

# Cub Energy Inc.: Announces Year-End Financial And Operational Results

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HOUSTON, TEXAS -- (Marketwired - April 25, 2013) - [Cub Energy Inc.](#) ("Cub" or the "Company") (TSX VENTURE:KUB) a Ukraine-focused upstream oil and gas company, reports its audited financial and operating results for the year ended 31 December 2012.

The Company's complete annual reporting package including audited annual financial statements, associated Management's Discussion and Analysis ("MD&A") and the 2012 Annual Information Form ("AIF"), have been filed on SEDAR at [www.sedar.com](http://www.sedar.com) and posted on the Company's website at [www.cubenergyinc.com](http://www.cubenergyinc.com).

## Financial Highlights

- Revenue from hydrocarbon sales increased 198% to \$31.54 million (2011 - \$10.57 million) (includes the Company's pro-rata 30% portion of revenue from hydrocarbon sales in its equity investment in Kubgas Holdings.)
- Net profit (Comprehensive income before currency translation adjustment) of \$2.3 million
- Average netback of \$8.15 per thousand cubic feet ("Mcf") or \$48.90 per barrel of oil equivalent ("boe")
- The Company had a reserve replacement ratio of 3.44 for proved and 7.74 for proved and probable reserves in 2012
- Capital expenditures of \$1,843,000 (does not include capital related to the Company's 30% interest in Kubgas Holding)
- Current cash position of \$10.2 million

## Mikhail Afendikov, Chief Executive of Cub Energy, commented:

"2012 was an exciting year for Cub. We realised operational success that more than doubled our production volumes when compared with that of 2011 and created significant growth in cash flow for the Company. This success is a credit to the entire Cub and KUB-Gas teams. With our programme for 2013 fully financed and in place, we are excited about our prospects for the year ahead."

	2012	2011
<b>Financial</b>		
(\$Thousands of USD, except per share amounts)		
Petroleum and natural gas revenue	1,666	-
Income from equity investment (30% net)	7,787	2,303
Funds generated from operations (1)	3,568	907
Net profit	2,290	992
Per share - basic	0.01	0.01
Per share - diluted	0.01	0.01
Capital expenditures	1,843	-
Capital expenditures within equity investment (30% net)	10,784	8,945
Working capital (deficit)	9,577	-385
<b>Operations</b>		
Average production		
Natural gas (Mcf/d)(2)	6,853.40	2,573.80
Crude oil (bbls/d)(2)	59.7	23.7
BOEPD	1,201.90	452.7
Exit rate		
Natural gas (Mcf/d)(2)	8,666	3,767
Crude oil (bbls/d)(2)	90	55
BOEPD	1,534.00	682.69
Netback per Mcf equivalent		
Operating netback (2)	8.15	6.29

(1) Funds generated from operations is calculated as revenue plus income from equity investment less cost of sales and selling and general administrative expenses.

(2) Contains Cub's 30% pro-rata portion from the equity investment in KGHL

## 2012 Operational Highlights

- Exit rate of 1,534 Boe/d, an increase of 107% when compared with 2011;
- Production averaged 1,210 Boe/d (95% natural gas), an increase of 167% over 2011 average production of 453 boe/d;
- Net back of \$8.15/Mcfe or \$48.90/boe;
- Strong average natural gas price of \$11.96/Mcf and condensate price of \$98.91/bbl for 2012;
- K-7 well drilled and cased to TD (3,206 metres) and tested 5.9 MMcf/d (30% net: 1.7 MMcf/d);
- The M-16 was drilled to TD (4,300 metres), the deepest well the company has drilled to date and tested 4.3 MMcf/d (30% NET: 1.3 MMcf/d) in the lower S-5 zone with additional zones to test;
- M-20 well commenced commercial production on 1 November and is currently producing at approximately 6.25MMcf/d (30% net: 1.9MMcf/d);
- M-21 well commenced commercial production in early August at a gross production rate of 1.7MMcf/d (30% net: 0.5MMcf/d).
- Six wells were drilled during the period ending December 31, 2012 (NM-1, M-21, M-20, K-7, NM-2, M-16);
- Six wells tied in for commercial production (O-18, O-8, O-12, O-6, M-20 & M-21);
- Gross revenue for Kub-gas increased 186% to \$99.6 million (2011 - \$34.8 million) of which Cub's 30% share was \$29.9 million (2011 - \$10.5 million);
- Income from the equity investment in KGHL was \$7.8 million (2011 - \$2.3 million).

