

HOUSTON, TEXAS--(Marketwired - Jul 29, 2015) - [Cub Energy Inc.](#) ("Cub" or the "Company") (TSX VENTURE:KUB) provides the following update for its operations for the second quarter of 2015. This update includes ongoing operations from KUB-Gas LLC ("KUB-Gas"), which Cub has a 30% ownership interest, and Tysagaz LLC ("Tysagaz"), Cub's 100% owned subsidiary.

## First Quarter Production and Realized Prices

Average production for the second quarter was approximately 1,414 boe/d (Cub WI), representing a 14% decrease from 1,644 boe/d in the first quarter. Production in Ukraine continues to be below capacity due to the lingering effects of government legislation attempting to reserve a large share of the natural gas market for the state owned National Joint Stock Company Naftogaz ("Naftogaz"). The remaining market was insufficient to accept all available gas, resulting in cutbacks by private producers including Tysagaz and KUB-Gas.

The estimated prices received in Ukraine during the quarter were \$7.08 per thousand cubic feet ("Mcf") and \$46.89 per barrel ("bbl") for natural gas and liquids respectively. The comparable prices realized in Q1 2015 were \$7.77/Mcf and \$39.83/bbl. Cub is paid in hryvnia ("UAH"), so the realized price in USD will continue to be influenced by changes in the exchange rate. The exchange rate has stabilized in the last quarter as the rate went from 23.5 UAH/USD at the end of the first quarter to 21.0 UAH/USD at the end of the second quarter.

## New Licence

On June 8, 2015, the Company announced that the West Olgovskoye block in eastern Ukraine had been awarded to KUB-Gas Borova LLC ("KUB-Gas Borova") (a newly incorporated subsidiary of KUB-Gas) by way of a special permit. West Olgovskoye is located in the Kharkiv Oblast, immediately offsetting the Olgovskoye and North Makeevskoye licences currently owned and operated by KUB-Gas. It covers an area of 449 km<sup>2</sup> (approximately 110,000 acres), and surrounds (but does not include) the existing Druzhelyubovskoe gas/condensate field, and very old vintage 2D seismic data suggests the existence of additional undrilled structures. The term of this new special permit is for 20 years with the right to a 20-year extension, during which KUB-Gas Borova will be allowed to conduct both exploration and production activities. There are work commitments of UAH 202.3 million or approximately \$9.6 million at the current exchange rate of 21.0 UAH/USD. Almost 90% of the total required spending is scheduled for between 2018 and 2020.

## KUB-Gas Drilling & Workover Update

The M-22 well in Ukraine has been suspended and added to the list of wells being considered for fracture stimulation (see Outlook). The S13, S13a and S13b zones were all non-commercial despite initially appearing promising on logs. The S6 zone did build up pressure after perforating and produced gas at rates too small to measure. The well has been suspended with a wellhead and tubulars appropriate for fracture stimulation. If successful, M-22 will qualify for the reduced royalty rate of 30.25% for its first two years of production under the current royalty regime (see also Ukraine Legislative Developments below). In addition, the commissioning of the field compression for Olgovskoye field is currently underway.

## Ukraine Legislative Developments

As disclosed in the Company's press release of December 4, 2014, during November 2014, the Ukraine government issued three decrees (No.'s 596, 599, and 647), which cumulatively required 170 of the largest gas consumers in Ukraine to purchase their gas solely from Naftogaz until the end of February 2015. A Ukraine court subsequently overturned these regulations, and this decision was subsequently upheld on appeal. The government appealed again, but on March 31, 2015, the High Administrative Court of Ukraine dismissed the government's claims in their entirety. The market has been slow to readjust.

On June 3, 2015, the National Bank of Ukraine issued Resolution No. 160, which extended most of the existing restrictions on foreign currency transactions set out in Resolution No. 758, including the cross-border dividend restriction, and introduced several additional restrictions, all to be effective until September 3, 2015. These restrictions continue to make it difficult for repatriating dividends from Ukraine.

On July 14, 2015, the Cabinet of Ministers of Ukraine submitted to the Rada (the Ukrainian parliament) a draft bill which would reduce the royalties on natural gas from their current level of 55% (28% on wells deeper than 5,000 metres). If passed, those respective royalty rates would drop to 29% and 14% effective October 1, 2015 for existing production. Also, the government proposes to introduce a new tax regime for wells drilled after January 1, 2016 - the royalty rate will be reduced to 20 percent (10 percent for wells deeper than 5,000 metres), and an additional profits tax surcharge will be levied at the rate of 30% on profits. Full details of how these rates would be applied and the tax base for calculation as well as administration of the surcharge are yet to be determined by the government. The current two-year royalty relief period for new gas wells at 30.25% would no longer apply. Royalties on oil and liquids would remain unchanged at 43%. Importantly, this draft bill may be subject to changes while going through first and second readings in the Rada.

## Outlook

Cub is re-evaluating its future capital programs on its 100% owned and operated Tysagaz assets in light of the proposed reduction of royalty rates scheduled to be effective October 1, 2015, subject to parliamentary approval. At present, the Company is considering several workovers in late 2015 or early 2016.

At KUB-Gas, a workover rig is moving to the NM-3 well drilled in 2013 which found small amounts of oil in the Visean formation. Operations will include perforating a higher interval and obtaining additional production and pressure data. Management believes that the Visean zone is tight, and likely will require fracture stimulation to achieve commercial rates. This operation also will fulfill work obligations required to retain the North Makeevskoye licence.

KUB-Gas may consider additional capital expenditures on development projects during the balance of 2015, subject to keeping such expenditures within operating cash flow and no further material adverse changes in either the fiscal terms or the security situation in and around the Ukraine licences. A three well fracture stimulation program for O-11, O-15 and M-22 is being considered for later this year, pending the approval of the new royalty regime and cash availability.

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

- Ten firm drilling locations in the Olgovskoye, Makeevskoye and North Makeevskoye licences, plus up to seven more locations contingent upon success. KUB-Gas expects this inventory to grow once the technical team examines the data on the newly acquired West Olgovskoye licence.
- Several fracture stimulations candidates in addition to the three mentioned above.

## Ukraine Gas Prices

The official gas price (the "Limit Price") for the month of July is UAH 6,600 per thousand cubic meters ("Mcm") (excluding 20% VAT), or \$8.86/Mcf using an exchange rate of 21.0 UAH/USD. The Limit Price is the maximum price at which gas can be sold to industrial consumers. It is set each month by the National Commission for Energy Regulation and is generally based on the import price. The actual price received by Cub will also be influenced negatively by the previously-mentioned legislation reserving large parts of the Ukrainian gas market for Naftogaz. The market has been slow to readjust and to the extent that it does not return to its pre-legislative levels, increased competition for the remaining creditworthy customers may lead to lower realized gas prices. The actual price received will also be affected by the approximate 10% profit margin of the intermediaries through which the gas is sold.

Royalties are payable on the Limit Price set each month. To the extent that realized prices are lower due to sales expenses or weak markets, the effective royalty rates will be higher.

## 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.

## About Cub Energy Inc.

[Cub Energy Inc.](#) (TSX-V: 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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