.

Net Profit/Loss

During the quarter ended December 31, 2019, the Company recorded a net loss of $11,320,000 or $0.04 per share as compared to net income of $570,000 or $0.00 per share in the comparative 2018 quarter. The Company recorded net income of $11,060,000 or $0.04 per share during the year ended December 31, 2019 as compared to net income of $3,078,000 or $0.01 per share in 2018. Excluding the one-time impairment and provision charges in 2019, the Company would have had net income of $262,000 during the year ended December 31, 2019.

Foreign Currency Translation Income/Loss

During the fourth quarter ended December 31, 2019, the foreign currency translation loss was $169,000 as compared to income of $428,000 in the comparative 2018 quarter. The foreign currency translation income was $2,844,000 during the year ended December 31, 2019 as compared to $52,000 in 2018. The income and losses relate to the revaluation of the Company's foreign assets and liabilities from the local currency (Ukrainian, Canadian and European currencies) to the US dollar in accordance with the Company's accounting policy for the translation of its subsidiaries. The recent foreign currency translation income was primarily the result in the strengthening of the Ukrainian Hryvnya against the US dollar. The carrying value of the assets of the Ukrainian subsidiaries were materially impacted by the volatility of the local currencies in the past. The appreciation/devaluation materially raises/lowers the carrying value of the Ukrainian property, plant and equipment and the value of the equity investment in KUB Holdings. These gains/losses do not impair the ability of those assets or liabilities to perform their intended purpose.

Liquidity, Capital Resources and Financings

At December 31, 2019, the Company had a cash balance of $6,206,000 (2018 - $7,236,000) and working capital deficit of $2,055,000 (December 31, 2018 – working capital of $3,798,000). The working capital was largely impacted by the KUB-Gas loans being classified as current liabilities versus a long term liability as the maturity date is December 31, 2020. The KUB-Gas loans amount to $6,016,000 and the Company plans to negotiate an extension which it has done in the past although there are no assurances of future extensions. The Company had no long-term debt or capital leases other than the Pelicourt loan. The Company has historically been able to raise funds through the issuance of common shares or debt although there are no assurances funds will be able in the future.

The Company has a $2,000,000 secured shareholder loan with Pelicourt, a related party to the Company. The shareholders loan bears interest at 12% per annum payable quarterly and the principal of the shareholder loan is due on January 31, 2021. Pelicourt was granted security over Gastek which indirectly owns the 35% interest in KUB-Gas. The security is available on an event of default and limited only to the amount owing on the shareholder loan including principal and interest.

In June 2017, the Company entered into a second shareholder loan agreement with an officer of the Company. The shareholder loan is for $1,000,000 with an annual interest rate of 6% payable monthly. The shareholders loan was repaid in four equal quarterly installments and repaid in full on June 30, 2019.

During the year ended December 31, 2019, the Company received $2,790,000 in dividends from KUB Holdings as compared to $5,676,000 in dividends in the 2018 comparative period.

During the year ended December 31, 2019, the Company expended $86,000 on capital expenditures as compared to $221,000 in 2018, which was largely related to the NRU.

During the year ended December 31, 2019, KUB-Gas incurred approximately $1,396,000 (2018 - $4,011,000) of capital expenditures on property, plant and equipment which was the workovers in 2019 and primarily the NY-3 well in 2018. CNG expended approximately $1,844,000 for drilling the U-101 well during the year ended December 31, 2019 as compared to $118,000 in 2018. The CNG capital expenditures are largely paid by the company's 50% equity partner.

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

Off Balance Sheet Arrangements

During the year ended December 31, 2018, the Company's subsidiary, Tysagaz, entered into a bank guarantee for 25,000 UAH ($973) 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 ($422). In December 2019, the Company's subsidiary, Tysagaz, entered into a new bank guarantee for 8,000 UAH ($338) as a result of a change in structure of the pipeline operator and the 10,000 UAH bank guarantee was terminated in January 2020.

