Spartan Energy Corp. Announces Third Quarter Financial and Operating Results

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CALGARY, Alberta, Nov. 09, 2017 (GLOBE NEWSWIRE) -- Spartan Energy Corp. ("Spartan" or the "Company") (TSX:SPE) is pleased to report its financial and operating results for the three and nine months ended September 30, 2017. Selected financial and operational information is set out below and should be read in conjunction with Spartan's September 30, 2017 interim consolidated financial statements and the related management’s discussion and analysis, which are available for review at www.sedar.com or on the Company’s website at www.spartanenergy.ca.

THIRD QUARTER FINANCIAL AND OPERATIONAL HIGHLIGHTS

Spartan’s highlights for the third quarter include:

- Achieved record average production of 22,630 boe/d (91% oil and liquids), representing an 82% increase (14% per share) over the third quarter of 2016.
- Generated adjusted funds flow from operations of $41.1 million ($0.23 per basic share and $0.22 per diluted share), representing an increase of 117% (35% per basic share) over the third quarter of 2016.
- Delivered excess adjusted funds flow from operations (adjusted funds flow from operations less capital expenditures exclusive of acquisitions, land, seismic and waterflood capital) in the quarter of approximately $6.0 million, increasing 2017 year to date excess adjusted funds flow from operations to $31.5 million.
- Drilled 39 (28.0 net) development wells in the third quarter and brought 37 (27.2 net) wells on production.
- Reduced operating and transportation expenses to $17.28 per boe, a decrease of 5% from the third quarter of 2016 and a decrease of 6% from the second quarter of 2017.
- Reduced net general and administrative (“G&A”) expenses to $1.05 per boe, a 36% decrease from the third quarter of 2016.
- Maintained our balance sheet strength, with net debt (exclusive of finance lease obligations) at the end of the quarter of $205.1 million, representing 1.3x annualized third quarter adjusted funds flow from operations, and available liquidity of $144.9 million.

FINANCIAL RESULTS

(Cdn$000s except per boe and per share amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Average daily production (boe/d)	22,630	12,429	22,054	10,403
Net realized oil and gas sales price (excluding derivatives) ($/boe)	46.98	44.20	51.06	40.25
Royalties ($/boe)(2)	7.80	6.83	8.33	6.04
Production costs ($/boe)(1)	17.28	18.28	17.77	16.23
Operating netback ($/boe)(3)	21.90	19.05	24.96	17.96
Net general and administrative expenses ($/boe)	1.05	1.63	1.08	1.92
Interest expense ($/boe)	1.12	0.86	1.26	0.68
Adjusted funds flow from operations(3)(4)	41,066	18,922	136,231	43,791
per share - basic(7)	0.23	0.17	0.78	0.43

per share - diluted[7]	0.22	0.16	0.74	0.40
Net income (loss)	(8,234)	4,102	(17,819)	(15,438)
per share - basic[7]	(0.05)	0.04	(0.10)	(0.15)
per share - diluted[7]	(0.05)	0.03	(0.10)	(0.15)
Total development capital expenditures[3][5]	35,111	19,867	104,709	42,640
Total capital expenditures[6]	40,904	44,250	124,530	132,689
Net debt[3]	233,076	81,271	233,076	81,271
Net debt exclusive of finance lease obligations[3]	205,135	48,954	205,135	48,954
Bank Facility	350,000	150,000	350,000	150,000
Weighted average shares outstanding				
basic[7]	175,603,993	109,979,432	175,507,426	101,036,835
diluted[7]	182,714,645	118,715,905	183,497,285	109,211,605

(1) Including transportation costs.
(2) Royalties include Saskatchewan resource surcharge.
(3) Adjusted funds flow from operations, operating netback, development capital expenditures, net debt and net debt exclusive of finance lease obligations are non-IFRS measures. See “Non-IFRS Measures”.
(4) Excluding transaction costs.
(5) Total development capital expenditures calculated as total capital expenditures less land, seismic, waterflood capital and acquisitions.
(6) Includes acquisitions.
(7) Prior period numbers restated on a 3 for 1 basis to reflect share consolidation that occurred on June 20, 2017.

OPERATIONAL UPDATE

Spartan had three rigs actively drilling across our southeast Saskatchewan asset base during the third quarter. We drilled 39 (28 net) development wells in the quarter and brought 37 (27.2 net) wells on production, with 12 (8.0 net) wells drilled and waiting to be brought on production at the end of the quarter. To date in 2017 we have drilled 105 (84.5 net) wells and brought 93 (76.5 net) wells on production. Total development capital expenditures (total capital expenditures excluding land, seismic, waterflood capital and acquisitions) were $35.1 million in the third quarter and $104.7 million year to date, leaving $35.3 million of our $140 million budget remaining to be spent in the fourth quarter.

