



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

Expressed in Canadian Dollars

Unaudited



NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the Company's 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 interim consolidated financial statements of 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 interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Professional Accountants for a review of financial statements by an entity's auditor.

"Bahman Yamini"

"Kerry Spong"

President and Chief Executive Officer

Vice President, Finance & CFO

August 19, 2016

CANASIL RESOURCES INC.
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

Expressed in Canadian Dollars
Unaudited

ASSETS	June 30, 2016	December 31, 2015
Current		
Cash	\$ 3,026,408	\$ 203,294
Marketable securities <i>(Note 3)</i>	1,610,000	371,000
Receivables	112,318	162,306
Prepaid expenses	22,546	7,354
	<u>4,771,272</u>	<u>743,954</u>
Reclamation bonds	28,000	28,000
Property and equipment	48,069	50,602
	<u>\$ 4,847,341</u>	<u>\$ 822,556</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 165,720	\$ 201,509
Accounts payable and accrued liabilities – related parties <i>(Note 8)</i>	-	98,132
Due to related parties <i>(Note 8)</i>	-	519,000
	<u>165,720</u>	<u>818,641</u>
SHAREHOLDERS' EQUITY		
Share capital <i>(Note 5)</i>	21,408,536	17,588,877
Convertible debenture <i>(Note 7)</i>	-	4,323,549
Contributed surplus	6,214,765	1,783,712
Accumulated other comprehensive income	1,157,062	21,000
Deficit	(24,098,742)	(23,713,223)
	<u>4,681,621</u>	<u>3,915</u>
	<u>\$ 4,847,341</u>	<u>\$ 822,556</u>

Commitments *(Note 9)*

ON BEHALF OF THE BOARD:

"Alvin Jackson", Director

"Michael McInnis", Director

- See Accompanying Notes -

CANASIL RESOURCES INC.

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS' EQUITY (DEFICIENCY)**

Expressed in Canadian Dollars
Unaudited

	Number of Shares	Share Capital (Note 5)	Convertible Debenture (Note 7)	Contributed Surplus (Notes 6,7)	Accumulated Other Comprehensive Income	Deficit	Total
Balance – December 31, 2014	81,059,872	\$ 17,418,851	\$ 3,179,030	\$ 1,640,077	\$ -	\$ (22,072,230)	165,728
Subscriptions received	-	37,500	-	-	-	-	37,500
Convertible debenture	-	-	154,059	-	-	-	154,059
Comprehensive loss for the period	-	-	-	-	-	(528,021)	(528,021)
Balance – June 30, 2015	81,059,872	17,456,351	3,333,089	1,640,077	-	(22,600,251)	(170,734)
Private placement – units	3,000,000	150,000	-	-	-	-	150,000
Subscriptions received	-	(37,500)	-	-	-	-	(37,500)
Private placement – shares	600,000	27,000	-	-	-	-	27,000
Share issuance costs	-	(6,974)	-	-	-	-	(6,974)
Convertible debenture	-	-	990,460	-	-	-	990,460
Share-based compensation	-	-	-	143,635	-	-	143,635
Comprehensive income (loss) for the period	-	-	-	-	21,000	(1,112,972)	(1,091,972)
Balance – December 31, 2015	84,659,872	17,588,877	4,323,549	1,783,712	21,000	(23,713,223)	3,915
Private placement – shares	2,000,000	300,000	-	-	-	-	300,000
Private placement – shares	4,100,000	902,000	-	-	-	-	902,000
Private placement – units	8,000,000	2,560,000	-	-	-	-	2,560,000
Finders' warrants issued	-	(43,943)	-	43,943	-	-	-
Share issuance costs	-	(202,834)	-	-	-	-	(202,834)
Exercise of warrants	3,000,000	300,000	-	-	-	-	300,000
Exercise of stock options	50,000	3,000	-	-	-	-	3,000
Fair value of options exercised	-	1,436	-	(1,436)	-	-	-
Convertible debenture forfeited without repayment	-	-	(4,323,549)	4,323,549	-	-	-
Share-based compensation	-	-	-	64,997	-	-	64,997
Comprehensive income (loss) for the period	-	-	-	-	1,136,062	(385,519)	750,543
Balance – June 30, 2016	101,809,872	\$ 21,408,536	\$ -	\$ 6,214,765	\$ 1,157,062	\$ (24,098,742)	4,681,621

- See Accompanying Notes -

CANASIL RESOURCES INC.

**CONDENSED INTERIM CONSOLIDATED STATEMENTS
OF LOSS AND COMPREHENSIVE INCOME (LOSS)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30**

Expressed in Canadian Dollars

Unaudited

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	2016	2015
Expenses				
Accounting and audit	\$ 19,165	\$ 6,517	\$ 26,854	\$ 14,917
Depreciation	1,267	1,632	2,533	3,263
Exploration and evaluation (Note 4)	124,117	33,222	383,509	345,447
Foreign exchange loss (gain)	9,621	16,842	21,235	(3,563)
Interest income	(230)	(3,358)	(905)	(5,399)
Investor relations and promotions	4,166	752	6,640	1,676
Legal fees	483	8,316	2,124	8,316
Listing and filing fees	-	1,679	7,261	6,879
Management fees	19,500	15,000	39,000	30,000
Office rent, services and supplies	17,228	18,129	35,344	35,435
Salaries, wages and consulting	38,388	41,600	83,405	79,100
Shareholder communications	11,202	2,443	17,257	3,443
Share-based compensation (Note 6)	-	-	64,997	-
Transfer agent fees	3,222	5,004	5,300	6,471
Travel and accommodation	3,092	-	7,383	2,036
Total operating expenses	(251,221)	(147,778)	(701,937)	(528,021)
Gain on sale of marketable securities (Note 3)	-	-	143,524	-
Loss for the period before taxes	(251,221)	(147,778)	(558,413)	(528,021)
Deferred income tax recovery (Note 3)	138,320	-	172,894	-
Loss for the period	(112,901)	(147,778)	(385,519)	(528,021)
Other comprehensive income				
Realized gain on sale of marketable securities (Note 3)	-	-	(143,524)	-
Item that may be reclassified subsequently to profit or loss: Change in fair value of marketable securities, net of taxes (Note 3)	925,680	-	1,279,586	-
Comprehensive income (loss) for the period	\$ 812,779	\$ (147,778)	\$ 750,543	\$ (528,021)
Loss per share - basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)
Weighted-average shares				
Outstanding – basic and diluted	91,145,586	81,059,872	88,878,553	81,059,872

- See Accompanying Notes -

CANASIL RESOURCES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS
OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30

Expressed in Canadian Dollars
Unaudited

CASH RESOURCES PROVIDED BY (USED IN)	2016	2015
Operating activities		
Loss for the period	\$ (385,519)	\$ (528,021)
Items not involving cash		
Depreciation	2,533	3,263
Gain on sale of marketable securities	(143,524)	-
Deferred income tax recovery	(172,894)	-
Share-based compensation	64,997	-
Changes in non-cash working capital		
Receivables	49,988	223,843
Prepaid expenses	(15,192)	4,914
Accounts payable and accrued liabilities	(35,789)	60,552
Accounts payable and accrued liabilities – related parties	(98,132)	(23,345)
	<u>(733,532)</u>	<u>(258,794)</u>
Investing activities		
Proceeds on sale of marketable securities	<u>213,480</u>	-
Financing activities		
Shares issued for cash	4,065,000	-
Share issuance costs	(202,834)	-
Share subscriptions received in advance	-	37,500
Convertible debenture	-	154,059
Due to related parties, net of repayments	(519,000)	185,000
	<u>3,343,166</u>	<u>376,559</u>
Change in cash for the period	2,823,114	117,765
Cash position - beginning of period	<u>203,294</u>	<u>125,226</u>
Cash position - end of period	\$ 3,026,408	\$ 242,991

