BONANZA CREEK ENERGY INC.

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MICHAEL R. STARZER was a founder of the first Bonanza Creek company in 1999 and serves as the company's president and CEO. Bonanza Creek is an independent E&P company with operations in Wattenberg Field focused on development of the Niobrara and Codell formations, and in Arkansas, where Bonanza Creek is the state's largest oil producer, targeting oil-rich Cotton Valley sands. Bonanza Creek's success is driven by strong technical and operating competencies through the application of advanced horizontal drilling and fracture stimulation technologies.

Describe the strategy that drives the company, and how you will implement it this year.

Our strategy is to prudently pursue growth rates in the top quartile of our peers. We are fortunate to have an asset base with the capability to provide industry-leading growth for years. Since 2005, we have targeted for acquisition oil-weighted producing assets that have resulted in strong margins and cash flow. Currently, we are accelerating the horizontal development of the Niobrara and Codell formations in Wattenberg Field located in northeastern Colorado, which has become one of the premier oil resource plays in the U.S. Together with our operations in southern Arkansas, we forecast to increase production over 60% this year versus 2012.

Top quartile production growth is expected to continue for the foreseeable future as our Wattenberg Field asset has approximately 1,500 horizontal locations identified in the Niobrara B and C benches and in the Codell formation. Having drilled over 100 horizontal wells to date, we currently operate three rigs in the field and plan to increase to eight rigs by 2017. This projected increase in activity is made possible by the strength and flexibility of our balance sheet. Our management team is driven to maintain Bonanza Creek's attractive balance sheet through strict financial discipline, including an active hedging program. At midyear, our net debt-to-EBITDAX was 1.3x with total liquidity of just over $325 million. We believe our capital structure is a competitive advantage that sets us apart from our peers.

How have high oil prices and low gas prices affected your business?

We are strongly weighted to crude oil and natural gas liquids. During the first half of 2013, 72% of our sales volumes and 89% of our revenues came from oil and NGLs. Also during the first half, before the effects of hedging, we realized approximately $70 per barrel of oil equivalent (BOE) in revenue with a resulting cash margin of nearly $50 per BOE. To protect our current and future capital programs, we actively hedge our oil volumes targeting $90 floors with a combination of collars and swaps.

Our view on the world is that crude oil pricing will remain strong for the foreseeable future, while natural gas will continue to be challenged by oversupply. We believe our assets reflect that perspective and are prudently balanced with proved reserves of approximately 57% crude oil, 37% natural gas and 6% NGLs.

Will you be expanding into any new basins or plays? Why or why not?

We have a large and concentrated position in the oily part of Wattenberg Field where economic returns are among the most attractive in the U.S.; at our current drilling pace we have approximately two decades of inventory. Therefore we are in the fortunate position to be very selective without a need to make an acquisition outside of our core areas for years. That said, aside from adding acreage offsetting our current positions, we screen many other opportunities across the U.S. to stay knowledgeable about the market. An acquisition into a new area would be competitive with the tremendous economics of our current asset portfolio, and would be predictable fitting within our core competencies.

Which projects will yield the best return for the company this year?

Our success over the past few years is primarily due to the continuous improvement of the Wattenberg Niobrara play. Well costs of $4.2 million and an oil-weighted estimated ultimate recovery (EUR) of 313 MBOE achieve internal rates of return over 60% at a $90 WTI oil price (at the lease level and before income tax). A review of comparative basin economics confirms that the Wattenberg Niobrara yields some of the highest rates of return in the U.S. This asset continues to deliver superior results for our shareholders and will fuel our growth into the future.

However, people are often surprised to learn that the economics in Dorcheat-Macedonia Field in Arkansas are comparable to those in Wattenberg. Assuming 10-acre spacing, we achieve payout in approximately 1.6 years with rates of return approaching 70% at $90 WTI. The investment economics of this asset compete with Wattenberg as it provides very quick cash payouts and free cash flow while achieving overall annual growth rates around 10%. We are also currently testing five-acre spacing, with encouraging early results, that could significantly expand our inventory in the play.

What is your projected budget and how many wells is that, and how does it compare to 2012?

We are in the final months of investing $460- to $475 million into our 2013 development program, which is a 35% to 40% increase over 2012. With approximately 80% of this budget dedicated to Wattenberg Field, we expect to drill 87 horizontal wells, including our standard 4,000-foot laterals in the Niobrara B Bench, wells in the Niobrara C Bench and Codell, extended-reach laterals and significant downspacing tests in multiple zones. Altogether, this plan more than doubles the wells drilled in Wattenberg during 2012 while more fully testing the catalysts, including our super-section test, delivering Bonanza Creek's next phase of significant growth. In Arkansas, our plan is largely the same as it was in 2012, drilling wells targeting the Cotton Valley sands at 10-acre spacing, as well as drilling additional wells to test five-acre spacing.

Are you constrained by midstream capacity at all?

Midstream constraints in the D-J Basin have been well known over the past year and we have been affected. With such significant investments in drilling applied to our area from ourselves and other operators, the gas-processing facilities have been overloaded at times. As a result, all the operators in the basin have been affected by high line pressures, which have primarily impacted production from older vertical wells. Overall, we were less impacted than others due to our oiler production mix and smaller proportion of vertical wells. Currently, less than 20% of our production volumes comes from Bonanza Creek's legacy vertical wells in Wattenberg, and that percentage continues to decrease. We expect that gas-processing capacity in the D-J Basin will nearly double by the end of 2014, staying ahead of projected growth. At the present time, we are comfortable that high line pressures or any other capacity issues will not hinder our ability to grow according to plan.

What is the greatest challenge you face this year?

Managing Bonanza Creek's industry leading growth. Bonanza Creek has grown substantially in production, revenues and personnel over the past few years. We continue to achieve our goals by hiring exceptional people, as exhibited by outstanding additions to our executive team, who are driven to maximize shareholder value. The employees and the board are aligned with a vision of exceptional growth into the future and the commitment to take Bonanza Creek far beyond where it is today.

What is the one thing you want investors to know?

Bonanza Creek is fortunate to possess many advantages for our investors including an oily asset base with strong cash margins, exceptional growth potential and over 15 years of operating experience in Wattenberg Field. With high returns and quick investment payback, we add incremental layers of cash flow each quarter that are highly accretive to shareholder value. Bonanza Creek is able to maintain one of the strongest balance sheets among our E&P peers while aggressively developing the company's substantial, and expanding, investment portfolio. We would like for everyone to be as enthusiastic about the future of Bonanza Creek as our employees are.

Any final comments or thoughts?

We are committed to maximizing shareholder value and have done this effectively since the first Bonanza Creek company in 1999 and since becoming public in 2011. Earlier this year Bonanza Creek was recognized as the top-performing E&P stock in 2012 with over $1 billion in market capitalization, and this trajectory continues into 2013. As we look forward to 2014, I believe we can expect another transformational year for the company. Wattenberg Field continues to expand and impress. We are proud to be a significant contributor to the development of this resource and are excited about our future. ■