## Financial Review

Petroleum and natural gas revenue

Petroleum and natural gas revenues for the Company were \$1.7 million for the year; this represents the revenues associated with the Tysagaz properties from the date of acquisition March 29, 2012 through December 31, 2012.

#### Income from equity investment

Income from the equity investment in Kubgas Holdings Limited ("KGHL") was \$7.8 million an increase of 238% from 2011. This is a result of substantial revenue growth for KGHL from the successful drilling program increasing the number of producing wells to 19.

#### Funds generated from operations

The funds generated from operations increased by \$2.7 million to \$3.6 million due to the increase in the income from the investment in KGHL, the revenues from the Tysagaz properties offset by the cost of sales of \$.8 million and increased general and administrative spending of \$3.7 million. The increase in general administrative expenses was due to the Company ramping up the size of its technical and administrative personnel to support the public listing, operate, explore and develop the properties and seek out acquisitions.

#### Net profit

Cub's net profits rose by \$1.3 million which reflects the increase in the equity income in KGHL, the revenues offset by the initial depreciation, depletion and other costs as well as the increase in general and administrative expenses discussed above.

#### Capital expenditure

Capital expenditures for the company (Tysagaz properties) were \$1.8 million for the year with \$1.5 million of expenditures for oil and gas property exploration and evaluation of assets.

Cub's capital expenditures for KGHL increased to \$10.8 million in 2012 (2011: \$8.9m). This was used to continue the successful drilling program and to fully develop and exploit the KGHL properties in order to maximize returns.

#### Working Capital

As at December 31, 2012, the Company had a working capital surplus of \$9.56 million, including cash and cash equivalents of \$10.12 million. This compares to a working capital deficit of \$385,000 as at December 31, 2011.

#### Netback

The corporate average netback of \$48.54 per boe in 2012 was up 29.3% from \$37.54 per boe in 2011.

#### Capital Raise

Cub closed a \$12.5 million CAD bought deal financing in December 2012 and issued 31.25 million common shares at a price of \$0.40 per common share for net proceeds after fees and expenses of \$11.5 million CAD. The number of common shares outstanding increased to approximately 242.2 million

### Operational Review

#### Eastern Ukraine

No. Of Licenses	Total Acreage	No. of producing wells	2012 Average Production
5	92,000	19	22 MMcf/d (6.6 MMcf/d to Cub)

Gas production averaged 22 MMcf/d (30% net: 6.6 MMcf/d) for the year ending December 31, 2012, a 156% increase over an average production rate of 8.6 MMcf/d (30% net: 2.6 MMcf/d) for 2011.

Four development wells and two exploration wells were drilled in 2012.

In December 2012 the NM-2 exploration well commenced drilling, it was subsequently abandoned after

being drilled to a total depth of 3,150 meters.

The M-20 development well was drilled to TD (2,000 meters) and was successfully completed in the M2a Formation. Commercial production commenced in November 2012 at an initial rate of 6.2 MMcf/d (30% net: 1.9 MMcf/d).

A new Snubbing Unit was purchased and delivered in 2012. A successful dual completion was performed on the O-18 well in Q4 2012.

On April 9, 2012, the Makeevskoye license was converted into a 20-year production license.

The K-7 well reached TD of 3,206 meters in November 2012. The well was completed in the B12 Formation and tested 5.9 MMcf/d with a flowing pressure of 2,089 psi during a 3-day flow test. Construction of the 1.7 km pipeline is expected to be completed in Q3 2013.

A successful 4,300 metre deep test was drilled at the M-16 location in late Q4, 2012. The S13 formation was perforated in mid Q1, 2013 and tested burnable gas however it will need fracture stimulation to achieve commercial gas rates. The lower S-5 Formation tested 4.3 MMcf/d. The M-16 well is the deepest well drilled by the Company to date. The well is scheduled to be on commercial production in Q2, 2013.

In Q1, 2012 the M-21 was drilled to a total depth of 2,210 metres, successfully completed and commenced commercial production on August 3, 2012 at an initial rate of 1.7 MMcf/d (30% net: 0.5 MMcf/d).

Two hundred twenty-five square kilometers of new 3D seismic was acquired and processed over the North Makeevskoye exploration license.

The NM-1 exploration well spud on May 7, 2012, and was drilled and cased to a depth of 2,500 meters. The initial completion did not yield commercial production rates and fracture stimulation options are being reviewed.

The O-8 and O-18 well tie-ins were completed in late Q1 2012. Each well came on production at more than 1 MMcf/d of gas production.