**Supplemental schedule of non-cash
financing transactions**

Finders' warrants issued	\$ 43,943	\$ -
Fair value of stock options exercised	\$ 1,436	\$ -
Convertible debenture forfeited without repayment	\$ 4,323,549	\$ -

- See Accompanying Notes -

CANASIL RESOURCES INC.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

Expressed in Canadian Dollars

Unaudited

1. NATURE OF OPERATIONS

Canasil Resources Inc. (the "Company") is a mineral exploration company incorporated in British Columbia with its head office located at 1760 – 750 West Pender Street, Vancouver, British Columbia. The Company is considered to be in the exploration stage with respect to its interests in mineral properties, which are located in Canada and Mexico. Based on the information available to date, the Company has not yet determined whether these properties contain economically recoverable ore reserves. The Company's continuing operation is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain the financing necessary to maintain operations and successfully complete its exploration and development, and the attainment of future profitable production.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance and basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board as applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. These statements do not include all of the information and disclosures required by IFRS for annual financial statements. In the opinion of management, all adjustments and information considered necessary for fair presentation have been included in these financial statements.

These condensed interim consolidated financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements including the notes thereto for the year ended December 31, 2015. All financial information presented herein is unaudited. The Company's board of directors approved these financial statements for issue on August 19, 2016.

Basis of measurement

These condensed interim consolidated financial statements have been prepared under the historical cost convention, except for those items classified as fair value through profit and loss or available-for-sale financial assets, using the accrual basis of accounting, except for cash flow information.

Principles of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned Canadian subsidiary, CRD Minerals Corp. ("CRD"), and its wholly owned Mexican subsidiaries, Minera Canasil S.A. de C.V. and Minera CRD S.A. de C.V. ("Minera CRD"). All significant inter-company transactions, balances, and unrealized translation gains or losses have been eliminated.

CANASIL RESOURCES INC.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2016**

Expressed in Canadian Dollars

*Unaudited***2. SIGNIFICANT ACCOUNTING POLICIES – continued****Foreign currency translation**

The presentation and functional currency of the Company and its subsidiaries is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at rates approximating those in effect at the time of the transactions. Monetary items are translated at the exchange rate in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Translation gains and losses are reflected in profit or loss for the period.

3. MARKETABLE SECURITIES

Concurrently with entering into an option agreement with Orex Minerals Inc. (“Orex”) on the Sandra-Escobar project (Note 4), in September 2015, the Company acquired 1,400,000 common shares of Orex under a private placement at a cost of \$350,000. On September 25, 2015, Orex and Barsele Minerals Corp. (“Barsele”) completed a plan of arrangement such that each old share of Orex was exchanged for one new share of Orex plus one common share of Barsele. In February 2016, the Company sold 700,000 Orex shares. These shares are designated as available-for-sale securities. Details as at June 30, 2016 are as follows:

	Shares	Cost	Fair Value
Orex Minerals Inc.	700,000	\$ 69,956	\$ 560,000
Barsele Minerals Corp.	1,400,000	210,088	1,050,000
		<u>\$ 280,044</u>	<u>\$ 1,610,000</u>

Changes in the fair value of these securities for the period ended June 30, 2016 are as follows:

Fair value – beginning of period	\$ 371,000
Sold – 700,000 Orex shares	(213,480)
Change in fair value	<u>1,452,480</u>
Fair value – end of period	<u>\$ 1,610,000</u>

The Company’s available-for-sale securities are carried at fair value measured using a Level 1 fair value measurement whereby the carrying value is determined by using the quoted closing price of the security as at the balance sheet date.

During the period, the Company sold 700,000 Orex shares for net cash proceeds of \$213,480 and a gain on sale of \$143,524. The Company also recorded unrealized gains of \$1,136,062, net of deferred income tax impact of \$172,894, through accumulated other comprehensive income.

CANASIL RESOURCES INC.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

Expressed in Canadian Dollars

Unaudited

4. EXPLORATION AND EVALUATION

The Company expenses exploration and evaluation costs relating to its mineral property interests in the period incurred. The Company's principal mineral interests include:

Sandra-Escobar project, Mexico

The Company has staked the Sandra claims located in Durango State, Mexico. In accordance with a 2008 agreement with Pan American Silver Corp. ("Pan American"), the Company also earned a 40% interest in Pan American's Escobar claims in 2012, which are contiguous with the Sandra claims. In addition to these claims, the Company has also acquired various other claims in the area from third parties, all of which form the Sandra-Escobar project.

In September 2015, the Company signed an option agreement with Orex on the Sandra-Escobar project providing Orex with the right to earn up to a 65% interest in the project. Orex can earn an initial 55% interest by paying the Company \$500,000 (received) and incurring US\$2,000,000 in exploration expenditures over a three-year period. Orex can earn an additional 10% interest by paying the Company \$500,000 in cash or shares, at Orex's option, and incurring an additional US\$2,000,000 in exploration expenditures within two years.

Salamandra project, Mexico

The Salamandra project, located in Durango State, Mexico, was acquired through staking of claims and an option to purchase a 100% interest in the central 900 hectares of claims, subject to a net smelter returns royalty ("NSR") of 2% of which 1% may be purchased by the Company for US\$1,000,000. To acquire the claims under option, the Company can make payments based on a specific schedule that totals US\$600,000 over a period of eight years from 2012 to 2019, of which US\$175,000 has been paid to date.

In May 2013, the Company signed an option agreement with MAG Silver Corp. ("MAG") on the Salamandra project providing MAG with the right to earn up to a 70% interest in the project. In February 2016, MAG withdrew from the agreement without earning an interest. The Company received cash payments from MAG totalling \$500,000 during the term of the agreement.

The Salamandra property is held by Minera CRD, a wholly-owned subsidiary of CRD, a wholly-owned subsidiary of the Company. Under the agreement, MAG had the option of incurring qualifying expenditures on the Salamandra property either directly, or by advancing funds to CRD under a non-interest bearing convertible debenture, which funds would be used to incur expenditures on the property by Minera CRD. The agreement provided that should MAG withdraw from the agreement prior to earning an interest, it would forfeit its interest in the convertible debenture without repayment (*Note 7*).

CANASIL RESOURCES INC.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2016**

Expressed in Canadian Dollars

*Unaudited***4. EXPLORATION AND EVALUATION - continued****La Esperanza project, Mexico**

During 2006, the Company entered into an option agreement to earn a 100% interest in certain claims within the La Esperanza project, subject to an NSR of up to 1%, which can be purchased by the Company for US\$100,000. The claims are located in Zacatecas State, Mexico. The Company acquired these claims by making option payments of US\$160,000 over a four-year period to May 2011. From 2006 to 2010, the Company added further claims by direct staking to increase the project area.

