

Surge Energy Inc. announces second quarter 2016 results

CALGARY, Aug. 3, 2016 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") (TSX: SGY) announces its operating and financial results for the quarter ended June 30, 2016.

SECOND HALF DRILLING PROGRAM ACCELERATED

"Due to the record drilling efficiencies and cost savings Surge has achieved so far in 2016, management chose to use a portion of the proceeds from the Company's first quarter non-core asset sale to accelerate its second half 2016 drilling program. Favorable weather conditions in Southwest Saskatchewan allowed for the mobilization of a rig to the Upper Shaunavon field in early May. This decision was largely based on the desire to replace the divested volumes, and was further supported by a historically low service cost environment, drilling program improvements and efficiencies", stated Paul Colborne, President and Chief Executive Officer of Surge.

"These factors allowed the Company to add production at less than \$9,875 per flowing barrel from the 14 well program. Significantly lower service costs and record drilling efficiencies have allowed for Surge to increase the scope of its drilling program within the original capital budget of approximately \$55 million. Surge management continues to monitor the commodity price environment, and retains the optionality to expand the 2016 budget accordingly."

SECOND QUARTER HIGHLIGHTS

- Funds flow from operations ("FFO") was \$22.1 million in the second quarter of 2016, or \$0.10 per share.
- Surge delivered an all-in sustainability ratio of 95 percent for the quarter, with oil prices averaging US\$45.59 WTI per barrel.
- The Company achieved a debt to cashflow ratio of 1.53 times annualized cashflow for the quarter.
- The Company's recent 14 well drilling program has added production of more than 2,000 boepd (85 percent oil; IP/180 day), at an "all-in" on-stream cost of \$19.75 million - providing a production efficiency of less than \$9,875 per flowing boepd.
- As a result of Surge's excellent development drilling results discussed above, together with continued successful waterflood results at Shaunavon, Eyehill, Nipisi, Silver, and Doe, Surge's current production continues to exceed the Company's previously announced 2016 production exit rate target of 13,000 boepd.
- Through two recent Crown purchases in the Sparky area, Surge has acquired nine contiguous sections of 100 percent working interest land (with prior vertical Sparky well control) prospective for Sparky production. The acquired lands have an estimated OOIP of more than 65 million barrels. Surge will be drilling this exciting new Sparky reservoir (utilizing modern horizontal and completion technology) in 2017.
- Surge achieved an operating netback of \$23.27 per boe and a corporate netback of \$19.91 per boe in the quarter, an increase of 147 percent and 225 percent respectively from the first quarter of 2016.

- Operating expenses were \$12.69 per boe, down 16 percent as compared to the same period in 2015, as Surge operations personnel continue to execute on optimization projects.
- Transportation expenses were reduced by 50 percent as compared to the first quarter of 2016, as the benefits from facilities optimization projects at Valhalla were realized for a full quarter.
- Production volumes for the quarter reflect the \$28 million non-core asset sale of Sunset, a 700 boepd divestiture that closed at the end of the first quarter of 2016. Volumes were impacted by approximately 350 boepd of unplanned downtime at a third party processing facility, and approximately 300 boepd of uneconomic shut-in production.
- Surge's banking facility was re-determined at \$250 million subsequent to the quarter. With net debt of \$134.6 million at June 30, 2016, the facility is approximately 54 percent drawn, providing the Company with ample liquidity to continue to execute on Surge's business plan. The reduction in stand-by fees should result in a \$1 million savings in annual interest expense.

OPERATIONS UPDATE

Surge provided a detailed operations update highlighting the Company's recent drilling results dated July 21, 2016. Please refer to this release for detailed operational results in Surge's key operating properties.

FINANCIAL UPDATE

As discussed above, Surge has elected not to change guidance at this time. The Company will continue to monitor commodity prices and its ability to drill and pay the dividend within cash flow during the second half of 2016. Based on the Company's excellent balance sheet and low-cost structure, management retains the flexibility to potentially increase Surge's 2016 capital budget – when crude oil prices firm up above US\$50 WTI per barrel for a sustainable period.

