

CUBIC ENERGY INC.

**Moderator: Donna Luedtke
June 2, 2010
9:30 am CT**

Operator: Good morning, ladies and gentlemen and welcome to Cubic Energy's Investor conference call.

At this time, I would like to turn the conference over to Ms. Donna Luedtke, Investor Relations for Cubic Energy. Please go ahead, ma'am.

Donna Luedtke: Good morning everyone. Before we continue, I need to remind you that any forward-looking statements we make on today's call involve risks and uncertainties and are subject to our Safe Harbor provision as stated in our press releases and our SEC filings, and that actual results can differ materially from those described in our forward-looking statements.

Joining me on today's call is Calvin Wallen, President & Chief Executive Officer, Larry Badgley, Chief Financial Officer, and Jon Ross, Secretary. And now, I'd like to turn the call over to Jon.

Jon Ross: Good morning and thank you for joining us on Cubic's first investor conference call. Our entire management team has been with Cubic for twelve years, with the exception of Larry Badgley, who is now finishing his second year. It is this management team that was able to reposition the Company in the trying times of late 2008 and 2009 to allow for the growth opportunities that Cubic has today.

You might question how does this small natural gas E&P player optimize success in June 2010. The answer is simply put. By having acreage in the sweet spot of the Haynesville Shale, the most prolific play in North America operated by the most competent and experienced producers, and having the financial wherewithal, including almost \$30 million in drilling credits and space under our Wells Fargo Energy Capital credit facility to fund the exploitation.

Cubic has 4300 net acres in the core of the Haynesville Shale play with the vast majority of this acreage being operated by EXCO. EXCO is working in the Haynesville Shale under a joint venture arrangement with British Gas or BG, providing EXCO and providing Cubic the support and backing of incredible muscle.

Our CEO, Calvin Wallen, will take over the call from here.

Calvin Wallen: Thank you, Jon. Good morning everyone.

Cubic's Haynesville acreage is in two primary blocks in Northwest Louisiana. The Johnson Branch Field is located in Southern Caddo Parish, and the Bethany Longstreet Field is located in Northern DeSoto Parish. All of Cubic's Haynesville acreage is on structure and all is held by production or what we refer to as HBP.

In addition to EXCO, Chesapeake and Goodrich operate about 15 or so wells in which Cubic has a working interest. The area in and around Cubic's acreage is the most densely drilled of all of the Haynesville formation. This drilling activity provides Cubic with the information and history to accurately evaluate its positions. I want to talk about the expected drilling plan for Cubic's acreage for the near future.

With two rigs soon to be running, one currently, one to start in July, one in the Johnson Branch, one in the Bethany Longstreet, Cubic expects to participate in 13 gross horizontal Haynesville wells over the next 9 to 12 months. These 13 gross wells equate to about 5 net wells for Cubic. Approximately 3-1/2 of those 5 net wells will be paid for with our drilling credit with EXCO, assuming about an \$8 million per well cost or AFE. We expect each well to average nearly 2 BCF in its first 12 months of production unless otherwise constrained or impacted by mechanical issues.

With this increase in drilling activity, by June 2011, Cubic expects to generate monthly revenues of approximately \$4.5 million from operations with a monthly EBITDA in excess of \$3.6 million. Projecting out further and contemplating consistent continued development with the possible addition of a third drilling rig to our acreage and understanding Cubic's drilling credit will have been exhausted, Cubic still expects to have cash on hand of \$18 million by June 2012. Opportunities to increase shareholder value through utilization of this free cash will be touched upon in a few minutes.

Now I will say a word or two about our recent activity on our acreage. The initial production rates for a 24 hour period for the last four company horizontal Haynesville wells have averaged approximately 1300 Mcf per frac stage. As technology and completion techniques continue to evolve, we believe that these initial production rates along with sustained rates and estimated ultimate recoveries commonly referred to as EURs, will go up even further.