Other projects

The Company has staked other claims located in Durango State, Mexico which include the Colibri, Carina, Victoria, Vizcaino, and Nora projects. The Company has also staked and holds claims in British Columbia, Canada, which include the Brenda, Lil, Vega, and Granite projects. The Company holds a 100% interest in all of these claims.

Mineral title

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently unreliable conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing.

Expenditures for the periods ending June 30 are as follows:

	2016	2015
Acquisition and option payments	\$ -	\$ 90,969
Administration	110,502	97,518
Consulting	22,351	21,165
Field costs	15,696	24,191
Geological	46,104	50,761
Land holding costs	178,292	185,621
Legal	461	65,720
Mapping and surveying	1,953	-
Roadbuilding	-	2,439
Transportation and rentals	8,150	7,063
Option payments received	-	(200,000)
	<u>\$ 383,509</u>	<u>\$ 345,447</u>

CANASIL RESOURCES INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

Expressed in Canadian Dollars
Unaudited

4. EXPLORATION AND EVALUATION - continued

Expenditures for the period and cumulative expenditures as at June 30 are as follows:

2016	Acquisition	Exploration	Total Additions	Cumulative Expenditures
Brenda, Canada	\$ -	\$ -	\$ -	\$ 2,331,353
- Expenditure recoveries	-	-	-	(206,329)
Other, Canada	-	18,954	18,954	298,639
- Expenditure recoveries	-	-	-	(32,433)
Sandra-Escobar, Mexico	-	29,568	29,568	1,681,848
- Option payments received	-	-	-	(500,000)
- Expenditure recoveries	-	-	-	(52,386)
Salamandra, Mexico	-	181,621	181,621	5,929,272
- Expenditure recoveries	-	-	-	(223,652)
- Option payments received	-	-	-	(553,989)
La Esperanza, Mexico	-	64,512	64,512	1,555,638
- Expenditure recoveries	-	-	-	(262,373)
- Option payments received	-	-	-	(300,000)
Other, Mexico	-	88,854	88,854	3,110,754
- Expenditure recoveries	-	-	-	(17,498)
- Option payments received	-	-	-	(111,875)
	\$ -	\$ 383,509	\$ 383,509	\$ 12,646,969

2015	Acquisition	Exploration	Total Additions	Cumulative Expenditures
Brenda, Canada	\$ -	\$ -	\$ -	\$ 2,331,353
- Expenditure recoveries	-	-	-	(206,329)
Other, Canada	-	497	497	261,524
- Expenditure recoveries	-	-	-	(21,787)
Sandra-Escobar, Mexico	-	39,509	39,509	1,476,811
Salamandra, Mexico	90,969	189,001	279,970	4,720,799
- Expenditure recoveries	-	-	-	(223,652)
- Option payments received	(200,000)	-	(200,000)	(553,989)
La Esperanza, Mexico	-	123,838	123,838	1,422,339
- Expenditure recoveries	-	-	-	(260,939)
- Option payments received	-	-	-	(300,000)
Other, Mexico	-	101,633	101,633	2,977,226
- Expenditure recoveries	-	-	-	(17,498)
- Option payments received	-	-	-	(111,875)
	\$ (109,031)	\$ 454,478	\$ 345,447	\$ 11,493,983

CANASIL RESOURCES INC.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

Expressed in Canadian Dollars

Unaudited

5. SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of voting common shares without par value.

Private placements

In August 2015, the Company closed a private placement by issuing 3,000,000 units at a price of \$0.05 per unit for cash proceeds of \$150,000. Each unit consisted of one common share and one share purchase warrant entitling the holder to purchase one common share of the Company at a price of \$0.10 for a period of one year. Subscriptions totalling \$37,500 were received in June 2015.

In August 2015, the Company also closed a private placement by issuing 600,000 shares at a price of \$0.045 per share for cash proceeds of \$27,000.

In February 2016, the Company completed a private placement of 2,000,000 shares at a price of \$0.15 per share for gross proceeds of \$300,000. The Company paid legal and filing fees of \$3,108 in respect of this private placement.

In March 2016, the Company completed a private placement of 4,100,000 shares at a price of \$0.22 per share for gross proceeds of \$902,000. The Company paid a 6% finder's fee of \$33,000 for a portion of the shares placed. The Company also paid a due diligence fee of \$15,190 and filing fees of \$5,260 in respect of this private placement.

In June 2016, the Company completed a private placement of 8,000,000 units at a price of \$0.32 per unit for gross proceeds of \$2,560,000. Each unit consisted of one common share and one-half of one share purchase warrant with each whole warrant entitling the holder to purchase one common share of the Company at a price of \$0.50 for a period of two years. The Company paid finders' fees on a portion of the placement, which consisted of 6% in cash and 3% in warrants, with each finder's warrant having the same terms as the placement warrants. The Company paid total finders' fees of \$124,320 and issued 194,250 warrants to qualified finders. The fair value of the finders' warrants was estimated at \$43,943 using the Black-Scholes Option-Pricing Model with the following weighted-average assumptions: risk-free interest rate of 0.54%, expected dividend yield of 0.00%, estimated stock price volatility of 115%, and expected option life of two years. In addition, the Company paid \$21,956 in legal and filing fees in respect of the placement. The warrants are subject to an accelerated exercise clause such that after four months following the closing of the placement, the Company has the right to accelerate the expiry date of the warrants upon 20 days written notice should the trading price of the Company's shares exceed \$0.80 for a period of 20 consecutive trading days.

CANASIL RESOURCES INC.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2016**

Expressed in Canadian Dollars

*Unaudited***6. STOCK OPTIONS AND WARRANTS**

Stock option and share purchase warrant activity is summarized as follows:

	Warrants		Options	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, December 31, 2014	144,850	\$ 0.10	4,675,000	\$ 0.21
Issued/granted	3,000,000	\$ 0.10	5,000,000	\$ 0.06
Expired	<u>(144,850)</u>	\$ 0.10	<u>(2,625,000)</u>	\$ 0.22
Outstanding, December 31, 2015	3,000,000	\$ 0.10	7,050,000	\$ 0.10
Issued/granted	4,194,250	\$ 0.50	450,000	\$ 0.21
Exercised	<u>(3,000,000)</u>	\$ 0.10	<u>(50,000)</u>	\$ 0.06
Expired	<u>-</u>	\$ -	<u>(200,000)</u>	\$ 0.35
Outstanding, June 30, 2016	4,194,250	\$ 0.50	7,250,000	\$ 0.10
Exercisable, June 30, 2016	4,194,250	\$ 0.50	7,250,000	\$ 0.10

At June 30, 2016, the Company had outstanding stock options and warrants enabling holders to acquire common shares as follows:

	Number of Shares	Exercise Price	Expiry Date
Options	1,175,000	\$ 0.20	January 20, 2017
	300,000	\$ 0.18	October 29, 2017
	375,000	\$ 0.10	January 4, 2019
	4,950,000	\$ 0.06	December 21, 2020
	<u>450,000</u>	\$ 0.21	March 1, 2021
	7,250,000		
Warrants	762,500	\$ 0.50	June 21, 2018
	<u>3,431,750</u>	\$ 0.50	June 29, 2018
	4,194,250		

