Bonavista Energy Corporation Announces 2013 Third Quarter Results

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CALGARY, ALBERTA--(Marketwired - Nov 7, 2013) - Bonavista Energy Corp. ("Bonavista") (TSX:BNP) is pleased to report to shareholders its condensed consolidated interim financial and operating results for the three and nine months ended September 30, 2013. The unaudited financial statements and notes, as well as management's discussion and analysis, are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at http://www.sedar.com and on Bonavista's website at www.bonavistaenergy.com.

Highlights						
	Three months ended September 30,		%	Nine months ended September 30,		%
	2013	2012	Change	2013	2012	Change
Financial						
($ thousands, except per share)						
Production revenues	246,413	188,610	31 %	718,846	609,470	18 %
Funds from operations[1]	120,142	82,291	46 %	353,224	268,652	31 %
Per share[1] [2]	0.61	0.48	27 %	1.80	1.59	13 %
Dividends declared[3]	38,379	56,416	(32 %)	114,064	161,320	(29 %)
Per share	0.21	0.36	(42 %)	0.63	1.08	(42 %)
Net income	22,950	2,484	824 %	42,838	49,760	(14 %)
Per share[4]	0.12	0.01	1100 %	0.22	0.29	(24 %)
Adjusted net income [5]	25,949	10,563	146 %	51,595	41,514	24 %
Per share[4]	0.13	0.06	117 %	0.26	0.25	4 %
Total assets				4,203,569	3,898,043	8 %
Long-term debt, net of working capital				1,080,355	815,322	33 %
Long-term debt, net of adjusted working capital[6]				1,069,295	818,487	31 %
Shareholders' equity				2,281,476	2,300,294	(1 %)
Capital expenditures:						
Exploration and development	112,938	90,320	25 %	332,233	325,153	2 %
Acquisitions, net of dispositions	(11,620)	999	(1263 %)	15,715	(129,793)	112 %
Weighted average outstanding equivalent shares: (thousands)[4]						
Basic	197,725	172,735	14 %	196,381	169,388	16 %
Diluted	200,211	174,423	15 %	198,354	170,375	16 %
Operating						
(boe conversion - 6:1 basis)						
Production:						
Natural gas (mmcf/day)	280	238	18 %	275	248	11 %
Natural gas liquids (bbls/day)	15,305	13,424	14 %	15,090	13,910	8 %
Oil (bbls/day)[7]	11,608	12,383	(6 %)	11,982	13,198	(9 %)
Total oil equivalent (boe/day)	73,632	65,464	12 %	72,844	68,380	7 %
Product prices:[8]						
Natural gas ($/mcf)	2.97	2.56	16 %	3.29	2.37	39 %
Natural gas liquids ($/bbl)	48.53	40.76	19 %	47.02	46.11	2 %
Oil ($/bbl)[7]	89.46	75.88	18 %	81.59	77.80	5 %
Operating expenses ($/boe)	8.87	9.04	(2 %)	8.98	9.20	(2 %)
General and administrative expenses ($/boe)	1.13	1.16	(3 %)	1.12	1.06	6 %
Cash costs ($/boe)[9]	12.87	13.47	(4 %)	13.03	13.47	(3 %)
Operating netback ($/boe)[10]	20.44	16.83	21 %	20.45	17.20	19 %

NOTES:

(1) Management uses funds from operations to analyze operating performance, dividend coverage and leverage. Funds from operations as presented do not have any standardized meaning prescribed by IFRS and therefore it may not be comparable with the calculations of similar measures for other entities. Funds from operations as presented is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities, net income or other measures of financial performance calculated in accordance with IFRS. All references to funds from operations throughout this report are based on cash flow from operating activities before changes in non-cash working capital, decommissioning expenditures and interest expense. Funds from operations per share is calculated based on the weighted average number of shares outstanding consistent with the calculation of net income per share.

(2) Basic funds from operations per share calculations include exchangeable shares which are convertible into common shares on certain terms and conditions.