Strong cash flow during the second quarter allowed the Company to accelerate its low-risk development drilling program, and to capitalize on a period of historically low service costs, while maintaining lower debt levels. The Company remains well positioned to accelerate production growth into 2017 as volumes from Surge's successful drilling program will support higher cash flow in the second half of the year.

Funds flow in the quarter was positively impacted by a prior period adjustment to operating expenses, and a reduction in Alberta Crown royalties relating to an adjustment of Surge's 2015 Gas Cost Allowance ("GCA").

HEDGING UPDATE

Surge intends to maintain a hedging policy that allows for management to opportunistically add volumes concurrent with a disciplined approach designed to ensure a minimum hedge level. Accordingly, the Company executed an additional contract during the second quarter 2016 as follows:

Commodity	Time Frame	Volume	Value
WTI oil collars (put/call)	2H 2017	500 bbl/d	CAD \$60 x \$80.25

Surge now has approximately 20 percent of oil volumes hedged via collars in 2017.

BANK LINE UPDATE

Subsequent to the quarter, Surge closed on the redetermination of its banking facility. The borrowing base has been renewed at \$250 million. The revolving period on the entire credit facility expires on May 29, 2017, and the Company's bank line has no non-conforming portion. The new capacity will provide the Company with significant liquidity to execute on its business plan while allowing for substantial savings in stand-by fees.

The Company is also pleased to announce that it retained all lenders in the syndicate, and also added an additional lender during the process. The Company is well positioned to add capacity for future growth.

FINANCIAL AND OPERATING SUMMARY

(\$000s except
per share
amounts)

	Three Months Ended			Six Months Ended June 30,		
	Jun 30, 2016	Mar 31, 2016	% Change	2016	2015	% Change
Financial highlights						
Oil sales	37,523	26,166	43 %	63,689	139,724	(54)%
NGL sales	1,367	769	78 %	2,136	2,706	(21)%
Natural gas sales	2,053	2,211	(7)%	4,264	8,791	(51)%
Total oil, natural gas, and NGL revenue	40,943	29,146	40 %	70,089	151,221	(54)%
Funds from operations ¹	22,063	7,491	195 %	29,554	86,562	(66)%
Per share basic	0.10	0.03	233 %	0.13	0.39	(67)%

(\$)

Per share diluted (\$)	0.10	0.03	233 %	0.13	0.39	(67)%
Capital expenditures - petroleum & gas properties ²	16,810	12,873	31 %	29,683	40,769	(27)%
Capital expenditures - acquisitions & dispositions ²	—	(41,141)	nm ⁴	(41,141)	(460,950)	nm
Total capital expenditures ²	16,810	(28,268)	nm	(11,458)	420,181	nm
Net debt at end of period ³	134,613	133,816	1 %	134,613	125,478	7 %

Operating highlights

Production:

Oil (bbls per day)	8,958	9,821	(9)%	9,389	15,315	(39)%
NGLs (bbls per day)	564	615	(8)%	589	696	(15)%
Natural gas (mcf per day)	15,959	17,829	(10)%	16,894	18,594	(9)%
Total (boe per day) (6:1)	12,182	13,408	(9)%	12,794	19,110	(33)%

Average realized price (excluding hedges):

Oil (\$ per bbl)	46.03	29.28	57 %	37.27	50.40	(26)%
NGL (\$ per bbl)	26.64	13.75	94 %	19.91	21.47	(7)%

