

# Santonia Announces Second Quarter 2013 Results

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CALGARY, ALBERTA -- (Marketwired - Aug. 8, 2013) - [Santonia](#) (TSX:STE) is pleased to provide this summary of its financial and operating results for the second quarter and first half of 2013. A complete copy of the Company's consolidated interim financial statements for the three and six months ended June 30, 2013, along with management's discussion and analysis in respect thereof will be filed on SEDAR and is available on the Company's website at [www.santoniaenergy.com](http://www.santoniaenergy.com).

## HIGHLIGHTS

|   | Three months ended |         | Six months ended |           |
|---|--------------------|---------|------------------|-----------|
|   | June 30,           |         | June 30,         |           |
|   | 2013               | 2012    | 2013             | 2012      |
| Financial (\$thousands, except per share amounts)                       |                    |         |                  |           |
| Petroleum and natural gas revenue                                       |                    | 15,077  |                  | 31,571    |
| Funds generated from operations (1)                                     |                    | 4,246   |                  | 12,899    |
| Per share - basic   | \$ 0.04            |         | \$ 0.12          |           |
| Per share - diluted   | \$ 0.04            |         | \$ 0.12          |           |
| Cash flow from operations<br>(including changes in working capital) (1) |                    | 4,766   |                  |           |
| Per share - basic   | \$ 0.05            |         | \$ 0.12          |           |
| Per share - diluted   | \$ 0.05            |         | \$ 0.12          |           |
| Profit (loss) (2)   | (2,219)            |         | (44,721)         |           |
| Per share - basic   | \$ (0.02)          |         | \$ (0.44)        | \$ (0.02) |
| Per share - diluted   | \$ (0.02)          |         | \$ (0.44)        | \$ (0.02) |
| Exploration and development expenditures                                |                    | 1,700   |                  |           |
| Proceeds from the sale of petroleum and<br>natural gas properties       | (407)              |         | (89,127)         |           |
| Working capital deficit (surplus)                                       |                    | (3,182) |                  | 8,078     |
| Bank indebtedness   | 24,537             |         | 183,105          |           |
| Total debt, including working capital                                   |                    | 21,355  |                  | 191,183   |
| Operations  |                    |         |                  |           |
| Average production  |                    |         |                  |           |
| Natural gas (Mcf per day)   |                    | 18,444  |                  | 70,485    |
| Crude oil (bbls per day)  |                    | 849     |                  | 1,262     |
| Natural gas liquids (bbls per day)                                      |                    |         | 297              |           |
| Sulphur (tonnes per day) (3)  |                    | 47      |                  | 7         |
| Total (BOE per day)   | 4,267              |         |                  | 13,962    |
| Average sales price (4)   |                    |         |                  |           |
| Natural gas (\$ per Mcf)  | 3.62               |         |                  | 2.02      |
| Crude oil (\$ per bbl)  | 92.02              |         |                  | 101.81    |
| Natural gas liquids (\$ per bbl)  |                    | 44.64   |                  | 55.00     |
| Sulphur (\$ per tonne) (3)  | 93.11              |         |                  | 167.39    |
| Netback per BOE (\$ per BOE)  |                    |         |                  |           |
| Petroleum and natural gas sales (4)                                     |                    |         | 38.26            |           |
| Other income  | 0.54               |         | 0.79             |           |
| Royalties   | (6.86)             |         | (1.73)           |           |
| Operating expenses  |                    | (14.24) |                  | (7.48)    |
| Transportation  | (1.18)             |         | (1.24)           |           |
| Operating netback   | 16.52              |         |                  | 13.94     |
| Wells drilled (gross)   | -                  |         | 1                |           |
| Undeveloped land (net acres)  |                    | 128,650 |                  | 181,772   |

(1) The calculation of funds generated from operations and cash flow from operations for the three months ended June 30, 2013 excludes \$0.4 million (2012 - \$2.7 million) of interest expense which is classified as finance expense. Similarly, for the six months ended June 30, 2013, \$0.8 million (2012 - \$5.3 million) of interest expense is classified as finance expense.