Two Goodrich wells drilled recently and completed that Cubic has an ownership in in Bethany Longstreet had initial 24 hour production rates in excess of 20 million a day, each producing in excess of 1 BCF within the well's first four months of production. We think that wells like this will be the norm in the future. With the combination of the recent drilling and the drilling projected for the next 12 months, by fiscal year end June 30, 2011, Cubic will look very different as a company. Not only different from a cash flow perspective, but also from proved reserves and valuation perspective.

We believe as even more well history is established, production will show ultimate EURs of horizontal Haynesville wells from our acreage position to reach 6.5 BCF. This then correlates to more than 300 BCF in reserves attributable to Cubic's Haynesville acreage position.

In addition to the Haynesville, Cubic has quantifiable value in its Cotton Valley horizons. The various Cotton Valley horizons could easily add another 50 to 70 BCF in value to Cubic and become economical if exploited horizontally in the \$6 plus or minus Mcf price environment.

What is yet to be quantified is the 4300 acres of Bossier Shale also held by Cubic. Testing of the Bossier creeps closer and closer to Cubic's acreage and could provide tremendous additional upside to the value of the Company. In addition, there are other shallow horizons Cubic has identified in its vertical well bores to exploit on its acreage. The Hosston formation, the Pettet, the Gloyd, and the Glen Rose being some of these formations that can also add shareholder value in the future.

At this time, I will now hand the call over to Larry Badgley, our CFO, to discuss the finances of the Company.

Larry Badgley: Thank you, Calvin, and good morning everyone. I would like to speak briefly this morning about Cubic's credit facility, the Company's expected revenue, EBITDA numbers for the next 12 months, and expected cash on hand in 24 months.

Our current credit facility is with Wells Fargo Energy Capital. They've been the Company's primary creditor since March of 2007. Last December we renegotiated the facility. It now has a maturity date of July 2012 and a revolver limit of \$40 million. We expect that the nearly \$30 million in drilling credit acquired from EXCO last November and the cash flows from operations will fund our capital requirements for the next 24 months. In the event of a timing issue in cash receipt from our operators or an unexpected AFE on a non-EXCO alternate unit well prompts the need for short-term capital, Cubic has access to \$15 million under the current credit facility revolver.

As stated earlier, a year from now, Cubic expects to generate monthly revenues of approximately \$4.5 million from operations, producing a monthly EBITDA in excess of \$3.6 million. Further, we expect to have available cash on hand of \$18 million in June of 2012. We also expect by the third quarter of fiscal 2011, Cubic should be in a position to begin to pay down, renegotiate or otherwise replace our credit facility.

As this available cash accrues, the Company will strategically evaluate using some of this cash for acquisitions of other oil and gas opportunities or other strategic uses to maximize shareholder value. If natural gas pricing emerges from its current downturn, these opportunities may become more expensive, but that will also create an accretion in the value attributable to Cubic's current position and to our shareholders.

To close, we are excited about the continued development of Cubic's Haynesville Shale acreage and we look forward to the coming months as each new well is drilled, completed, and brought online.

Donna Luedtke: This concludes this portion of our call. In order to give as many people as possible an opportunity to ask questions, please limit your questions to one initial question and one follow up. Thank you.

Operator, we are ready to open phone lines and begin our Q&A session.

Operator: Thank you. And ladies and gentlemen, if you would like to ask a question today, it's star 1 on your touchtone telephone. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, everyone, that is star 1 if you have a question today.

We will go first to Steven Karpel, Credit Suisse.

Steven Karpel: Good morning, guys.

Larry Badgley: Good morning, Steven.

Calvin Wallen: Good morning. How are you?

Steven Karpel: Good. I guess if you could kind of first talk about you know reserves. If we look to June 30, you know what will you be able to book in terms of reserves and offsets in your section, and how many of your sections will have a - I guess at that point will have either a drilling rig or have a well that's drilled on it. As I understand it, what will be able to be booked?