CANASIL RESOURCES INC.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2016**

Expressed in Canadian Dollars

*Unaudited***6. STOCK OPTIONS AND WARRANTS - continued****Share-based compensation**

Details of incentive stock options granted to directors, officers and consultants of the Company during the periods ended June 30 are as follows:

	2016	2015
Total options granted	450,000	-
Average exercise price	\$ 0.21	\$ -
Estimated fair value of options granted	\$ 64,997	\$ -
Estimated fair value per option	\$ 0.14	\$ -

The fair value of the share-based compensation to be recognized in the accounts has been estimated using the Black-Scholes Option-Pricing Model with the following weighted-average assumptions:

	2016	2015
Risk-free interest rate	0.66%	-
Expected dividend yield	0.00%	-
Expected stock price volatility	89%	-
Expected forfeiture rate	0.00%	-
Expected option life in years	5.00	-

Share-based compensation is recorded over the vesting period of each option grant. The Company has recorded share-based compensation during the period as follows:

	2016	2015
Number of options vested in period	450,000	-
Compensation recognized in period	\$ 64,997	\$ -

During the period, 50,000 stock options (2015 – nil) were exercised for proceeds of \$3,000. The proceeds and the related fair value of \$1,436 recognized upon grant have been recorded as share capital.

CANASIL RESOURCES INC.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2016**

Expressed in Canadian Dollars

Unaudited

7. CONVERTIBLE DEBENTURE

Under the terms of its option agreement on the Salamandra project (*Note 4*), MAG funded certain exploration expenditures on the Salamandra project by advancing funds to CRD under an unsecured, non-interest bearing convertible debenture. Funds received under the debenture were used for incurring such qualifying exploration expenditures on the Salamandra project. In February 2016, MAG withdrew from the agreement without earning an interest in the project. To the date of its withdrawal, MAG had advanced a total of \$4,323,549 under the convertible debenture.

The terms of the option agreement provided MAG with the right to convert the debenture into common shares of CRD such that MAG would hold up to a 70% interest in CRD upon exercise of the option. The agreement also provided that should MAG withdraw from the agreement prior to earning an interest, it would forfeit its interest in the convertible debenture. Since the convertible debenture would either be converted into shares or forfeited without repayment, it has been treated as an equity instrument in these financial statements. Accordingly, upon MAG's withdrawal from the agreement, the balance of the convertible debenture has been reclassified to contributed surplus within shareholders' equity.

8. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

The Company had transactions with related persons or corporations, which were undertaken in the normal course of operations as follows:

- accounts payable and accrued liabilities – related parties includes \$nil (December 31, 2015 – \$18,132) in legal fees due to a law firm in which an officer of the Company is a partner and \$nil (December 31, 2015 – \$80,000) in management fees due to the chief financial officer;
- due to related parties consists of loan advances totaling \$nil (December 31, 2015 – \$519,000) made to the Company by a director, an officer, and a company with a director in common. The loan advances were unsecured, non-interest bearing, and had no fixed terms of repayment;
- key management includes executive and non-executive directors and officers. The compensation paid or payable to key management for the periods ended June 30 is as follows:

	2016	2015
Salaries and wages	\$ 75,000	\$ 75,000
Management fees	39,000	30,000
Legal fees	2,982	8,316
	<u>\$ 116,982</u>	<u>\$ 113,316</u>

CANASIL RESOURCES INC.**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2016**

Expressed in Canadian Dollars

Unaudited

9. COMMITMENTS

The Company has entered into a three-year lease agreement for office premises that expires on September 30, 2018. As at June 30, 2016, monthly payments are \$3,210 and include basic rent and common operating costs.

Minimum future annual lease payments (based on current common operating costs) are as follows:

	Amount
2016	\$ 19,493
2017	39,681
2018	30,283
	<u>\$ 89,457</u>

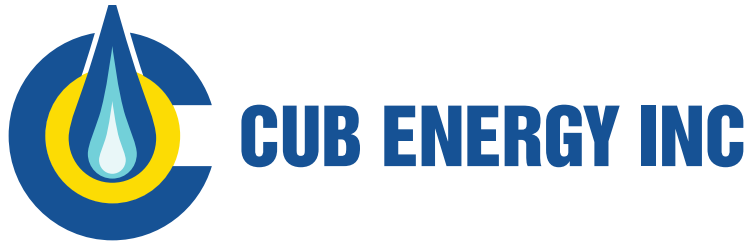
The Company has signed employment and management agreements with its chief executive officer and chief financial officer. These contracts for aggregate monthly compensation totalling \$19,000 per month also provide for severance provisions should the contracts be terminated without cause, should there be a change of control of the Company, or should the Company sell all or substantially all of its assets.

10. SEGMENTED INFORMATION

The Company currently operates in only one operating segment, that being the mining exploration industry. The Company operates in the following geographical locations:

June 30, 2016	Canada		Mexico		Total
Property and equipment	\$	6,105	\$	41,964	\$ 48,069

December 31, 2015	Canada		Mexico		Total
Property and equipment	\$	6,921	\$	43,681	\$ 50,602



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 AND 2015

Introduction

The following management discussion and analysis ("MD&A") is a review of operations, current financial position and outlook for Cub Energy Inc. (the "Company" or "Cub") and should be read in conjunction with the unaudited condensed consolidated financials for the three and six months ended June 30, 2016 and 2015. 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 August 23, 2016.

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. The Company aims to bring modern technologies (including dual-completions and hydraulic fracturing) to deliver new production and reserves on existing under-developed fields, while identifying new conventional and unconventional prospects for future exploration and appraisal. 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 an historical 30% interest in KUB-Gas LLC ("KUB-Gas") in eastern Ukraine which was increased to 35% effective February 8, 2016, and the Company's 100% operated interest in western Ukraine in Tysgaz LLC ("Tysgaz").

Barrels of Oil Equivalent Conversion

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

Forward Looking Information

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

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

Reported Results and Equity Investment

As at June 30, 2016, the Company had an effective 35% (increased from 30% effective February 8, 2016) ownership interest in KUB-Gas, a Ukrainian company which owns assets representing a substantial portion of the Company’s core operating properties, income and cashflow and also owns 100% ownership of Tysgaz, whose producing assets are in western Ukraine.

All of the KUB-Gas shares are held through KUBGAS Holdings Limited (“KUB Holdings”), a private company incorporated in Cyprus, which at June 30, 2016 was 35% owned by the Company and 65% owned by Resano Trading Ltd. (“Resano”). The Company increased its ownership in KUB Holdings from 30% to 35% effective February 8, 2016. The results for the three and six months ended June 30, 2016 reflect the 35% ownership in KUB Holdings. The Company does not control KUB Holdings and is required under IFRS to record its investment under the equity method of accounting. In doing so, it reports none of the revenues, royalties or production expenses for KUB Holdings within its consolidated statements of operations and cash flows. Similarly the

Company does not report the individual assets and liabilities of KUB Holdings and KUB-Gas on its consolidated statements of financial position.

