Santonia Energy Inc. Announces Third Quarter 2013 Results

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CALGARY, ALBERTA -- (Marketwired - Nov 7, 2013) - Santonia (TSX:STE) is pleased to provide this summary of its financial and operating results for the third quarter of 2013. A complete copy of the Company's consolidated interim financial statements for the three and nine months ended September 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.

HIGHLIGHTS

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Financial *($thousands, except per share amounts)*				
Petroleum and natural gas revenue	13,638	25,506	44,159	95,542
Funds generated from operations *(1)*	4,955	10,619	16,728	41,579
Per share - basic	$ 0.05	$ 0.11	$ 0.16	$ 0.41
Per share - diluted	$ 0.05	$ 0.11	$ 0.16	$ 0.41
Cash flow from operations				
(including changes in working capital) *(1)*	6,322	6,355	14,775	36,783
Per share - basic	$ 0.06	$ 0.06	$ 0.14	$ 0.36
Per share - diluted	$ 0.06	$ 0.06	$ 0.14	$ 0.36
Loss *(2)*	(18,709)	(121,840)	(20,264)	(173,801)
Per share - basic	$ (0.18)	$ (0.19)	$ (0.20)	$ (1.69)
Per share - diluted	$ (0.18)	$ (0.19)	$ (0.20)	$ (1.69)
Exploration and development expenditures	22,301	9,698	38,927	55,214
Proceeds from the sale of petroleum and natural gas properties	(14,334)	(474)	(15,688)	89,653
Working capital deficit	7,092	9,521	7,092	9,521
Bank indebtedness	16,972	185,336	16,972	185,336
Total debt, including working capital	24,064	194,857	24,064	194,857
Operations				
Average production				
Natural gas *(Mcf per day)*	19,983	68,416	19,290	71,894
Crude oil *(bbls per day)*	748	873	817	1,330
Natural gas liquids *(bbls per day)*	323	799	331	877
Sulphur *(tonnes per day)* *(3)*	39	27	45	27
Total *(BOE per day)*	4,441	13,102	4,409	14,216
Average sales price *(4)*				
Natural gas *($ per Mcf)*	2.91	2.28	3.29	2.20
Crude oil *($ per bbl)*	102.17	87.19	95.72	93.91
Natural gas liquids *($ per bbl)*	46.32	58.40	46.75	63.52
Sulphur *($ per tonne)*	-	125.38	68.83	123.65
Netback per BOE *($ per BOE)*				
Petroleum and natural gas sales *(4)*	33.42	21.72	36.52	24.18
Other income	(0.01)	(0.06)	0.16	0.24
Royalties	(4.48)	(1.92)	(4.91)	(2.15)
Operating expenses	(11.07)	(6.80)	(11.59)	(7.52)
Transportation	(0.89)	(0.98)	(1.02)	(1.06)
Operating netback	16.97	11.96	19.16	13.69
Wells drilled *(gross)*	2	1	5	13
Undeveloped land *(net acres)*	101,153	132,273	101,153	132,273

(1) The calculation of funds generated from operations and cash flow from operations for the three months ended September 30, 2013 excludes $0.5 million (2012 - $2.3 million) of interest expense which is classified as finance expense. Similarly, for the nine months ended September 30, 2013, $1.2 million (2012 - $7.6 million) of interest expense is classified as finance expense.

(2) Included in the net loss for the three and nine months ended September 30, 2013 is a $22.2 million loss on the sale of the Clive assets. Included in the net loss in 2012 is an after tax impairment loss of $115.4 million for the three months ended September 30, 2012 and $149.8 million for the nine months ended September 30, 2012.

(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 THIRD QUARTER HIGHLIGHTS

- Average third quarter production was 4,441 BOE per day, (25% oil and NGL's), a 4% increase over the preceding quarter;
- Operating costs of $11.07 per BOE were 22% lower than the preceding second quarter ($14.24 per BOE) indicating a return to historical operating cost levels;
- Funds generated from operations of $5.0 million ($4.5 million after deducting interest expense), 17% higher than the preceding second quarter resulting in an operating netback of $16.97 per BOE;
- The sale of the Clive area assets closed for proceeds of $15.0 million of cash and a gross overriding royalty of up to $10.0 million;
- Capital expenditures of $22.3 million focused on the acquisition of Crown land in the Harlech area and the completion and tie in of two wells drilled in the quarter;
- Net debt of $24.1 million at September 30, 2013 was up slightly from the preceding quarter ($21.4 million) and 88% lower than the prior year ($194.9 million);
- Natural gas hedges of 7.6 MMcf per day are in place for the balance of 2013 at an average swap price of $3.46 per Mcf with an additional 5.8 MMcf per day of first quarter 2014 natural gas hedged at an average swap price of $3.79 per Mcf.

CORPORATE

With the sale of Santonia's Clive property late in the third quarter the Company has fully executed its strategy to become a deep basin focused, liquids rich gas producer. Post the Clive asset sale Santonia has the following characteristics;

- **Land:** 168,439 Gross (101,153 net) acres of undeveloped land;
- **Production:** in excess of 4,000 BOE per day, (3,325 BOE per day natural gas and 675 bbls per day oil and condensate);
- **Operating costs:** $9.00 per BOE;
- **Base corporate decline rate:** 15%;
- **2P Reserves (pro-forma as of Dec 31, 2012):** 23.0 MMboe;
- **2P Reserve Life Index:** 15.7 years;
- **2P Reserve NPV (pro-forma as of Dec 31, 2012):** $244.7 million;
- **3D seismic:** Approximately 5,000 km^2 of 3D seismic data covering nearly 100% of the Company's acreage;
- **Inventory** of drillable prospects in the Belly River, Cardium, Viking, Mannville, Falher, Wilrich and Gething.