Calvin Wallen: Well, this is Calvin, Steven. Currently, EXCO is drilling the Thomas well. We do have the Red Oak 6 well already drilled. They are going to replace that well. They should start the second rig. It was originally anticipated in June. It looks like the first of July now, so you're not going to see any benefit from the second rig. So at this time, it probably would be good to have two wells that are actually drilled and producing by June 30. And you know you will have the offsets associated with that, so there will be a change. But to identify exactly how many wells, we're not going to know probably until - the latter part of this year we will be able to monitor that a lot better. But I would say by June 30. This June 30 we will have the Red Oak 6 and then the Thomas well will be about it as far as new wells drilled.

And everybody needs to keep in mind that even with the new SEC rules and regs - that because there's only one well drilled per unit, that will be the evaluation of reserves of the reserves given to everyone. It will not be 50 to 60 B per unit or per square mile. It will be approximately 6 to 6-1/2 B per square mile until people start drilling alternate unit wells.

Steven Karpel: And if we look at kind of the five-year plan given the SEC requirements...

Calvin Wallen: Right.

Steven Karpel: What you have set or I guess I'm just trying to understand further what you will be able to book based on drilling - I guess drilling plans.

Jon Ross: Steven, this is Jon. What you are going to see is the reservoir engineers - the independent reservoir engineers will be much more comfortable with down spacing once you begin to see alternate unit wells. I think you are going to see with these superpads and these variant types of drilling as opposed to just one horizontal well per section. It's going to allow for down spacing, and my guess would be you will probably see 160, to probably go from 640s to 160s. And then you will probably in the next year or two, and then after that you may get down spaced to 60.

So quite honestly, you may see 60 acre spacing in five years, but I think it's probably going to be over time and in increments. So I would imagine you'd go probably from the 640s to 160s, then maybe 160s to 80s, and then 80s to 60s. I think that's the convention that you will probably see because I think everyone is pretty confident that these horizontal wells that are being drilled as good as they are they are not draining a whole bunch of the Haynesville in those sections.

Steven Karpel: Understand. And anything with pricing that's going to impact your Cotton Valley? And probably the second follow up to that. Is there any - do you - any plans for some Cotton Valley drilling? And I don't know if there's an inflection point of where you start drilling again given some of the horizontals today.

Calvin Wallen: Well, this is Calvin. \$6 is a good price range for that, but keep in mind there are two horizontal Cotton Valley wells drilled contiguous in offset of our Bethany Longstreet area that Goodrich drilled almost two years ago, and those wells have worked out quite well. They have short laterals around 2400 (B), 5 to 8 stage fracs, and they have proven that the Taylor interval of

the Cotton Valley is going to be quite receptive and prolific to that type of development. So once you start to see \$6 gas or so, I think that's going to be something that you will see even EXCO and possibly other operators start to do in this area in chasing the Cotton Valley and the Taylor Sand specifically of the Cotton Valley.

Steven Karpel: And you know maybe - I didn't quite follow all of the numbers. Maybe I missed it, so I apologize. If I look at what other wells - other operators - let's say a Goodrich and a Chesapeake - some wells that you potentially enter into. Has that all been fully factored into all of these numbers that you indicated potential CAPEX? Or maybe let me ask it this way. What is potential cash outflows from additional non-EXCO non-op wells let's say for the next 12, 18 months?

Jon Ross: Steven, this is Jon again. And once again, we are based on the information that we have. You know I spoke with Rob Turnham myself with Goodrich to get an idea. Are there going to be alternate unit wells because they permitted one or two for this year, and I think in this gas price environment that's probably not going to happen. If it does happen, it has to be something we are prepared for even though it's something we're not anticipating.

Also, Chesapeake still has three or four sections in which they operate and in which we have acreage, and there's even been talk that they may try a superpad development on one or two of those sections where you may have additional costs related to the superpad development in initial drilling and we just don't know the answer to that. We think the vast majority of our non-op drilling has already been paid for because that drilling has already occurred, but we can't control alternate unit wells or some sort of superpad development that's going to require a much larger up front cost. So we have to be prepared for those contingencies.