The historical 35% share of the net assets of KUB Holdings and KUB-Gas attributable to the Company is presented as an "Equity investment in KUB Holdings" within non-current assets on the consolidated statement of financial position. Net profits from the historical 35% interest 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 KUB-Gas. 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% share allocable to its equity investment to reflect the gross results of operations attributable to the Company's 35% economic interest and finally the pro-rata net to Cub results which is a non-IFRS measure.

Six months ended June 30, 2016	As Reported	Deduct Equity Investment	Add 35% Allocated from Equity Investment	Pro-rata Net to Cub
Average Daily Production (boe/d)	217	-	1,239	1,456
Revenue	\$ 1,456,000	\$ -	\$ 8,320,000	\$ 9,776,000
Royalty	391,000	-	2,108,000	2,499,000
Gross profit	1,065,000	-	6,212,000	7,277,000
Income from equity investment	3,227,000	(3,227,000)	-	-
Operating expenses				
Selling and general administrative	2,051,000	-	17,000	2,068,000
Depletion and depreciation	340,000	-	724,000	1,064,000
Cost of sales	129,000	-	1,440,000	1,569,000
Finance (income) loss, net	(40,000)	-	28,000	(12,000)
Accretion and decommissioning Obligation	7,000	-	3,000	10,000
Gain on sale of subsidiary	(235,000)	-	-	(235,000)
	2,252,000	-	2,212,000	4,464,000
Income before tax	2,040,000	(3,227,000)	4,000,000	2,813,000
Income tax expense	-	-	773,000	773,000
Net income	\$ 2,040,000	\$ (3,227,000)	\$ 3,227,000	\$ 2,040,000
Netback (\$/boe)				
Revenue	\$ 36.94	-	\$ 38.30	\$ 38.10
Royalty	(9.94)	-	(9.73)	(9.76)
Production expenses	(5.06)	-	(6.51)	(6.29)
Field netback (\$/boe)	\$ 21.94	-	\$ 22.06	\$ 22.05
Field netback (\$/mcf)	\$ 3.66	-	\$ 3.68	\$ 3.67

Three months ended June 30, 2016	As Reported	Deduct Equity Investment	Add 35% Allocated from Equity Investment	Pro-rata Net to Cub
Average Daily Production (boe/d)	-	-	1,185	1,185
Revenue	\$ -	\$ -	\$ 3,873,000	\$ 3,873,000
Royalty	-	-	930,000	930,000
Gross profit	-	-	2,943,000	2,943,000
Income from equity investment	1,574,000	(1,574,000)	-	-
Operating expenses				
Selling and general administrative	959,000	-	13,000	972,000
Depletion and depreciation	21,000	-	346,000	367,000
Cost of sales	-	-	650,000	650,000
Finance (income) loss, net	7,000	-	(44,000)	(37,000)
Accretion and decommissioning Obligation	4,000	-	1,000	5,000
	991,000	-	966,000	1,957,000
Income before tax	583,000	(1,574,000)	1,977,000	986,000
Income tax expense	-	-	403,000	403,000
Net income	\$ 583,000	\$ (1,574,000)	\$ 1,574,000	\$ 583,000
Netback (\$/boe)				
Revenue	\$ -	-	\$33.75	\$33.75
Royalty	-	-	(9.33)	(9.33)
Production expenses	-	-	(6.22)	(6.22)
Field netback (\$/boe)	\$ -	-	\$ 18.20	\$ 18.20
Field netback (\$/mcfe)	\$ -	-	\$ 3.03	\$ 3.03

Note: There was a reclassification of operating expenses for the KUB-Gas equity investment during the three months ended March 31, 2016. The depletion and depreciation should have been \$412 instead of the reported \$675 and the costs of sales should have been \$852 instead of the reported \$589. There is no net effect to the net income during the first quarter, just a reclassification of operating expenses. The equity results of KUB-Gas in this MD&A take into account the reclassification.

For three months ended June 30, 2016 or as at June 30, 2016	As Reported	Deduct Equity Investment	Add 35% Allocated from Equity Investment	Pro-rata Net to Cub
Funds from operations⁽¹⁾	\$ (966,000)	\$ -	\$ 3,392,000	\$ 2,426,000
Capital expenditures	24,000	-	26,000	50,000
Net working capital (deficit)⁽²⁾	(2,467,000)	-	1,520,000	(947,000)
Long term debt	2,418,000	-	-	2,418,000

(1) Funds from operations is a non-IFRS measure and is defined as cash flow from operating activities, excluding changes in non-cash working capital related to operating activities. Funds flow demonstrates the ability of the Company to generate funds for future capital investment.

(2) Net working capital is a non-IFRS measure calculated as current assets less current liabilities. Net working capital demonstrates the capacity (or incapacity) to fund existing short-term liabilities with existing current assets. See "off balance sheet arrangements" located elsewhere in this MD&A.

Results of Operations

(in thousands of US Dollars)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Petroleum and natural gas revenue	-	856	1,456	2,632
Pro-rata petroleum and natural gas revenue ⁽¹⁾	3,873	5,514	9,776	12,398
Net income (loss)	583	(651)	2,040	(1,874)
Income (loss) per share – basic and diluted	0.00	(0.00)	0.01	(0.01)
Funds generated from operations ⁽²⁾	(966)	(804)	(1,075)	(558)
Pro-rata funds generated from operations ⁽³⁾	2,326	(121)	3,541	23
Capital expenditures ⁽⁴⁾	24	44	162	127
Pro-rata capital expenditures ⁽⁴⁾	46	390	336	930
Pro-rata netback (\$/boe)	18.20	11.67	22.05	11.64
Pro-rata netback (\$/Mcf)	3.03	1.95	3.67	1.94

	June 30, 2016	December 31, 2015
Working capital (deficit)	(2,467)	(1,722)
Cash and cash equivalents	2,402	1,360
Long-term debt	2,418	2,000

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% (2015 – 30%) equity share of the KUB-Gas petroleum and natural gas sales that the Company has an economic interest in.
- (2) Funds from operations is a non-IFRS measure and is defined as cash flow from operating activities, excluding changes in non-cash working capital.
- (3) Pro-rata funds from operations is a non-IFRS measure that adds the Company's funds from operations in the respective periods to the Company's 35% (2015 – 30%) equity share of the KUB-Gas funds from operations that the Company has an economic interest in.
- (4) Capital expenditures includes the purchase of property, plant and equipment and the purchase of exploration and evaluation assets. Pro-rata capital expenditures is a non-IFRS measure that adds the Company's capital expenditures in the respective periods to the Company's 35% (2015 – 30%) equity share of the KUB-Gas capital expenditures that the Company has an economic interest in.

Highlights

- Royalty rates for natural gas in Ukraine declined from 55% to 29% effective January 1, 2016 which materially improved the Company's netbacks and net income.
- Production averaged 1,185 boe/d (98% natural gas) for the quarter ended June 30, 2016, which decreased 16% as compared to the 1,414 boe/d in the comparative 2015 quarter and decreased 28% from the 1,644 boe/d production averaged for the first quarter ended March 31, 2016. The decrease in production for the quarter ended June 30, 2016 was a result of the temporary suspension of production at the RK Field due to the termination of a gas blending contract. The Company hopes to resume production in the fourth quarter of 2016.
- Netbacks of \$18.20/boe or \$3.03/Mcfe for the quarter ended June 30, 2016 as compared to netback of \$11.67/Boe or \$1.95/Mcfe for the comparative 2015 quarter. In addition, netbacks were

\$23.13/Boe or \$3.86/Mcfe for the first quarter of 2016. Netbacks in 2016 improved as a result of the reduced royalty rate effective January 1, 2016.