(2) Included in the net loss for the three and six months ended June 30, 2012 is an after-tax impairment of

*\$34.4 million.*

*(3) A BOE conversion ratio has been calculated using a conversion rate of one tonne of sulphur to one barrel.*

*(4) Excludes the change in fair value of derivatives.*

## **2013 SECOND QUARTER HIGHLIGHTS**

- Second quarter average production was 4,267 BOE per day (28% oil and NGL's);
- Production from Wild River property was restricted by outages at the third-party operated KA facility, reducing second quarter average production by approximately 300 BOE per day;
- Operating costs of \$14.24 per BOE reflected turnaround costs on the Company's Wild River property, costs associated with wet weather conditions and increased fees at third party operated facilities. The Company expects operating costs to return to the \$10.00 to \$11.00 per BOE range for the remainder of the year;
- Funds generated from operations of \$4.3 million (\$3.9 million after deducting interest expense) resulting in an operating netback of \$16.52 per BOE, 19% higher than the prior year (\$13.94 per BOE);
- Capital expenditures of \$1.7 million focused on the tie in of wells drilled in the first quarter of 2013;
- Net debt of \$21.4 million at June 30, 2013 was 10% lower than the preceding quarter (\$23.8 million) and 89% lower than the prior year (\$191.2 million);
- Natural gas hedges on average production of 6,638 Mcf per day are in place for the balance of 2013 at an average floor price of \$3.47 per Mcf.

## **OPERATIONS: HARLECH AREA**

The second quarter was relatively quiet for the Company on an operational front and with wet weather in June and early July; the startup of drilling operations was delayed as well. The Company is currently participating in two (1.2 net) Wilrich horizontal wells, one (0.9 net) operated and one (0.3 net) non-operated and expects results to be available in September. Production has continued to exhibit stable, shallow declines of approximately 15% with June production averaging 4,600 BOE per day. With Wild River now restored, current production is estimated at 4,400 to 4,500 BOE per day.

During the second quarter the third party operated KA Gas plant was off line for turnaround activity. The Company's production at Wild River (1,000 BOE per day) was shut in for the entire turnaround period and had a net impact of reducing quarterly average production by approximately 300 BOE per day. The turnaround activity also had the impact of increasing operating costs for the quarter. With all production restored, the Company expects operating costs to return to the \$10.00 to 11.00 per BOE range.

## **OUTLOOK**

The Company plans to finance the second half of 2013 capital expenditure budget primarily with funds generated from operations. Capital plans for the remainder of 2013 include the drilling and completion of the two (1.2 net) Wilrich wells discussed above and one (0.8 net) Mannville Channel horizontal well. The Company is also evaluating drilling up to two additional Wilrich horizontal wells in the fourth quarter. Production is anticipated to average 4,500 to 4,600 BOE per day for the third quarter. The Company remains focused on maintaining its balance sheet strength with current net debt of \$21 million leaving \$79 million of unutilized credit capacity.

Santonia is a crude oil and natural gas exploration, development and production company headquartered in Calgary, Alberta, Canada. Santonia's shares trade on the Toronto Stock Exchange under the symbol "STE".

## **FORWARD-LOOKING STATEMENTS**

Certain information set forth in this press release, contain forward-looking statements including management's assessment of future plans and operations, drilling plans, expected operating costs, expected timing of results for new wells, capital expenditures for the second half of 2013, method of funding capital expenditures and nature of expenditures, expected average production for third quarter of 2013 and expected net debt at end of the third quarter and resulting unused credit capacity. By their nature,

forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond Santonia's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, delays resulting from or the inability to obtain required regulatory approvals, inability to retain and delays in retaining drilling rigs and other services, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions and ability to access sufficient capital from internal and external sources. The foregoing list is not exhaustive. Additional information on these and other risks that could affect Santonia's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)), or at Santonia's website ([www.santoniaenergy.com](http://www.santoniaenergy.com)). Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. The actual results, performance or achievement of Santonia could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Santonia will derive therefrom. Santonia disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

## **BARRELS OF OIL EQUIVALENCY**

Natural gas volumes are converted to barrels of oil equivalent (BOE) on the basis of 6,000 cubic feet (Mcf) of gas for 1 barrel (Bbl) of oil. In addition a BOE conversion ratio has been calculated using a conversion rate of one tonne of sulphur to one barrel. The term "barrels of oil equivalent" may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf to 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. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1; utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

## **NON-GAAP AND ADDITIONAL GAAP MEASURES:**

This document contains funds generated from operations which is an additional GAAP measure presented in the consolidated financial statements. The Company uses funds generated from operations as a key measure to demonstrate the Company's ability to generate funds to repay debt and fund future capital investment. This document contains the terms "funds generated from operations per share", "cash flow from operations per share", "net debt" and "netbacks" which are non-GAAP financial measures. The Company uses these measures to help evaluate its performance. These non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. The Company uses net debt (bank indebtedness plus negative working capital or less positive working capital) as an alternative measure of outstanding debt. The Company considers corporate netbacks a key measure as it demonstrates its profitability relative to current commodity prices. Netbacks which have no GAAP equivalent are calculated on a BOE basis by deducting royalties, operating costs, and transportation from petroleum and natural gas sales. Santonia also presents funds generated from operations per share and cash flow from operations per share and such per share amounts are calculated using weighted average shares outstanding consistent with the calculation of profit (loss) per share.

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