(3) Dividends declared include both cash dividends and common shares issued pursuant to Bonavista's dividend reinvestment plan (DRIP) and Bonavista's stock dividend program (SDP). For the three months ended September 30, 2013 approximately 1.2 million common shares were issued under the DRIP and SDP with an approximate value of $14.7 million. For the nine months ended September 30, 2013, approximately 3.4 million common shares were issued under the DRIP and SDP with an approximate value of $45.0 million.

(4) Basic net income per share calculations include exchangeable shares which are convertible into common shares on certain terms and conditions.

(5) Amounts have been adjusted to exclude unrealized gains and losses on financial instrument commodity contracts.

(6) Amounts have been adjusted to exclude associated assets or liabilities from financial instrument commodity contracts.

(7) Oil includes light, medium and heavy oil.

(8) Product prices include realized gains and losses on financial instrument commodity contracts.

(9) Cash costs equal the total of operating, transportation, general and administrative, and financing expenses.

(10) Operating netback equals production revenues including realized gains and losses on financial instrument commodity contracts, less royalties, operating and transportation expenses, calculated on a boe basis.

		Three months ended		
	September 30,	June 30,	March 31,	December 31,
Share Trading Statistics	2013	2013	2013	2012
($ per share, except volume)				
High	14.37	16.77	15.18	18.85
Low	12.70	13.33	12.25	14.05
Close	12.93	13.65	14.94	14.82
Average Daily Volume - Shares	620,864	428,813	676,012	626,743

MESSAGE TO SHAREHOLDERS

The third quarter of 2013, was characterized by a determined effort to enhance the capital efficiency of our development program as we continued to pursue growth and value creation opportunities within our Glauconite and Cardium development programs. In addition to these cornerstone plays, we experienced impressive drilling results within the Wilrich and Ellerslie which ultimately, will serve as growth engines in years to come. During the quarter, we executed a successful development program that contributed to production growth of 12% over the same period in 2012. This production performance was a significant improvement over the same period in 2012 and was achieved while spending only 83% of our anticipated capital budget for the quarter and only 85% of funds from operations generated for the quarter. In addition, dividends of $0.21 per share for the quarter were paid, providing an annualized dividend yield of approximately 6%. These results are consistent with our strategy of balancing growth and income with the goal of generating maximum returns for our shareholders.

The third quarter of 2013 once again saw significant price volatility for all commodities. While we experienced a 16% increase in our natural gas price over the same period in 2012, the AECO basis price differential was more than double that of the first half of 2013, creating incremental uncertainty in the Canadian natural gas market. Fortunately, we have witnessed this differential return to historic levels subsequent to the quarter, where we expect it to remain in the near term. In addition, we saw an 18% increase in our realized oil price and a 19% increase in our realized natural gas liquids price. These price increases coupled with our production growth, resulted in an increase in funds from operations of 46% when compared to the third quarter of 2012.

Specific accomplishments in the third quarter of 2013 include:

- Increased production volumes to 73,632 boe per day, a 12% increase over 65,464 boe per day in the third quarter of 2012. This growth rate was achieved while spending $20.9 million less than our third quarter capital budget. Exit 2013 production is anticipated to be between 76,000 and 77,000 boe per day;

- Executed an efficient exploration and development program, investing $112.9 million and drilling 48 wells, of which 33 were oil wells, 13 were liquids rich natural gas wells and two were abandoned. The third quarter marks a record in "quarterly operated meters drilled" by Bonavista since converting back to a corporation in 2011. This signifies our confidence in our asset portfolio and our execution capability;

- Improved our operating netbacks by 21% to $20.44 per boe compared to $16.83 per boe in the comparable period in 2012, due to an 11% increase in revenue per boe, coupled with a 4% reduction in our cash costs per boe;

- Managed our exposure to commodity price fluctuations resulting in approximately 50% of our forecasted natural gas production (net of royalties) hedged at an average floor price of $3.00 per mcf and 41% of our forecasted oil and liquids production (net of royalties) hedged at an average floor price of $88.22 per bbl for 2013. Based upon current forward prices, we have approximately 55% of our 2014 production revenue, net of royalties, hedged. Furthermore, in our effort to optimize netbacks and diversify markets, we have incorporated sales by rail when beneficial from a price or logistics standpoint;