- Achieved average natural gas price of \$5.55/Mcf and condensate price of \$52.89/bbl during the quarter ended June 30, 2016 as compared to \$7.08/Mcf and \$46.89/bbl for the comparative 2015 quarter and \$6.23/Mcf and \$28.29/bbl for the first quarter ended March 31, 2016.
- During the three months ended June 30, 2016, the Company's Ukraine subsidiary, Tysagaz, received an additional \$1,173,000 from KUB-Gas pursuant to an unsecured, non-interest bearing loan agreement. This tranche of the loan is due and payable on March 31, 2018. Subsequent to the quarter ended June 30, 2016, Tysagaz received an additional \$2,973,000 pursuant to the loan agreement and these amounts are due between May 31, 2019 and July 31, 2019.
- In February 2016, the Company received an additional 5% interest in KUB Holdings for a total 35% equity ownership interest. The Company has the ability to further increase its ownership interest from 35% to 40% on meeting certain benchmarks and optional payments.
- In March 2016, the Company was granted a 20-year term production licence in western Ukraine. The Uzhgorod licence covers approximately 75,000 acres which is a 50% increase from its original size of 50,000 acres.
- On July 8, 2016, the Company announced that it has entered into a share purchase agreement ("SPA") and Shareholders' Agreement ("SHA") with a third party, whereby the third party earns a 50% interest in the Company's newly formed subsidiary, CNG Holdings Netherlands B.V. ("CNG"), which, in turn, owns CNG LLC (Ukraine LLC), 100% owner of the Uzhgorod production licence in western Ukraine.
- In August 2016, KUB-Gas spud the M-23 well. The well is planned to a total depth of 2,550 metres with multiple objectives.
- In August 2016, Tysagaz located a used nitrogen rejection unit ("NRU") in the United States to be utilized on the RK Field in western Ukraine. If successfully installed and operated, the NRU should assist in the resumption of production at the RK Field in the fourth quarter of 2016.

Ukraine Royalty Rates and Gas Storage

On December 31, 2015, a new law was signed reversing the increase of royalties on natural gas production put into place on August 1, 2014. Effective January 1, 2016, royalty rates are reduced from 55% to 29% for wells drilled at depths up to five kilometers.

A new bill reforming the natural gas market in Ukraine became effective October 1, 2015. Among other things, it contains a provision that gas producers may have to contribute into storage a volume equivalent to thirty days of production effective January 1, 2016 but to the date of this MD&A, there has been no material impact to the Company. On November 27, 2015, Ukraine amended the Code on Gas Pipeline Systems, which among other things, may require all producers utilizing the pipeline to pay a tariff for access to the pipeline. It is not known yet if a tariff will be imposed and what impact it may have on the Company.

Ukraine Cross-Border Dividend Restrictions and Going Concern

In 2014, the National Ban of Ukraine ("NBU") issued a temporary resolution which, among other things, prohibits the payment of cross-border dividends through September 14, 2016 (via multiple extensions). On June 7, 2016, the NBU eased certain capital controls by allowing Ukraine companies to issue limited dividends related directly to 2014 and 2015 earnings and quicker processing times for foreign exchange purchases. The continued prohibition on cross-border dividends continues to have a material negative effect on the Company.

With the current cash resources, no further funding in 2016 under the existing line of credit, temporary suspension of the RK Field, dividend restrictions, currency fluctuations, possible tariffs, reliance on a single customer, and impact on carrying values, the Company may not have sufficient cash to continue the

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.

Ukraine Gas Prices and Currency

The Ukrainian exchange rate versus the USD was 25.0 UAH/USD at June 30, 2016, which represents a devaluation of the UAH of approximately 3% during 2016 as compared to a devaluation of approximately 32% during 2015. For operating expenses and capital expenditures incurred and paid in UAH, the Company benefits from the lower equivalents in US dollars.

During the second quarter ended June 30, 2016, gas prices realized were \$5.55/Mcf which is about 11% lower than the first quarter 2016 gas price of \$6.23/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 KUB-Gas Assets (30% Interest, 35% Interest effective February 8, 2016)

In February 2016, the Company received an additional 5% interest in KUB Holdings for a total 35% equity ownership interest. The Company has the ability to further increase its ownership interest from 35% to 40% on meeting certain benchmarks and optional payments. There were no material operations at KUB-Gas during the first half of 2016 as a result of the change of control of KUB-Gas. In August 2016, KUB-Gas spud the M-23 well. The well is planned to a total depth of 2,550 metres with multiple objectives.

During the quarter ended June 30, 2016, KUB-Gas decided to reduce its reliance on its internal service division and sold its 1,000 horse power drilling rig built in 2007 to an affiliate of Resano for proceeds of \$900,000. As a result of the decision and sale, KUB-Gas materially reduced the number of personnel employed at its internal service division during the most recent quarter. The drilling of the M-23 well is utilizing a drilling company affiliated with Resano but utilizing a different rig than that the one sold by KUB-Gas.

Ukraine Tysagaz Assets (100% Interest)

During the first quarter, the Company set a retrievable plug at RK-21 above the current open perforations in the D-2 through D-3 lower reservoirs and opened the D-0 reservoir for production.

On March 11, 2016, the Company was granted the 20-year term Uzhgorod production licence. The Uzhgorod licence covers approximately 75,000 acres which is a 50% increase from its original size of 50,000 acres. On July 8, 2016, the Company announced that it has entered into a SPA and SHA with a third party, whereby the third party earns a 50% interest in the Company's newly formed subsidiary, CNG, which, in turn, owns CNG LLC (Ukraine LLC), 100% owner of the Uzhgorod production licence in western Ukraine. Pursuant to the terms of the SPA, the third party is to (i) pay Cub €1,500 (\$1,649) upon transfer of the 50% shares ("Closing") (paid subsequent to June 30, 2016); (ii) fund a 100 square kilometre 3D seismic survey within 20 months of Closing; (iii) fund the drilling of first three wells within four years of Closing; and (iv) fund the tie-in costs of the first three wells up to a maximum €200 (\$225) per well within four years of Closing.

On April 1, 2016, the Company temporarily suspended production at the RK Field due to a termination of a gas blending contract. In August 2016, Tysagaz located a used nitrogen rejection unit ("NRU") in the United States

to be utilized on the RK Field. If successfully installed and operated in the fourth quarter of 2016, the NRU should assist in the resumption of production at the RK Field as it negates the need of a gas blending contract.

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 June 30, 2016. The information contained herein is taken from the consolidated financial statements of the Company for each of the aforementioned quarters.