As previously disclosed, production from wells on our conventional Frobisher and frac Midale plays have continued to outperform our internal type curves. The success of our drilling program has resulted in Spartan increasing our annual production guidance twice in 2017, with current guidance of 22,000 boe/d representing 16% per share production growth over 2016. We have remained active on our Frobisher and frac Midale assets in the fourth quarter with two rigs drilling continuously across these plays.

In the third quarter, Spartan commenced our first Ratcliffe drilling program on the core Oungre asset acquired from ARC Resources Ltd. in 2016. To date in 2017 we have drilled a total of 12 (6.5 net) Ratcliffe wells. The average initial thirty day production rate from the first eight Ratcliffe wells brought on production was 111 bbls/d, 39% above our internal type curve. We have continued to add to our Ratcliffe land position in 2017 and have identified over 100 net Ratcliffe drilling locations.

Spartan delivered adjusted funds flow from operations of $41.1 million in the third quarter and excess adjusted funds flow from operations (adjusted funds flow from operations less total development capital expenditures) of $6.0 million. We invested a portion of this excess funds flow on a tuck-in acquisition at Oungre, where we acquired a 10.7% interest in the Oungre unit from our joint venture partners for cash consideration of $4.4 million. This acquisition is strategic to Spartan as it gives us a 100% working interest in the Oungre unit and allows us to accelerate our waterflood project in the unit. The first phase of this project, which includes 8 horizontal producers, one new injector and 15 injector conversions, is scheduled for the fourth quarter of 2017 and first half of 2018.

OUTLOOK

Through three quarters of 2017, Spartan has delivered on our business plan of generating top tier organic growth while spending within funds flow. We grew our third quarter production by 14% per share over 2016 on year to date development capital spending that represented only 77% of our adjusted funds flow from operations. Our oil focused, unhedged production base provides a large upside to increases in commodity prices, generating the opportunity for significant excess funds flow growth. We will continue to invest excess cash flow on projects that will deliver long term value to our shareholders, including strategic land and asset acquisitions, advancement of our waterflood projects, drilling on emerging plays and/or repurchasing shares pursuant to our normal course issuer bid.

FURTHER INFORMATION

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READER ADVISORY

BOE Disclosure. The term barrels of oil equivalent ("BOE") may be misleading, particularly if used in isolation. A BOE conversion ratio of six thousand cubic feet per barrel (6mcf/bbl) of natural gas to barrels of oil equivalence is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All BOE conversions in the report are derived from converting gas to oil in the ratio mix of six thousand cubic feet of gas to one barrel of oil.

Drilling Locations. This press release discloses drilling inventory in respect of the Ratcliffe play, which can be categorized as: (i) proved locations; (ii) probable locations; and (iii) unbooked locations. Proved locations and probable locations are derived from the Company’s independent engineering report as at December 31, 2016 and account for drilling locations that have associated proved and/or probable reserves, as applicable. Unbooked locations are internal estimates based on our prospective acreage and an assumption as to the number of wells that can be drilled per section based on industry practice and internal review. Unbooked locations do not have attributed reserves or resources. Of the greater than 100 total net Ratcliffe drilling locations identified, 19 are proved locations, 18 are probable locations and the remainder are unbooked locations. Unbooked locations have been identified by management as an estimation of our multi-year drilling activities based on evaluation of applicable geologic, seismic, engineering, production and reserves information. There is no certainty that we will drill all unbooked drilling locations and if drilled there is no certainty that such locations will result in additional oil and gas reserves, resources or production. The drilling locations on which we actually drill wells will ultimately depend upon the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors. While certain of the unbooked drilling locations have been de-risked by drilling existing wells in relative close proximity to such unbooked drilling locations, other unbooked drilling locations are farther away from existing wells where management has less information about the characteristics of the reservoir and therefore there is more uncertainty whether wells will be drilled in such locations and if drilled there is more uncertainty that such wells will result in additional oil and gas reserves, resources or production.

Forward Looking Statements. Certain information included in this press release constitutes forward-looking information under applicable securities legislation. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "project" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking information in this *press release may include, but is not limited to, planned drilling and completion activities, future production and capital spending levels, future funds flow and excess funds flow, year-end debt levels and the completion of potential asset acquisitions and share repurchases.*

The forward-looking statements contained in this press release are based on certain key expectations and assumptions made by Spartan, including expectations and assumptions concerning the success of future drilling, development and completion activities, the performance of existing wells, the performance of new wells, the availability and performance of facilities and pipelines, the geological characteristics of Spartan's properties, the successful application of drilling, completion and seismic technology, prevailing weather and break-up conditions, commodity prices, royalty regimes and exchange rates, the application of regulatory and licensing requirements, the availability of capital, labour and services, the creditworthiness of industry partners and the satisfaction of all conditions to the closing of the asset acquisitions.

Although Spartan believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Spartan can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), constraint in the availability of services, commodity price and exchange rate fluctuations, adverse weather or break-up conditions and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures. These and other risks are set out in more detail in Spartan's Annual Information Form for the year ended December 31, 2016.