- Generated funds from operations of $120.1 million ($0.61 per share) for the three months ended September 30, 2013, an increase of 46% over the $82.3 million ($0.48 per share) generated in the same period in 2012;

- Elected to reduce the commitment amount under our bank credit facility to $600 million. The $400 million reduction in the commitment results in annual savings of approximately $1.7 million in standby fees or 6 cents per boe on our cash costs. With the reduction, we still have committed bank credit availability of approximately $400 million; and

- Declared $38.4 million in dividends for the three months ended September 30, 2013. Since 2003, when Bonavista introduced an income component to our total shareholder return, Bonavista has delivered cumulative dividends of approximately $2.5 billion or $26.82 per common share.

Third Quarter 2013 Operational Highlights

West Central Alberta Core Area

Hoadley Glauconite Liquids Rich Natural Gas:

Bonavista drilled six horizontal Glauconite wells in the third quarter, totaling 30 wells drilled to the end of the third quarter of 2013. We have completed all six wells, four of which are on-stream with production results averaging between 500 and 600 boe per day per well in their first month. In a continued effort to optimize capital efficiencies in the play, Bonavista successfully drilled and completed our second extended reach horizontal well with 2,900 meters of horizontal length and 24 fracture stimulations. Given the success of our first two wells, a third extended reach well is being drilled at Strachan. The use of this development technique is expected to result in improved capital efficiencies throughout the entire Glauconite trend.

With a revised royalty structure in place, we revived our drilling program in the northeast portion of the Glauconite trend by drilling two horizontal wells at Westerose. Both wells have exceeded our expectations of production with restricted test rates of approximately 900 boe per day for each well and 12% lower well costs than estimated.

Bonavista continues to be an industry leader in the development of the Hoadley Glauconite trend having drilled 174 horizontal wells since entering the play in 2008. With an active land acquisition program and continued down-spacing initiatives, we have increased our inventory to approximately 400 locations in the play and are consistently increasing our expectations of recoverable reserves per well.

Given the attractive development economics, the predictability of well performance, and our continued success with execution efficiency, we plan to drill 55 to 60 wells in this play in 2014. Once complete, this program will represent a record year of activity for Bonavista within the Hoadley Glauconite trend. This will result in record production volumes for Bonavista at the Rimbey Deep Cut facility which is scheduled for commissioning in the fourth quarter of 2014. Ultimately, this new facility will result in natural gas liquid recoveries expanding from 70 bbls per mmcf to approximately 100 bbls per mmcf.

Cardium Light Oil:

Bonavista drilled six Cardium horizontal wells and participated in drilling another six non-operated Cardium horizontal wells in the third quarter. In the emerging area of Lochend, we drilled four wells and participated in drilling two non- operated wells. Five of these six wells have been completed and tested at combined rates of approximately 3,500 bbls per day of oil. In the fourth quarter of 2013, we have drilled one additional Cardium horizontal well at Lochend. The success of the Cardium development in this area has resulted in the existing infrastructure in Lochend reaching full capacity. In the fourth quarter, Bonavista plans to invest approximately $7 million in infrastructure which will create an unrestricted flow path for these wells by January, 2014 and will accommodate our planned 2014 drilling program.

We have participated in drilling 25 wells to date in 2013, totaling 111 horizontal Cardium wells drilled since 2009. Although we have been active over the years, we have maintained an inventory level of approximately 100 locations as we delineate our land base and gain a greater understanding of this reservoir in several areas. Our current inventory of Cardium locations represents a profitable, multi-year development opportunity with single well economics improving with time and technology.

Initial plans for 2014 include drilling approximately 21 Cardium horizontal wells. Similar to previous years, we will adjust our development program in the Cardium as we continue to execute and evaluate the success of this program.