Quarter Ended	June 30, 2016	Mar 31, 2016	Dec 31, 2015	Sept 30, 2015
Revenue	-	1,456,000	923,000	655,000
Income (loss) from equity investment	1,574,000	1,653,000	(116,000)	777,000
Operating expenses	991,000	1,261,000	2,149,000	1,338,000
Net income (loss)	583,000	1,457,000	(1,053,000)	(214,000)
Income (loss) per share	0.00	0.00	(0.00)	(0.00)
Working Capital (deficit)	(2,467,000)	(2,718,000)	(1,722,000)	(1,005,000)

Quarter Ended	June 30, 2015	Mar 31, 2015	Dec 31, 2014	Sept 30, 2014
Revenue	856,000	1,776,000	2,154,000	1,444,000
Income (loss) from equity investment	500,000	145,000	(684,000)	2,758,000
Operating expenses	1,610,000	2,060,000	7,164,000	22,923,000
Net income (loss)	(651,000)	(1,223,000)	(5,345,000)	(19,399,000)
Income (loss) per share	(0.00)	(0.00)	(0.02)	(0.06)
Working Capital (deficit)	(780,000)	48,000	704,000	955,000

Material Variations in Quarterly Results

On April 1, 2016, the Company temporarily suspended production at the RK Field which resulted in no revenues, royalties or cost of sales during the quarter ended June 30, 2016.

The Company's increased revenues during the quarters ended March 31, 2016 and December 31, 2014 are a result of the tie in or workovers of the RK-21 and RK-23 wells at Tysagaz. The company has been focusing on cost reductions and its operating expenses have generally declined in three of the last four quarters. The Company's working capital deficit increased materially during the quarter ended March 31, 2016 due to the reclassification of the Pelicourt line of credit from a long term liability to a current liability as it matures on January 31, 2017.

There were losses from its equity investment from KUB-Gas during the quarters ended December 31, 2015 and 2014 due to one-time impairment charges of \$991,000 and \$1,678,000, respectively. The Company's equity partner entered into a share purchase and sale agreement to sell its 70% interest in KUB Holdings to a third party in late 2015 and the \$991,000 impairment charge for 2015 was taken to write down the carrying value of KUB Holdings to the actual sales price.

There were impairment charges that impacted net losses in 2015 and 2014. During the quarter ended December 31, 2015, the Company recorded an impairment of \$1,000,000 on its KUB Holdings equity investment to reflect fair market value of the recent sale of the 70% interest by its former partner. This impairment charge is in addition to the \$991,000 impairment charge taken to the KUB Holdings level. This compares with a \$1,583,000 impairment charge in the quarter ended December 31, 2014 on the exploration assets in Tysagaz and an impairment charge of \$3,035,000 on its petroleum and natural gas interests on the RK

Field at Tysgaz. During the quarter ended September 30, 2014, the Company recorded \$20,761,000 in charges for the impairment of the Technogasidustria LLC ("TGI") assets that are located in or near rebel-held territory and the impairment of certain exploration assets in Tysgaz.

Revenue, Net of Royalty

During the quarter ended June 30, 2016, the Company reported no revenue on its Tysgaz operations as a result of the temporary suspension of the RK Field in western Ukraine effective April 1, 2016 as compared to \$459,000 in revenue, net of royalties, in 2015.

During the six months ended June 30, 2016, the Company's net revenue on its Tysgaz operations was \$1,065,000 as compared to \$1,151,000 in 2015. The net revenue was relatively flat between the periods despite the temporary suspension of the RK Field for the second quarter of 2016. This was due to the reduction in royalty rates from 55% to 29% effective January 1, 2016.

Income from Equity Investment

The Company accounts for its historical 35% (2015 – 30%) indirect ownership in KUB Holdings as an investment under the equity method. During the quarter ended June 30, 2016, KUB-Gas generated gross revenues of approximately \$11,840,000 (2015 - \$15,527,000) and had net income of \$4,839,000 (2015 – \$1,669,000). This resulted in a net income to the Company from its equity investment for the quarterly period of \$1,574,000 (2015 – \$500,000). The lower royalty rate contributed to the increase in income.

During the six months ended June 30, 2016, KUB-Gas generated gross revenues of approximately \$24,545,000 (2015 - \$32,553,000) and had net income of \$9,563,000 (2015 – \$2,151,000). This resulted in a net income to the Company from its equity investment for the quarterly period of \$3,227,000 (2015 – \$645,000). The lower royalty rate contributed to the increase in income.

Selling and General Administrative Expenses

Selling and general administrative expenses were \$959,000 during the quarter ended June 30, 2016, as compared to \$1,086,000 in the comparative 2015 quarter for a decrease of \$127,000. During the six months ended June 30, 2016, selling and general administrative expenses decreased \$458,000 from \$2,509,000 in 2015 to \$2,051,000 in 2016. The Company initiated cost-cutting efforts during the last two years which included, but not limited to, the reduction of ten employees and three directors, the ceasing of a material amount of investor relations activities, and general cuts in travel expenditures. However, with the recent transaction on Uzhgorod and resumption of drilling operations at KUB-Gas, the Company hired two technical team members in the second quarter of 2016 which will increase selling and general administrative expenses in future quarters. Some of the significant items contained within selling and general administrative expenses are as follow:

Salaries

During the second quarter, salaries to staff and directors fees increased to \$604,000 as compared to \$590,000 during the comparative 2015 quarter. During the current quarter, the Company added two technical team members. During the six months ended June 30, 2016, salaries were \$1,140,000 as compared to \$1,493,000 in the comparative 2015 period. Cost-cutting measures were introduced in 2015 and included the reduction of three staff members with a view of cutting selling and administrative expenses. Included in the six months ended June 30, 2015, is \$106,000 of severance to three employees.

Professional fees

Professional fees decreased to \$105,000 during the quarter ended June 30, 2016 from \$155,000 in the comparative 2015 period. During the six months ended June 30, 2016, professional fees were \$313,000 as

compared to \$282,000 in 2015. Professional fees during the six months ended June 30, 2016 included the review of the Company's right of first refusal on the KUB Holdings transaction in late 2015 and through the first half of 2016. The Company's professional costs also include the costs of being a public issuer including third party legal advice, engineering reports and financial audits.

Office and administration

Office and administration costs were \$174,000 in the quarter ended June 30, 2016, as compared to \$140,000 in the 2015 quarter. During the six months ended June 30, 2016, office and administrative costs were \$333,000 as compared to \$305,000 in 2015.

Consulting

Consulting fees were \$26,000 during the current quarter which decreased 73% compared to the 2015 comparative quarter when the fees were \$96,000. During the six months ended June 30, 2016, the consulting fees were \$80,000 as compared to \$246,000 in 2015. The Company retains consultants periodically on an as needed basis to assist in operations and administration. There was less reliance on consultants during 2016.

Travel

During the current quarter, travel costs were \$47,000 which was flat compared to \$48,000 in 2015. During the six months ended June 30, 2016, travel costs were \$139,000, for an increase of \$61,000 from the comparative 2015 period which totaled \$78,000. Travel expenses include costs associated with international operations and increased during the first half of 2016 as a result of increased corporate activity surrounding the right of first refusal and meetings with the Company's new equity partner.

Net Profit/Loss

During the quarter ended June 30, 2016, the Company recorded net income of \$583,000 or \$0.00 per share as compared to a net loss of \$651,000 or \$0.00 per share in the comparative 2015 period. During the six months ended June 30, 2016, the Company recorded net income of \$2,040,000 or \$0.01 per share as compared to a net loss of \$1,874,000 or \$0.01 per share in the comparative 2015 period. The improved net income during the 2016 periods was a result of the reduction of the Ukraine natural gas royalties from 55% to 29% and also impacted by a gain of \$235,000 from the sale of the Company's subsidiary, TGI, for a nominal amount.