Natural gas (\$ per mcf)	1.41	1.36	4 %	1.39	2.61	(47)%
Netback (\$ per boe)						
Oil, natural gas and NGL sales	36.94	23.89	55 %	30.10	43.72	(31)%
Realized gain (loss) on commodity contracts	3.45	3.26	nm	3.35	10.54	nm
Royalties	(3.27)	(3.14)	4 %	(3.20)	(6.46)	(50)%
Operating expenses	(12.69)	(12.27)	3 %	(12.47)	(16.55)	(25)%
Transportation expenses	(1.16)	(2.33)	(50)%	(1.77)	(1.43)	24 %
Operating netback	23.27	9.41	147 %	16.01	29.82	(46)%
G&A expense	(1.98)	(1.96)	1 %	(1.97)	(1.91)	3 %
Interest expense	(1.38)	(1.32)	5 %	(1.35)	(2.88)	(53)%
Corporate netback	19.91	6.13	225 %	12.69	25.03	(49)%
Common shares outstanding, end of period	221,047	221,047	—%	221,047	221,147	—%
Weighted average basic shares outstanding	221,047	221,042	— %	221,045	220,174	— %
Stock option	—	—	nm	—	—	nm

dilution

Weighted
average diluted
shares

outstanding	221,047	221,042	— %	221,045	220,174	— %
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¹ Management uses funds from operations (cash flow from operating activities before changes in non-cash working capital, decommissioning expenditures, transaction costs and cash settled stock-based compensation) to analyze operating performance and leverage. Funds from operations as presented does not have any standardized meaning prescribed by IFRS and, therefore, may not be comparable with the calculation of similar measures for other entities.

² Please see the capital expenditures note in the MD&A.

³ The Company defines net debt as outstanding bank debt plus or minus working capital, however, excluding the fair value of financial contracts and other current obligations.

⁴ The Company views this change calculation as not meaningful, or "nm".

OUTLOOK

Surge looks forward to realizing the full impact of its accelerated drilling program in the near future. The Company remains well positioned both financially and operationally to add a growth component to shareholder return in the near future.

As set forth in Surge's press release dated July 21, 2016, as a result of calculated actions taken by management over the last 21 months, Surge will be one of the few in its peer group in Canada who will be able to add a substantial production per share growth component back into management's business model – as crude oil prices sustainably firm up above US\$50 WTI per barrel.

Today Surge has the following corporate fundamentals:

1. **Reserves:** 80.7 mmboe Total Proven plus Probable (77 percent oil and liquids)
2. **Reserve Life Index:** 17 years
3. **Decline:** less than 23 percent (including 2016 drilling program)
4. **Production:** >13,000 boepd (78 percent oil and liquids)
5. **Net Debt:** \$135 million as at June 30, 2016
6. **Forward Debt to Cash flow:** 1.53 times (based on annualized Q2 2016 cashflow)
7. **Bank line:** \$250 million (54 percent drawn)

8. **Drilling Inventory:** 747/727 (gross/net) total locations; 202 net locations booked
9. **NAV:** \$4.79 per share (Sproule external engineering report)

FINANCIAL STATEMENTS AND ACCOMPANYING MDA:

Surge has filed with Canadian securities regulatory authorities its financial statements and accompanying MD&A for the three and six months ended June 30th, 2016. These filings are available for review at www.sedar.com or www.surgeenergy.ca.

FORWARD LOOKING STATEMENTS:

This press release contains forward-looking statements. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

More particularly, this press release contains statements concerning: (i) Surge's drilling and development plans and enhance recovery projects and the timing and results to be expected thereof; (ii) estimated sizes, characteristics, efficiencies, rates of return, netbacks, pool recovery factors and risk levels of plays and the number of associated drilling locations, as applicable; (iii) management's expectations with respect to the Company's waterflood program, results therefrom and quantity of producing assets that will be placed under waterflood; (iv) expectations with respect to the Company's ability to operate and succeed in the current commodity price environment; (v) the Company's declared focus and primary goals; (vi) management's forecast of debt to cash flow ratio and the availability of Surge's bank line to fund Surge's future capital requirements; (vii) management's estimates and expectations regarding production efficiencies, drilling upside, operating costs, growth opportunities and reserves; (viii) the impact of cost savings initiatives; (ix) drilling inventories and locations; (x) production and cash flow per share growth; and (xi) anticipated commodity prices.