During 2019, the Company pledged 4,500 UAH ($190) of its cash in the Ukraine bank for the bank guarantee. Subsequent to the year ended December 31, 2019, the pledged amount was decreased to 2,000 UAH ($85).

Outlook

In eastern Ukraine, Kub-Gas is evaluating additional recompletion operations given the success of recompletions in 2018 and 2019 as well as one new well. Kub-Gas expects to commence a 3D seismic program in 2020 on the West Olgovskoye licence to delineate known structures found from 2D seismic.

In western Ukraine, CNG is utilizing the valuable subsurface data from the U-101 well and refining its model to determine the next drilling priorities. Pursuant to the Shareholders' Agreement, the costs of drilling the first three CNG wells will be incurred 100% by the Company's partner.

Outstanding Share Data

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

Type	Number
Common Shares	314,215,355
Stock Options	15,300,000

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 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.

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 publicly 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.

NRU

During the year ended December 31, 2018, and due to the continued construction delays on the NRU, the Company filed a claim with American Arbitration Association ("AAA"), seeking $300,000 (plus interest and attorney fees) from the NRU manufacturer in contractual delay damages. During the year ended December 31, 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".

Transactions with Related Parties

Transactions with related parties are incurred in the normal course of business. During the year ended December 31, 2019 and 2018, there were no related party transactions other than the shareholder loans and KUB-Gas loans - see "Liquidity, Capital Resources and Financing".

Critical Accounting Estimates

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

- To value the equity investment in KUB Holdings, management obtains financial information from the majority owner. The recoverability of the Company's equity investment in KUB Holdings is subject to all estimates included in the financial information from the majority owner, as well as estimates of the recoverable amount of the natural gas reserves held by its wholly-owned subsidiary Kub-Gas. Additionally, the Company estimates the ability of KUB Holdings to generate future dividends and ability to repatriate funds from Ukraine due to limited dividend restrictions.
- The determination of cash-generating units ("CGU") requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.
- Amounts recognized for depletion and depreciation of property, plant and equipment and the assessment of these assets for impairment which includes petroleum and natural gas interests are based on estimates of proved and probable reserves, natural gas prices, future costs, royalty payments and taxes, timing, and other relevant assumptions. By their nature, the estimates of reserves are subject to measurement uncertainty. Changes in these variables could significantly impact the reserves estimates which would affect estimates of recoverable amounts, and depletion and depreciation expense. The Company's natural gas reserves are evaluated annually and reported to the Company by independent qualified reserves evaluators. The Company expects that its estimates of reserves will change to reflect updated information. Reserve estimates can be revised upward or downward based on the results of future drilling, testing, production levels, and changes in costs, and commodity prices.
- Amounts recognized for decommissioning obligations and the related accretion expense requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.
- Charges for share-based payments and the value of restricted stock units (RSU) are based on the fair value at the date of issuance. These instruments are subject to the estimation using pricing models such as the Black-Scholes option pricing model, which is based on assumptions such as volatility, dividend yield, risk free rate of return and expected term. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.
- Tax interpretations, regulations and legislations in the jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

- Judgment is required to determine the functional currency of the parent and its subsidiaries. These judgments are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances, including analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates.*

- Judgement is required to determine if its petroleum and natural gas interests (RK field) is impaired due to its suspension/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. During the year ended December 31, 2019, the Company assessed the RK field for impairment and wrote the asset down to $Nil.

- The Company applies judgment in assessing its ability to continue as a going concern for at least 12 months. In making this assessment, the Company considers the facts and circumstances disclosed elsewhere in this MD&A. The Company concluded that there is a material uncertainty that may cast doubt on its ability to continue as a going concern.

Changes in Accounting Policy

The details of the new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

- 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.

The Company has a lease agreement for office space in Houston, Texas which expires in May 2020. The commitment is approximately $166,000 per year for the term of the lease. 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. The Company also leases two offices in Ukraine with one expiring in February 2021 with a commitment of $56,000 per year and a second expiring in November 2020 with a commitment of $15,000 per year.

Financial Instruments and Other Instruments

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

Non-IFRS Measures

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