Foreign Currency Translation Income/Loss

During the quarter ended June 30, 2016, the foreign currency translation income was \$1,059,000 as compared to income of \$1,519,000 in the comparative 2015 period. During the six months ended June 30, 2016, the foreign currency translation loss was \$661,000 as compared to a loss of \$3,793,000 in the comparative 2015 period. The income and losses relate to the revaluation of the Company's foreign assets and liabilities from the local currency (Ukrainian and Canadian currencies) to the US dollar in accordance with the Company's accounting policy for the translation of its subsidiaries. The carrying value of the assets of the Ukrainian subsidiaries were materially impacted by the volatility of the local currencies which included a devaluation of the UAH by approximately 32% in 2015 and a further 3% devaluation in 2016. The Canadian dollar has also been volatile and appreciated 7% against the US dollar during the six months ended June 30, 2016. The losses materially lowered the carrying value of the Ukrainian property, plant and equipment, the value of the equity investment in KUB Holdings. These losses do not impair the ability of those assets or liabilities to perform their intended purpose. If the Ukrainian currency were to appreciate, some or all of these unrealized losses would be recouped.

Liquidity, Capital Resources and Financings

At June 30, 2016, the Company had a cash balance of \$2,402,000 (December 31, 2015 – \$1,360,000) and working capital deficit of \$2,467,000 (December 31, 2015 – \$1,722,000). The Company had no long-term debt or capital leases other than the KUB-Gas loan. The Pelicourt line of credit was reclassified from a long term liability to a current liability during the current period as its due date (January 31, 2017) is within twelve months of the balance sheet date. The reclassification of the line of credit as a current liability impacted the working capital deficit during the current period. The Company has historically been able to raise funds through the issuance of common shares or debt although there are no assurances funds will be able in the future. Given the current geopolitical situation in Ukraine, the restrictions on the cross-border dividends and the Company's stock price, the Company does not believe it will be able to attract equity or debt at the present time or, if it is, on commercially reasonable terms.

The Company has a \$5,000,000 unsecured line of credit with Pelicourt. The line of credit bears interest at 9% per annum payable semi-annually and the principal of the line of credit is due in full on January 31, 2017. The Company drew down \$2,000,000 during the year ended December 31, 2014. On November 10, 2015, an amending agreement was signed that deferred interest payments until June 27, 2016 and was paid subsequent to the quarter ended June 30, 2016. Pelicourt notified the Company that it will not provide any further funding under the line of credit in 2016.

During the three months ended June 30, 2016, the Company's Ukraine subsidiary, Tysagaz, received proceeds of \$1,173,000 from KUB-Gas pursuant to an unsecured, non-interest bearing loan agreement between the parties. This tranche of loan agreement is due and payable on March 31, 2018. The loan agreements are expected to be in place until the NBU lifts the capital control restrictions in Ukraine. Subsequent to the quarter ended June 30, 2016, Tysagaz, received further proceeds of \$2,973,000 from KUB-Gas pursuant to the loan agreement between the parties.

Subsequent to the quarter ended June 30, 2016, the Company received cash proceeds of \$1,649,000 related to the third party sale of 50% of its subsidiary, CNG, which indirectly holds the Uzhgorod licence.

During the three months ended June 30, 2016, the Company expended \$24,000 on the purchase of property, plant and equipment as compared to \$44,000 in 2015. During the third and fourth quarters of 2016, the Company's capital expenditures will increase to fund the acquisition of the NRU.

During the three months ended June 30, 2016, KUB-Gas incurred approximately \$73,000 (2015 - \$2,678,000) of capital expenditures on property, plant and equipment of which the Company's 35% equity share was \$26,000 (2015 - \$803,000). The Company expects the capital expenditures at KUB-Gas to increase materially in 2016 due to the drilling of the M-23 well.

The matters described above all raise significant doubt about the ability of the Company to continue as a going concern and meet its obligations as they become due.

Outlook

The Company is evaluating the 2016 work programs in light of the recently reduced royalty rate of 29% effective January 1, 2016. The Company expects KUB-Gas to drill two wells, including the recently announced M-23 well, and perform several fracture stimulations in 2016 which the Company expects will be self-funded by KUB-Gas. In western Ukraine, the Company is focused on the recent purchase of the NRU with the goal of resuming production at the RK Field in the fourth quarter of 2016.

Outstanding Share Data

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

Type	Number
Common Shares	311,746,285
Restricted Stock Units	3,673,642
Total Issued and Outstanding	315,419,927

Commitments

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 exploration work, the Company's potential capital expenditures relating to qualifying activities on gas and gas condensate fields will be material during the period from 2016 to 2020 as part of the planned exploration and development program. 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. The Company has applied to extend to convert an exploration licence to a production licence, although there are no assurances any conversion will be provided.

Office Space

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

Transactions with Related Parties

Transactions with related parties are incurred in the normal course of business. During the six months ended June 30, 2016 and 2015, there were no related party transactions other than the Pelicourt line of credit and KUB-Gas loan - 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 the condensed consolidated interim 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 as well as the recent sales price achieved by the majority owner on its disposition of shares of KUB Holdings and adjusts the carrying value of the investment. The equity investment in KUB Holdings is subject to all estimates included in the financial information from the majority owner as well as estimates of impairment losses and subject to the ability of KUB Holdings to generate future dividends and ability to repatriate funds from Ukraine due to dividend restrictions discussed elsewhere in this MD&A.
- 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. The Company views exploration and evaluation assets to be a separate CGU from its producing assets.

- Amounts recognized for depletion and depreciation and amounts used for impairment calculations are based on estimates of petroleum and natural gas reserves. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows, are subject to measurement uncertainty.
- There are a number of inherent uncertainties associated with estimating reserves. Reserves estimates are dependent upon variables including the recoverable quantities of hydrocarbons, the cost of the development of the required infrastructure to recover the hydrocarbons, production costs, estimated selling price of the hydrocarbons produced, royalty payments and taxes. Changes in these variables could significantly impact the reserves estimates which would affect the impairment test and depreciation, depletion and amortization expense of the Company's crude oil and natural gas assets. The Company's crude oil and natural gas reserves are evaluated annually and reported to the Company by independent qualified reserves evaluators.
- Amounts recognized for decommissioning obligations, if any, 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 payment and the value of warrants 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.
- Allocation of the purchase price of acquisitions requires estimates as to the fair market value of the assets acquired and judgment is required in determination if the transaction constitutes a business or an asset acquisition.
- 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.
- 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 considered its ability to obtain future financing and curtail its spending. The Company concluded that there is a material uncertainty that may cast doubt on its ability to continue as a going concern.

New Standards and Interpretations not yet adopted

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

- IFRS 9: New standard that replaced IAS 39 for classification and measurement, tentatively effective for annual periods beginning on or after January 1, 2018.
- IFRS 15: New standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers, effective for annual periods beginning on or after January 1, 2018.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash, trade and other receivables, trade and other payables and accrued liabilities and provisions. The fair market values of cash, trade and other receivables, line of credit, loans from KUB-Gas and trade and other payables approximate their carrying values. Provisions are based on expected future cash outflow.

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.