Ellerslie Liquids Rich Natural Gas:

In the third quarter Bonavista drilled three Ellerslie wells. Our first horizontal Ellerslie well, drilled at Westerose, exceeded our expectations with first month production of 900 boe per day (31% liquids). At Caroline we drilled two Ellerslie horizontal wells, however, due to mechanical issues, the first well was abandoned and the second well was rig released with only 50% of the targeted horizontal section drilled. Production from this well has exceeded our expectations with a first month rate of 420 boe per day and increasing, despite having only drilled 50% of our projected reservoir accessibility.

At Garrington, an Ellerslie well which we drilled in the second quarter and placed on production in July at a restricted rate of 600 boe per day, is now producing at a rate of 780 boe per day, 40% of which is oil and natural gas liquids. We plan to drill a follow-up well at Garrington in the fourth quarter.

During the third quarter we continued to modify our drilling techniques as we advanced the Ellerslie play towards commercial development. Single well economics, are supported by a strong natural gas liquids yield of approximately 100 bbls per mmcf, of which approximately 20% is condensate production.

Our goal over the past three years has been to strengthen our land position, delineate the resource opportunity, and gain valuable horizontal operational experience in this play. After drilling nine horizontal wells, and acquiring 23,000 acres of incremental land, we are ready for the next phase of development. With growth in our drilling inventory of approximately 200 locations, we plan to spend $44 million in 2014 by drilling 11 horizontal wells, crystalizing the value of this play.

Deep Basin Core Area

Bonavista drilled four wells in our Deep Basin core area in the third quarter, consisting of three Wilrich horizontal wells and one Bluesky horizontal well. Two of the Wilrich wells were drilled at Marlboro, which were brought on production at average rates of 800 boe per day per well. Our third Wilrich horizontal well was drilled at Ansell in the quarter and completed in October with production test rates exceeding 15 mmcf per day. Production for this well will be restricted through a third-party gathering system until we can install our own compressor station and pipeline infrastructure which is scheduled for early 2014.

In the third quarter, one Bluesky well was drilled at Pine Creek with seven additional Bluesky locations scheduled for the fourth quarter of 2013. Subsequent to September 30, 2013, Bonavista completed an acquisition of approximately 725 boe per day of production for $28.7 million, taking another step in our asset concentration strategy in the Deep Basin area. This transaction is highlighted by the addition of 26 Bluesky horizontal locations, a liquid rich natural gas play delivering amongst the strongest returns of all natural gas plays in western Canada.

The Deep Basin core area continues to meet or exceed our expectations. Hence, our capital allocation in 2014 will involve exploration and development spending of approximately $121 million. Of this, $84 million will be allocated to drill 22 horizontal wells, and $29 million to expand our existing infrastructure. This represents nearly a 40% increase in exploration and development spending over 2013, demonstrating our continued commitment to this core area.

Additional Emerging Opportunities

Bonavista drilled six horizontal Viking oil wells in the Provost area in the third quarter of 2013, totaling 12 wells year to date. Ten wells have been completed, with production rates averaging 60 boe per day in their first month, which is consistent with our expectations for this area.

In the third quarter, Bonavista drilled and completed a horizontal well at Blueberry in northeast British Columbia, targeting liquids rich natural gas in the Montney formation. The first month production levels averaged 700 boe per day, of which 260 boe per day was free condensate. Through our focused effort on cost efficiency with this well, we achieved a substantial reduction in capital costs with total drill, completion and tie-in costs amounting to $6.3 million, a 25% improvement from the previous wells drilled in this formation. Industry activity in the Montney formation remains robust in this area providing incremental delineation of the resource surrounding our land base. In addition, we continue to improve our understanding of the technology required to optimize the recovery of this resource. Bonavista's 55 net section land base is uniquely positioned, having an attractive natural gas liquids yield of approximately 150 bbls per mmcf. We plan to further delineate this resource throughout 2014 and, in future years, proceed with a larger scale development program.

Bonavista drilled and completed a Falher horizontal well in the third quarter with a restricted initial production rate of 730 boe per day, which included 60 bbls per mmcf of natural gas liquids. With the success of this well, we plan to test this play further in 2014 by drilling five additional wells.