#### Western Ukraine

No. of Licenses	Total Acreage	No. of producing wells	2012 Average Production
4	82,000	2	487 Mcf/d

Tysgaz (100% owned by Cub) is currently producing gas from the RK license, one of its four licenses in Western Ukraine. The Company successfully completed a workover on the legacy RK-6 well in Q2 2012.

The RK gas facility upgrade was completed in Q4 2012, which included the installation of an additional 210 horsepower electrically driven compressor. The reduction in inlet pressure allowed the two legacy wells, RK-6 and RK-2, to increase gas production from 0.42 MMcf/d to 1 MMcf/d.

Twenty-three kilometres of 2D seismic has been acquired and interpreted during the period and preparations are under way to drill an RK Field development well to approximately 1,800 metres. Pending the results of this well, additional wells may be drilled to further develop the field.

A test of the legacy Yab-2 well was completed in 2012. The test indicated the presence of higher quality gas than seen in the RK Field. However, the well was not completed due to mechanical issues within the legacy wellbore.

Approximately 25.6 kilometers of 2D seismic was acquired on the Uzhgorod block during the period. The data has been interpreted and indicates a potential drilling location on the acreage; additional seismic is required to completely define the prospect and drilling location.

#### 2013 Outlook

Cub's 2013 work programme is fully financed and the Company is well positioned to build on its operational successes achieved in 2012.

Cub intends to drill nine to ten wells (6 in the East and 3-4 in the West) and will workover or recomplete six wells on the Company's Eastern Ukraine assets. As a result of these projects and from bringing production

on-stream from the 2012 CAPEX programme, management forecasts that the Company will exit 2013 with a production rate nearly double that of Cub's year-end 2012 rate.

The Company expects to close on its previously announced acquisition of three additional licences in Eastern Ukraine in the second quarter of 2013 and plans to begin a 3D seismic programme on these new licences in the third quarter of 2013.

### **About Cub Energy Inc.**

[Cub Energy Inc.](#) (TSX VENTURE:KUB) is an upstream oil and gas company with 110,000 net acres in nine exploration and production licences within the two major producing basins of Ukraine. The Company's strategy is to implement western technology and capital, combined with local expertise and ownership, to increase value in its undeveloped land base, creating and further building a portfolio of producing oil and gas assets within a high pricing environment.

### **Oil and Gas Equivalents**

Production information is commonly reported in units of barrel of oil equivalent ("boe" or "Mboe" or "MMboe") or in units of natural gas equivalent ("Mcf" or "MMcf" or "Bcf"). However, boe(s) or Mcf(s) may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf = 1 barrel, or a Mcf conversion ratio of 1 barrel = 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.

### **Reader Advisory**

*Except for statements of historical fact, this news release contains certain "forward-looking information" within the meaning of applicable securities law. Forward-looking information is frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate" and other similar words, or statements that certain events or conditions "may" or "will" occur. Cub believes that the expectations reflected in the forward-looking information are reasonable; however there can be no assurance those expectations will prove to be correct. We cannot guarantee future results, performance or achievements. Consequently, there is no representation that the actual results achieved will be the same, in whole or in part, as those set out in the forward-looking information.*

*Forward-looking information is based on the opinions and estimates of management at the date the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those anticipated in the forward-looking information. Some of the risks and other factors that could cause the results to differ materially from those expressed in the forward-looking information include, but are not limited to: general economic conditions in the Ukraine and globally; industry conditions, including fluctuations in the prices of natural gas; governmental regulation of the natural gas industry, including environmental regulation; unanticipated operating events or performance which can reduce production or cause production to be shut in or delayed; failure to obtain industry partner and other third party consents and approvals, if and when required; competition for and/or inability to retain drilling rigs and other services; the availability of capital on acceptable terms; the need to obtain required approvals from regulatory authorities; stock market volatility; volatility in market prices for natural gas; liabilities inherent in natural gas operations; competition for, among other things, capital, acquisitions of reserves, undeveloped lands, skilled personnel and supplies; incorrect assessments of the value of acquisitions; geological, technical, drilling, processing and transportation problems; changes in tax laws and incentive programs relating to the natural gas industry; failure to realize the anticipated benefits of acquisitions and dispositions; and the other factors. Readers are cautioned that this list of risk factors should not be construed as exhaustive.*

*This cautionary statement expressly qualifies the forward-looking information contained in this news release. We undertake no duty to update any of the forward-looking information to conform such information to actual results or to changes in our expectations except as otherwise required by applicable securities legislation. Readers are cautioned not to place undue reliance on forward-looking information.*

*Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.*

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