In addition, Indigo Minerals bought the Cotton Valley rights from Chesapeake, and where we have the Chesapeake deep rights we have the Indigo Mineral Cotton Valley rights. And if prices

come back, we do need to be prepared for some potential development in the Cotton Valley with Indigo Minerals operating.

Steven Karpel: Right and then you know we look at what oil prices are today and you know given where everything is in the market and what have you. You guys kind of alluded to some opportunities. Is this much farther down the line or are there things now that you are looking at doing? And if the answer is yes, given where you are - you have the asset being the drilling credit, but you don't necessarily have a cash position. How would you be able to finance those?

Calvin Wallen: Well this is Calvin. We are looking at opportunities almost weekly, and we've seen just a few that kind of peak our interest and of course most of what we are looking at has a strong liquid component. How would we finance those? I think that as we see our Haynesville develop and we see the cash flow improve, then we would take that position and sit down either with Wells or with other potential suitors that have shown interest and see about a financing or an acquisition type of debt that would allow us to pursue those opportunities.

And one last comment about your previous question. We feel currently that most if close to not all - probably 95% of our third-party participation with outside wells or what we're referring to primarily as maybe Chesapeake and/or Goodrich are pretty well done. And we have a few small positions coming up with Chesapeake where we have maybe four or five acres in a unit and that kind of thing that would equate to about \$25,000 to \$50,000 of total participation. So we could manage that quite easily with what we have forecasted currently.

But yes we are looking at expansion and other opportunities. And as the Haynesville is developed, as cash flow improves dramatically - exponentially almost with these types of wells. We are going to be ready to pursue the right opportunity when it becomes available.

Steven Karpel: And two other quick ones in terms of the credit facility. When is the next borrowing base redetermination and how does that work?

Larry Badgley: It will be September.

Steven Karpel: So that will be on your reserve report.

Larry Badgley: And it will be (given off of) the reserve report, correct.

Steven Karpel: And the facility is up to \$40 million if I remember correctly.

Larry Badgley: Yes, correct.

Steven Karpel: So presumably that could be expanded by the new reserve report.

Larry Badgley: Yes.

Steven Karpel: And then finally Calvin if you could give your thoughts on - you know some of the other operators have been pretty vocal about restricted flow. You know one in particular on these Haynesville wells, so two questions.

One is EXCO - what have you seen in terms of their thoughts? And secondly, how does restricted flow impact you guys directly on a cash flow basis given that you know ultimately they might have greater EURs, but up front clearly it could be lower cash flow.

Calvin Wallen: Correct. We have used very conservative numbers for our cash flow models. We have not used 20,000 Mcf a day production models. We've used anything between the 8 to 10 per day range, which is what you see sometimes with some of the restricted flow. Sometimes the

restricted flow not knowing the specific details of all of the other operators out there, you know they make room for other wells that need to be drilled and their takeaway capacity you know and that's constantly improving.

The other thing - or the other contingency with restricted flow is reservoir integrity. And by not drawing down on the reservoir so fast so quickly over a shorter period of time can preserve the integrity of the stimulation in the frac itself and potentially allow the well as you hinted to earlier have a greater EUR over a longer period of time.

So you know if you can achieve reservoir integrity and sustain a longer production rate or a higher production rate by doing so, then I think it's an intelligent thing to do. And you see guys like EXCO and Goodrich you know that we know of that do it and practice that for that reason.

Steven Karpel: Thank you very much guys.

Jon Ross: Thank you, Steven.

Calvin Wallen: All right.

Operator: And our next question today comes from Joshua Weisbord, Oppenheimer.

Joshua Weisbord: Hey, guys. Thanks again for the call. Look forward to more in the future.

Calvin Wallen: Hi, Joshua. How are you doing?