OPERATIONS

North Harlech Area

The Wilrich play continues to develop in the North Harlech area where the Company has been aggressively adding to its land base and experiencing successful early stage delineation drilling. Santonia has accumulated a large, contiguous, prospective Wilrich land position that includes 100 gross (51 net) sections.

Recent land sale activity in the area has highlighted the competitive nature of the play with historical offset land sales valuing lands with Wilrich rights at up to $1.0 million per section and the October 23, 2013 sale valuing two sections of lands including Wilrich rights at approximately $4.0 million per section.

Santonia's first operated North Harlech Wilrich horizontal well (0.9 net), 1-20-46-16W5, has been successfully drilled, completed and is now on production. The well was drilled to a total measured depth of 4,644 metres with a horizontal length of 1,103 metres and fracture stimulated over 15 intervals with slickwater.

During initial post fracture clean up, the well produced at an increasing rate to a maximum of 5.0 MMcf per day, at a surface flowing pressure of approximately 800 psi while also recovering fracture fluid at a rate of 4,300 bbls per day. The well has been equipped and tied-in on lease to Santonia's existing infrastructure.

The well has commenced production, and in its first 24 hours produced at an average rate of approximately

3.1 MMcf per day. To date, the well has recovered approximately 36 percent of the fluid used in the fracture stimulation and continues to recover significant amounts of fracture fluid while on production. We expect to recover in excess of 50 percent of the fracture fluid utilized before full gas flow will be achieved.

Based on the extensive vertical well control and the Company's first successful horizontal well, the currently identified inventory of Wilrich horizontal wells, based on two wells per section drilling, totals 190 (99 net) locations. Prior to spring break up Santonia plans to license and drill a vertical Wilrich well with plans to cut a full diameter core of the Wilrich to obtain detailed reservoir characteristics. This well will also validate a 13.5 section license, continuing the land, on average, for an additional five years. Santonia also plans to participate in a follow up Wilrich horizontal well (0.2 net), located approximately five kilometers east of the 1-20 well.

Harlech/Brazeau Area - Viking/Mannville Exploration Discovery

Industry activity in the Harlech/Brazeau area and the area immediately to the east continues to increase with numerous operators successfully targeting Notikewin, Mannville and Wilrich channels. Santonia has recently completed drilling a vertical well to evaluate a seismically identified Falher target as well as the Wilrich and the Gething formations. The well encountered log indicated pay and associated mud log gas shows in the Viking, Falher and multiple Gething sands. In addition, the Second White Specks yielded anomalously high mud gas shows. Completion operations are expected to begin shortly with the plan to complete up to four zones, which will be comingled for production.

Santonia currently produces approximately 2,600 BOE per day from vertical multizone wellbores in the Harelch area and these wells typically have condensate yields of 55 bbls per MMcf per day and netbacks at current commodity prices of approximately $24 per BOE. The success of this well significantly extends the Viking trend and opens up a new Gething area for development drilling in 2014. Santonia's current Viking horizontal inventory has increased to 95 (58 net) horizontal locations across Santonia lands. This includes both step-out "halo" wells and low-risk development infill wells.

OUTLOOK

With the cash component of the proceeds from the Clive sale initially applied to outstanding bank indebtedness, Santonia plans to finance the remainder of the 2013 capital expenditure budget primarily with funds generated from operations. The Company anticipates go forward operating costs to be in the $9 per BOE range, a 20% reduction from third quarter 2013 levels, after giving effect to the disposition of the high cost Clive assets. We remain focused on maintaining balance sheet strength and anticipate net debt of approximately $25-$27 million by the end of the year. The Company's lending syndicate is currently evaluating the Company's borrowing base as part of its scheduled semi-annual borrowing base valuation. The syndicate will look at factors such as the sale of the Clive assets and the current commodity price environment when determining the level of the Company's go forward borrowing base.

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 activity levels, expectation that vertical wells will validate licences and continue land, timing of commencement of completion operations and plans in respect thereof, plans to finance the balance of 2013 capital expenditures, expected operating costs, expected year-end net debt and resulting availability under credit facilities. 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), or at Santonia's website (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. 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.

NETBACKS

Netbacks are calculated by subtracting royalties, operating costs and transportation costs from revenue.

INITIAL FLOW RATES AND PRODUCTION RATES

Production rates during post fracture clean-up were not flow-test. Initial flow and initial production rates are not necessarily indicative of the rates at which such wells will continue production and decline thereafter or of the long-term performance results or recovery associated with such wells. Readers are cautioned not to place reliance on such rates when calculating the aggregate production for the Company.

RESERVES AND FUTURE NET REVENUE

Reserves stated herein are gross reserves as evaluated as at December 31, 2012 by GLJ Petroleum Consultants Inc. 2P Reserve NPV is the net present value of future net revenue of the proved plus probable reserves discounted at 10% based on forecast cost assumptions and GLJ's forecast prices as at January 1, 2013, all as summarized in the Company's annual information form for the year ended December 31, 2012. It should not be assumed that the estimates of future net revenue represent the fair market value of the reserves.

The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation. The reserves and future net revenue stated herein are as evaluated as at December 31, 2012 after removing reserves attributable to the Clive properties disposed of.

Contact

Santonia Energy Inc.
Steven R. VanSickle, President and Chief Executive Officer
(403) 290-7759
(403) 290-7724
svansickle@santoniaenergy.com

Santonia Energy Inc.
Aaron G. Grandberg, Chief Financial Officer
(403) 290-3217
(403) 290-7724
agrandberg@santoniaenergy.com
www.santoniaenergy.com

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