The forward-looking statements are based on certain key expectations and assumptions made by Surge, including expectations and assumptions concerning the performance of existing wells and success obtained in drilling new wells, anticipated expenses, cash flow and capital expenditures, the application of regulatory and royalty regimes, prevailing commodity prices and economic conditions, development and completion activities, the performance of new wells, the successful implementation of waterflood programs, the availability of and performance of facilities and pipelines, the geological characteristics of Surge's properties, the successful application of drilling, completion and seismic technology, the determination of decommissioning liabilities, the successful implementation of the Corporation's normal course issuer bid, prevailing weather conditions, exchange rates, licensing requirements, the impact of completed facilities on operating costs and the availability, costs of capital, labour and services, the creditworthiness of industry partners and the impact of the pending sale on the Company's bank line.

Although Surge 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 Surge 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 the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), commodity price and exchange rate fluctuations and constraint in the availability of services, adverse weather or break-up conditions, uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures or failure to obtain the continued support of the lenders under Surge's bank line. Certain of these risks are set out in more detail in Surge's Annual Information Form dated March 16, 2016 and in Surge's MD&A for the period ended June 30, 2016, both of which have been filed on SEDAR and can be accessed at www.sedar.com.

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

Reserves Data

Boe means barrel of oil equivalent on the basis of 1 boe to 6,000 cubic feet of natural gas. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 1 boe for 6,000 cubic feet of natural gas is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Boe/d and boepd means barrel of oil equivalent per day. Original Oil in Place (OOIP) is the equivalent to Discovered Petroleum Initially In Place (DPIIP) for the purposes of this press release. DPIIP is defined as quantity of hydrocarbons that are estimated to be in place within a known accumulation. There is no certainty that it will be commercially viable to produce any portion of the resources. A recovery project cannot be defined for this volume of DPIIP at this time, and as such it cannot be further sub-categorized. IP180 means rate at which a well produces during its first 180 days of production. Bbl means barrel of oil. Mbbl means thousand barrels. Bbl/d means barrels of oil per day. NGLs means natural gas liquids.

Drilling Locations

This press release discloses drilling locations in three categories: (i) proved locations; (ii) probable locations; and

(iii) unbooked locations. Proved locations and probable locations, which are sometimes collectively referred to as "booked locations", are derived from the Company's most recent independent reserves evaluation as of December 31, 2015 and account for drilling locations that have associated proved or probable reserves, as applicable. Unbooked locations are internal estimates based on the Company's 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 more than 700 net drilling locations identified herein 525 are unbooked locations. Unbooked locations have specifically been identified by management as an estimation of our multi-year drilling activities based on evaluation of applicable geologic, seismic, engineering, production, and reserves data on prospective acreage and geologic formations. 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 and other factors.

Non-IFRS Measures

This press release contains the terms "funds from operations", "net debt" and "netback", which do not have a standardized meaning prescribed by International Financial Reporting Standards ("IFRS") and therefore may not be comparable with the calculation of similar measures by other companies.

Management uses funds generated by operations to analyze operating performance and leverage.

Management believes "net debt" is a useful supplemental measure of the total amount of current and long-term debt of the Company. Mark-to-market risk management contracts are excluded from the net debt calculation. Management believes "netbacks" are a useful supplemental measures of the amount of revenues received after royalties and operating and transportation costs and secondly, the amount of revenues received after the royalties, operating, transportation costs, general and administrative costs, financial charges and asset retirement obligations. Additional information relating to these non-IFRS measures can be found in the Company's most recent management's discussion and analysis MD&A, which may be accessed through the SEDAR website (www.sedar.com).

Neither the TSX nor its Regulation Services Provider (as that term is defined in the policies of the TSX) accepts responsibility for the adequacy or accuracy of this release.

SOURCE: Surge Energy Inc.

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