Joshua Weisbord: Hey, guys. So first question, Calvin. You talked briefly that the EXCO drilling credits are going to pay for 3-1/2 of the 5 wells and that basically it's going to cost about \$8 million of the remaining well and a half let's call it.

Calvin Wallen: Yes.

Joshua Weisbord: Do you plan on drawing down the Wells agreement or using cash on hand for that remaining \$12 million.

Calvin Wallen: Well we will probably draw down on some of the Wells piece, and that's going to be determined by exactly when these wells come on line -- the new wells that are being drilled -- and when we come into a pay status on those wells.

So the Wells piece will be used as a buffer if you will, and it will take towards the end of the year by the time both rigs get running and we see that five or six well development you know occur. Closer to Christmas actually. And by that time, we will be in a cash flow position on at least two possibly three of the wells, not including the current Red Oak 6.

So but yeah, the Wells piece - we balanced that into the numbers. And if necessary, we can go to that and kind of make up the loose ends if you will of the short spots or the tight spots.

Joshua Weisbord: Okay, so we shouldn't worry about it. I know Larry had said that he sees the current cash flow and the Wells agreement covering you guys through the end of 2011. You don't foresee an equity raise here in the next 18 months.

Calvin Wallen: No. No, we get asked that question a lot Joshua about the equity piece. You know this management's position is to facilitate our financial internal needs with the facilities that we have in place, the drilling credit, and the Wells piece, and then to implement of course the cash flow from the wells. And I really believe that if you just stop and look at it a minute, you get two or three of these wells under our belt cash flowing and everything, the Company just with two or three wells

is completely different financially. And we would be able to say pursue some interests that we already have on a debt side if you will and shake some of those things out.

You know we've even had discussions with Wells Fargo Energy Capital - our banker there, Gary Milavec. By the way, a really great guy probably on the phone. I don't know. I just wanted to put that out there.

Joshua Weisbord: All right, guys. Thanks a lot. I appreciate the call.

Calvin Wallen: Thanks, Joshua.

Operator: And ladies and gentlemen, it appears we have time for one additional question today that will come from Mike Breard of Hodges Capital.

Mike Breard: Just to give us a rough idea, if a well does come on stream at a restricted rate of say 10 million a day, how much should that cash flow to you per month just that one well?

Jon Ross: So one well. It's going to be about...

Calvin Wallen: It would be about \$150,000 to \$200,000 net to the Company, Mike.

Mike Breard: Okay and if you were to complete a well July 1 with EXCO just to pick a date, when do you think you'd start getting your payment?

Calvin Wallen: Well if the well was completed in July, we could see entering the revenue stream somewhere around August, September, October at the latest.

Mike Breard: Okay, so it would flow cash back to you pretty quickly then.

Calvin Wallen: Yes. Yes, it - well two things there. You know again, we're at the initial stage of development, right, so everybody is anticipating step one and step one being the first few wells coming on line. Once there are a few wells on line, the anticipation should ease a little with everyone and even ourselves and we see this constant every 30-day regeneration of revenue, and then even new wells after that coming on line. So it will ease. And I know there is a lot of anticipation at this particular time. You know when is the first well, when is the second well?

But the second thing too is each one of these wells impacts this company positively exponentially. So I think if anybody sat down and just kind of looked at the numbers, it's going to be a dramatic prolific positive change for the Company.

Mike Breard: Okay, but you are getting cash flow from the first two big Goodrich wells. It's just the Chesapeake that's a little slow on making the payment.

Calvin Wallen: Yes.

Larry Badgley: And Mike just as a point of conservative, we use six months as - from spud date to kind of a sale in the projection. So that just in case something happens along the way - the well, the drilling, we are more than covered we feel like with the way we've looked at our projections.

Mike Breard: Okay, now it's not possible at this time to say EXCO is going to drill two wells in August and two in September. I mean you don't have an exact schedule yet do you?