Strengths of Bonavista Energy Corporation

Throughout our history, with an initial restructuring in 1997 to create a high growth junior exploration company, the energy trust phase between July 2003 and December 2010, and since January 2011 as a dividend paying corporation, Bonavista has remained committed to the same operating philosophies that have resulted in our tremendous success over this 16 year period. We have steadily improved the quality of our projects and have maintained a high level of investment activity on our asset base. This has resulted in an increase in corporate production by approximately 110% since converting to an energy trust in July 2003 and a further 10% since converting back to a corporation nearly three years ago. These results stem from the expertise of our people and their entrepreneurial approach to generating, profitable development projects in a volatile commodity price environment within the Western Canadian Sedimentary Basin. Our experienced technical teams have a solid understanding of our assets as they exercise the discipline and commitment required to deliver long-term value to our shareholders. We actively participate in undeveloped land purchases, producing property acquisitions and farm-in opportunities, which have all enhanced the quality of our extensive drilling inventory. These activities have led to low cost reserve additions, and a predictable production base that continues to grow at a steady pace. Our production base is currently 63% natural gas weighted and is geographically focused in multi-zone regions primarily in central Alberta and northeast British Columbia. The low cost structure of our asset base ensures favourable operating netbacks in most operating environments. Furthermore, our assets are predominantly operated by Bonavista, providing control over the pace of operations and direct influence over our operating and capital cost efficiencies.

Our team brings a successful track record of executing low to medium risk development programs, while incorporating acquisitions, along with sound financial management. Our Board of Directors and management team possess extensive experience in the oil and natural gas business. They have successfully guided our organization through many different economic cycles utilizing a proven strategy consisting of disciplined cost controls and prudent financial management. Directors, management and employees also own approximately 13% of the equity of Bonavista, aligning our interests with external shareholders.

Outlook

Bonavista remains committed to maximizing shareholder returns through a balance of growth and income. While the Canadian energy sector continues to experience volatile commodity prices, Bonavista will manage this business risk through a disciplined commodity hedging program, while developing low cost, repeatable growth opportunities. This strategy provides us with the confidence to remain active throughout the balance of 2013 and establish a solid production and reserve foundation for 2014.

Bonavista expects to spend approximately $460 million in 2013, drilling approximately 126 wells within our core areas. We expect this capital program to increase average 2013 production by approximately 6% over 2012 to 73,600 boe per day. In an effort to position Bonavista's asset portfolio for success, we will continue to advance the organic development of our key resource plays, while pursuing acquisition and divestiture opportunities to further enhance efficiencies from asset concentration.

Bonavista's Board of Directors has approved a 2014 capital budget of between $500 and $550 million, which will result in drilling between 140 and 150 wells and production between 77,000 and 79,000 boe per day. This represents production growth of approximately 6% year over year, using the mid-point of this range. Although we have not budgeted for any acquisitions or divestitures, we remain committed to our asset concentration strategy where we can complement our operational efficiency and enhance our drilling inventory in our core areas. We have currently identified up to $50 million of non-core assets for disposition in 2014 which, if successful, would result in net spending at the lower end of the aforementioned range. Our business plan remains intact with a commitment to deliver a balance of profitable growth from our quality asset base and steady income through our dividend.

We thank our employees for their commitment to Bonavista's long-term purpose and vision and our shareholders for their trust and support as we navigate the ever changing business environment. We are confident in our stewardship of shareholder capital and that our business model and operational strategies are appropriate in the current environment. We look forward to delivering on our objectives in the months and years to come. Our team is very committed to this vision.

FORWARD LOOKING INFORMATION

Corporate information provided herein contains forward-looking information. The reader is cautioned that assumptions used in the preparation of such information, particularly those pertaining to cash dividends, production volumes, commodity prices, operating costs and drilling results, which are considered reasonable by Bonavista at the time of preparation, may be proven to be incorrect. Actual results achieved during the forecast period will vary from the information provided herein and the variations may be material. There is no representation by Bonavista that actual results achieved during the forecast period will be the same in whole or in part as those forecast.

Bonavista is a mid-sized energy corporation committed to maintaining its emphasis on operating high quality oil and natural gas properties, providing moderate growth and delivering consistent dividends to its shareholders and ensuring financial strength and sustainability.

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