

# Cub Energy Inc. Q4 Operations Update and RSU Grant

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HOUSTON, TEXAS--(Marketwired - Jan 23, 2015) - [Cub Energy Inc.](#) ("**Cub**" or the "**Company**") (TSX **VENTURE:KUB**) announces fourth quarter production and operational update, including a 2014 exit rate of approximately 2,407 barrels of oil equivalent ("**boe/d**") (a 16% increase over the Company's 2013 exit rate of 2,070 boe/d). This update includes ongoing operations from KUB-Gas LLC ("**KUB-Gas**"), which Cub has a 30% ownership interest, and Tysgaz LLC ("**Tysgaz**"), Cub's 100% owned subsidiary.

## Fourth Quarter Production

Average production for the fourth quarter was approximately 2,112 boe/d, representing a 3% decrease from 2,174 boe/d in the third quarter of 2014 and a 25% increase over the 2013 fourth quarter average production of 1,687 boe/d. Production for the first 20 days of January has averaged 2,063 boe/d.

Production increased in the fourth quarter as a result of the Rusko-Komarovske 23 ("RK-23") well that tested gas at a rate of over 2.3 million cubic feet per day ("**MMcf/d**") through an eight millimetre choke in November 2014 and was subsequently tied in. The RK-23 well is 100% owned and operated by Cub in western Ukraine. The RK-23 well produced an average of 2.1 MMcf/d during the latter half of the fourth quarter.

Production at KUB-Gas decreased during the fourth quarter by approximately 11% substantially due to:

- The existing surface facilities are having difficulty meeting sales gas dew point specifications, and some wells have been choked back. This will be addressed with new compression in the Olgovskoye field due to be installed in May 2015.
- The M-16, M-17 and O-12 wells were shut in for approximately three days each for their annual build-up tests.
- M-16 was shut in in November to recompleat the well to the S5 zone, as it was determined that the M-17 well is capable of fully draining the S6 pool in which both wells were originally completed.

## M-22 Drilling Update and RK-21 Workover

As previously disclosed, the KUB-Gas M-22 well reached TD in late December, and logs and drilling data indicate 18 metres of net pay in two zones, including the S13a, which has not been previously tested in the area. The well also encountered four other zones with aggregate thickness of 22 metres that have resource potential. The well has been cased and completion and testing is ongoing. A flowline was pre-built earlier in 2014, and the tie-in is anticipated to be finished by the first quarter of 2015, pending regulatory approvals.

The RK-21 well, originally completed in a single zone in May of 2014, indicated the presence of a number of potentially productive intervals that could be added to maintain a steady rate of production from the well. Rather than completing all of the intervals at the same time, management decided to open additional intervals to maintain a reasonable steady production stream from the well. Recently, the company added the fourth, fifth and sixth sets of perforations to the well. The well responded favorably by displaying an immediate increase in flowing tubing pressure with a corresponding increase of production from a 5-day average of 0.8 MMcf/d to over 2.6 MMcf/d for the subsequent 5-day period. These perforations were added over a two-day period at small incremental cost.

## 2015 Work Program and Budget

As the Company previously disclosed, the less favorable fiscal terms in Ukraine will have a bearing on Cub's

2015 budget. More specifically, the current fiscal regime combined with lower commodity prices will have three primary effects:

- While cash flow from existing operations will be materially reduced, it should remain positive
- Development drilling, recompletion and stimulation will be marginally economic
- Exploration drilling does not appear to be economically viable

In light of these effects, Cub will curtail its capital expenditure program for 2015. The contemplated 2015 work program includes:

#### *KUB-Gas (30%)*

- Completion, testing and tie in of the M-22 well which is substantially complete
- Field compression for Olgovskoye field

#### *Tysagaz (100%)*

- One or two workovers to enhance production

The Company and its partners may consider additional capital expenditures on development projects at KUB-Gas, subject to keeping such expenditures within operating cash flow and no further material adverse changes in the fiscal terms, or the security situation in and around the eastern Ukraine licences. It also may resume drilling of the NM-4 exploration well for retention of the North Makeevskoye licence, although management is investigating the possibility of extending the deadline (currently December 29, 2015) due to the current security and economic circumstances.

Once economic conditions improve in Ukraine, KUB-Gas has a significant inventory of drilling locations and other projects including:

- Firm drilling locations at M-15, M-24, M-25 and NM-4. Management anticipates that this inventory will increase pending a successful test on M-22, as those results are assimilated into the geological model for the area.
- Fracture stimulations at M-16, O-11, O-15 and NM-3.
- Dual completions on several wells showing potential in secondary zones.

### **Gas Prices in Ukraine**

The estimated prices received in Ukraine during the fourth quarter were \$9.62 per thousand cubic feet ("**Mcf**") for natural gas and \$67.79 per barrel ("**bbl**") for liquids. The comparable prices realized in Q3 2014 were \$10.16/Mcf and \$84.98/bbl. Gas sold in Ukraine is based on the import price of Russian gas, which in turn is linked to the price of oil. Cub is paid in UAH, making its realized price in USD also subject to exchange rate risk.

The official gas price for the month of January is \$10.57/Mcf using an exchange rate of 15.8 UAH/USD. The actual price received by Cub will also be negatively influenced by:

- The previously-disclosed legislation, reserving large parts of the Ukrainian gas market for Naftogaz through February 28, 2015. The Company estimates that a substantial amount of its historical gas sales have been to customers on that list. As a result, this has led to increased competition for the remaining creditworthy customers, which in turn has led to lower gas prices and may lead to an inability to sell domestic production (through February 28, 2015).
- Approximately 10% less for the profit margin of the intermediaries through which the gas is sold.
- Continued UAH/USD devaluation.

Cub is paid in UAH, so the realized price in USD will continue to be influenced by changes in the exchange rate. The exchange rate has deteriorated further during the fourth quarter as the rate went from 13.6 UAH/USD at the end of the third quarter to 16.4 UAH/USD at the end of the fourth quarter, or a 21% devaluation.

Note: the volumes and prices referred to herein are subject to minor revisions once final allocations and invoices are received.

## **RSUs awarded to Chairman and CEO as part of his 2014 Compensation**

Chairman and Chief Executive Officer, Mikhail Afendikov, received 3,673,642 restricted share units ("**RSUs**") today, totaling US\$158,333. Pursuant to Mr. Afendikov's employment agreement, his annual salary of US\$475,000 may be paid in RSUs or cash (vesting over three years) at the discretion of the Board of Directors. The Board of Directors has approved the issuance of 3,673,642 RSUs to Mikhail Afendikov in the form of common shares at a price of CAD\$0.05/per share (total value CAD\$183,682; US\$158,333) as part of his compensation for 2014. This price per share is a 67% premium to current market price. The grant of RSUs (and settlement in the form of common shares) complies with the RSU plan approved by majority vote of disinterested shareholders and the TSX Venture Exchange. This the first and only grant of RSUs under the RSU plan.

### **Cautionary Statement:**

BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

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.

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

[Cub Energy Inc.](#) (TSX VENTURE:KUB) is an upstream oil and gas company, with a proven track record of exploration and production cost efficiency in the Black Sea region. 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.

For further information please contact us or visit our website: [www.cubenergyinc.com](http://www.cubenergyinc.com)

### **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 Ukraine, the Black Sea Region and globally; political unrest and security concerns in Ukraine; 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 realise 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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