Calvin Wallen: Well in discussions with their operations folks and everything it was anticipated about two months ago that there would be about say 12 to 13 wells drilled and completed this year, all right. And of course it's just normal occurrences of operations and everything - that's slowed down a

little bit. But they did move the Patterson 133 rig in on the Thomas well that's currently being drilled and is in its horizontal section currently.

And then there was anticipation to move the second rig in by now into the Bethany Longstreet area, and that's going to be delayed probably to the end of this month to the first of July. Okay so, but when that rig gets there, it's going to continue to drill. As we understand it at this time, it will drill a well in each unit. It will redrill the section 6 well, the Red Oak 6, with a new well. That will be done on superpads where they will get two wells from each pad, and then they will start alternate unit drilling in Bethany after those four wells are drilled. So it will be a continuous drilling type program.

So once that starts, then we're going to be able to better project exactly what's happening and when, but we've been very conservative with our estimates. We've used like Larry said six to seven months from the time a well is spud to the time we come into a pay status. I know a lot of people out there are aware of this, but EXCO is quite proficient and very good at what they do in the field and in other areas, so we feel that they will be able to do what they are trying to do and have been.

So once that starts though - the second rig. And we have the rig up in the Johnson Branch - the 133 rig. We will just keep those moving or they will keep those moving and then we'll all see things kind of iron out and we'll see tighter projections.

Mike Breard: Okay, it sounds like you've got a pretty good plan there.

Calvin Wallen: Well I think the plan is good enough. I think - I would really think people need to focus on the value of the Company, the anticipated value of the Company, the fact that we do have the acreage position, the fact that the acreage position has an identified resource potential, and the

fact that the acreage position is being monetized for being drilled. And that will equate to cash flow for the Company and benefits to shareholders, and that's happening right now.

So you know maybe a guy needs to grab a fishing pole and go and do a little fishing for a little while and come back and check on things in a few months and then again maybe not.

Mike Breard: But just in your Haynesville you've got a two or three-year backlog.

Calvin Wallen: Oh, yeah. Yeah, we're - it will be a dense activity. You know EXCO is one of the few companies that's going to be able to you know with BG even think about or cogitate alternate unit wells. Everybody else is going to have to keep drilling one well per unit to hold acreage, and you know that's not the case here. EXCO is well funded - got good partners.

I mean we couldn't have asked for better partners - EXCO and BG. And with their financial position, with their abilities, with their acreage position even with the Common Resources acquisition, they are going to be able to take care of you know their needs and what they are doing and what their plans are, and that includes us. So yeah, it will be good for the next 24 months.

Mike Breard: And just this one quick question. Looking into your crystal ball, can you give any idea of when the first Bossier well might be drilled?

Calvin Wallen: My crystal ball isn't showing anything.

Mike Breard: Okay.

Calvin Wallen: You know, there's development south of us as you know with Comstock and those guys you know in that Bossier that's down there because that's the primary pay down there. In this

particular area, I don't know what the plans are. I do not know if EXCO has plans in the near future to test the Bossier or anything like that, but I'm sure that will unfold as we go forward.

I do know that we've had our own experiences vertically in the Bossier when we were drilling our vertical wells and it looked quite good, and the data on the Bossier is not quite as good as the Haynesville. We didn't expect it to be, but it's quite prolific. There's a lot of potential value there, so I do not know though when anybody is anticipating development in the Bossier in our area.

Mike Breard: Okay, thank you.

Calvin Wallen: You bet.

Operator: And that is all the time we have for questions. Ms. Luedtke, I will turn things back to you for any additional remarks.

Donna Luedtke: Okay, we'd like to thank everyone for listening and those that participated on the call. Cubic's management team plans to hold similar calls on a quarterly basis from this point forward. Thanks everyone.

Calvin Wallen: Thank you.

Larry Badgley: Thank you.

Jon Ross: Thanks.

Operator: And once again, everyone, this will conclude today's conference call for Cubic Energy. You may now disconnect.

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