The forward-looking information contained in this press release is made as of the date hereof and Spartan undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, unless required by applicable securities laws. The forward looking information contained in this press release is expressly qualified by this cautionary statement.

Non-IFRS Measures. Certain financial measures referred to in this press release, such as adjusted funds flow from operations, adjusted funds flow from operations per share, excess adjusted funds flow from operations, total development capital expenditures, net debt and net debt excluding finance lease obligations are not prescribed by IFRS. Adjusted funds flow from operations is calculated based on cash flows from operating activities before changes in non-cash working capital, transaction costs and decommissioning obligation expenditures incurred. Adjusted funds flow from operations per share is calculated using weighted average shares outstanding consistent with the calculation of net income (loss) per share. Excess adjusted funds flow from operations is calculated based on adjusted funds flow operations less total development capital expenditures. Spartan uses adjusted funds flow from operations to analyze operating performance and leverage, and considers adjusted funds flow from operations to be a key measure as it demonstrates the Company’s ability to generate cash necessary to fund future capital investments and repay debt. Spartan’s determination of adjusted funds flow from operations, on an absolute and per share basis, and excess adjusted funds flow from operations may not be comparable to that reported by other companies.

The following table reconciles adjusted funds flow from operations (a non-IFRS measure) to cash flow from operating activities, which is the most directly comparable measure calculated in accordance with IFRS:

	For the three months ended September 30,			For the nine months ended September 30,		
($ thousands)	2017	2016	% change	2017	2016	% change
Adjusted funds flow from operations	41,066	18,922	117	136,231	43,791	211
Transaction costs	(5)	(166)	(97)	(373)	(731)	(49)
Settlement of decommissioning liabilities	(128)	-	n/a	(128)	-	n/a
Changes in non-cash working capital	(6,740)	(5,162)	31	5,637	(23,628)	(124)
Cash flow from operating activities	34,193	13,594	152	141,367	19,432	627

The following table reconciles adjusted funds flow from operations (a non-IFRS measure) to excess adjusted *funds flow from operations (a non-IFRS measure):*

	For the three months ended September 30,			For the nine months ended September 30,		
($ thousands)	2017	2016	% change	2017	2016	% change
Adjusted funds flow from operations	41,066	18,922	117	136,231	43,791	211
Total development capital expenditures	(35,111)	(19,867)	77	(104,709)	(42,640)	146
Excess adjusted funds flow from operations	5,955	(945)	(730)	31,522	1,151	2639

Total development capital expenditures is calculated as total capital expenditures less land and seismic, waterflood capital and acquisitions.

The following table reconciles total development capital expenditures (a non-IFRS measure) to total capital expenditures, which is the most directly comparable measure calculated in accordance with IFRS:

	For the three months ended September 30,			For the nine months ended September 30,		
($ thousands)	2017	2016	% change	2017	2016	% change
Total development capital expenditures	35,111	19,867	77	104,709	42,640	146
Land and seismic	913	913	-	5,781	2,126	172
Waterflood capital	515	-	n/a	2,074	-	n/a
Acquisitions	4,365	23,470	(81)	11,966	87,923	(86)
Total capital expenditures	40,904	44,250	(8)	124,530	132,689	(6)

Net debt is calculated as bank debt plus trade and other liabilities plus finance lease obligations less current assets. The following table reconciles net debt (a non-IFRS measure) to bank debt (an IFRS measure):

($ thousands)	September 30, 2017	December 31, 2016
Net debt	233,076	245,685
Trade and other liabilities	(56,676)	(38,546)
Finance lease obligations	(27,941)	(31,124)
Current assets	44,808	41,906
Bank debt	193,267	217,921

Spartan management considers net debt excluding finance lease obligations to be a meaningful measure of the Company’s leverage and liquidity. The following table reconciles net debt (a non-IFRS measure) to net debt excluding finance lease obligations (a non-IFRS measure):

($ thousands)	September 30, 2017	December 31, 2016
Net debt	233,076	245,685
Finance lease obligations	(27,941)	(31,124)
Net debt excluding finance lease obligations	205,135	214,561

This press release also contains other industry benchmarks and terms, including operating netbacks (calculated on a per unit basis as oil, gas and natural gas liquids revenues, plus/minus realized derivative contracts, less royalties and less operating and transportation costs), and corporate netbacks (calculated on a per unit basis as oil, gas and natural gas liquids revenues, plus/minus realized derivative contracts, less royalties, less operating and transportation costs, less general and administrative expenses and less interest expense), which are not recognized measures under IFRS. Management believes that in addition to net income (loss) and cash flow from (used in) operating activities, adjusted funds flow from operations, excess adjusted funds flow from operations, net debt, net debt excluding finance lease obligations, total market capitalization and operating and corporate netbacks are useful supplemental measures as they provide an indication of Spartan’s operating performance, leverage and liquidity. Investors should be cautioned, however, that these measures should not be construed as an alternative to both net income (loss) and cash flow from (used in) operating activities, which are determined in accordance with IFRS, as indicators of Spartan’s performance.