



## **SURGE ENERGY INC. ANNOUNCES Q4 AND YEAR END 2016 RESULTS ; EXCEEDS 2016 PRODUCTION EXIT RATE TARGET ; CASH FLOW PER SHARE UP 43 PERCENT ; CONFIRMS MARCH 2017 DIVIDEND**

CALGARY, ALBERTA (March 15<sup>th</sup>, 2017) Surge Energy Inc. (“Surge” or the “Company”) (TSX: SGY) announces its operating and financial results for the year and quarter ended December 31, 2016.

### **2016 - POSITIONED FOR OUTPERFORMANCE**

Management has been strategically positioning Surge for success in a lower crude oil price environment for over 30 months. In the extended downturn for world crude oil prices, Surge focused on creating financial liquidity, balance sheet management, rigorous cost cutting initiatives, delineation of the Company’s high quality, large OOIP crude oil reservoirs, and the implementation of successful waterfloods. All of these steps were taken without issuing Surge treasury stock.

As crude oil prices rallied from their February lows, in May of 2016 Surge management moved decisively to add a substantial, organic production per share growth component back into the Company's growth and dividend paying business model – all sustainable at less than current strip pricing for crude oil. This decision was further supported by a historically low service cost environment, together with drilling program improvements and efficiencies.

Accordingly, given the excellent drilling results at the Company's Shaunavon, Sparky, and Valhalla core areas, combined with successful ongoing waterflood activities, Surge delivered 2016 exit production in excess of 13,800 boepd, up from 12,182 boepd in Q2 of 2016. This represents an increase in production per share of 11 percent in just seven months.

In addition, on December 13, 2016 Surge upwardly revised the Company’s 2017 average daily production estimate to 14,000 boepd from 13,500 boepd, and Surge’s 2017 exit production target to 14,450 boepd from 14,000 boepd. On this basis, Surge now anticipates delivering more than 18 percent production per share growth over the period from Q2 of 2016, to the end of 2017.

### **2016 HIGHLIGHTS**

- Increased adjusted funds from operations per share by 43 percent, to \$0.10 per share in Q4 of 2016, up from \$0.07 per share in Q4 of 2015.
- Increased unhedged adjusted funds from operations per share 120 percent, to \$0.11 per share in Q4 of 2016, up from \$0.05 per share in Q4 of 2015.
- During Q1 of 2016, the Company completed the sale of non-core Northern Alberta producing assets and infrastructure, for gross proceeds of \$43 million.
- Increased the Company's 2016 NAV by 12 percent to \$5.47 per common share.
- Delivered a 2016 finding development and acquisition (“FD&A”) cost of \$3.74 per boe, on a total proved plus probable basis, including changes in undiscounted future development capital (“FDC”).
- Reported a 2016 recycle ratio of 4.61 times FD&A, on a total proved plus probable basis, with crude oil prices averaging US\$43.32 WTI per barrel – the lowest annual price since 2004.



- Delivered an organic finding and development (“F&D”) cost in 2016 of \$3.98 per boe, on a total proved and probable basis including changes in undiscounted FDC.
- Delivered an organic 2016 F&D recycle ratio of 4.34 times, on a total proven plus probable basis.
- As a result of rigorous, ongoing cost cutting initiatives for operating expense, G&A and interest expense, cash operating costs have now been reduced by \$6.91 per boe (28 percent), from Q1 of 2015 to Q4 of 2016.
- Surge’s unhedged corporate netback increased 142 percent, to \$20.07 per boe in Q4 of 2016, up from \$8.28 per boe in Q4 of 2015.
- The Company’s unhedged operating netback increased 109 percent, to \$23.37 per boe in Q4 of 2016, from \$11.16 per boe in Q4 of 2015.
- Further delineation of the Company’s large OOIP, medium gravity, Upper Shaunavon crude oil asset has solidified years of visible drilling inventory. Surge realized a 35 percent annual reduction for drilling and completion costs. The “all-in” drilling and completion costs of \$1.7 million in 2015 were reduced to \$1.1 million in Q4 of 2016. These cost savings are a result of the application of horizontal monobore drilling technology, dropping drilling days from over 10 days per well in 2015 to 6 days in Q4 of 2016.
- Surge implemented a horizontal monobore well design at Eyehill Sparky, and realized a 38 percent reduction in drilling and completion costs, dropping “all-in” drilling and completion costs from \$1.6 million in 2015 to \$1.0 million in Q4 of 2016. These cost savings are a result of the application of horizontal monobore drilling technology, dropping drilling days from nearly 8.5 days per well in 2015 to 5 days in Q4 of 2016.
- During Q4 of 2016, the Company completed a \$15 million strategic, core-area acquisition of prospective light oil Montney acreage directly offsetting Surge’s operated Valhalla light oil asset. The Company sees up to 12 net Montney light oil drilling locations on this acreage. This core-area acquisition also provided Surge with a strategic working interest ownership in a large sour gas processing plant in the Valhalla area. Consequently, Surge’s Valhalla production base has continued to realize operational efficiencies, flatter declines, and stabilized run times.
- During 2016, the Company strategically took aggressive steps to optimize its core Valhalla light oil asset in NW Alberta. This includes the installation of additional artificial lift equipment, significantly dropping field pressures by adding compression, increasing run times, and lowering processing costs. These optimization activities have substantially increased netbacks and flattened production declines.



## FINANCIAL AND OPERATING SUMMARY

(\$000s except per share amounts)

	Three Months Ended			Years Ended December 31,		
	Dec 31, 2016	Dec 31, 2015	% Change	2016	2015	% Change
<b>Financial highlights</b>						
Oil sales	45,356	36,509	24 %	149,701	218,761	(32)%
NGL sales	1,284	1,250	3 %	4,675	4,600	2 %
Natural gas sales	3,595	3,183	13 %	11,192	14,542	(23)%
Total oil, natural gas, and NGL revenue	50,235	40,942	23 %	165,568	237,903	(30)%
Adjusted funds from operations <sup>1</sup>	21,534	15,302	41 %	70,226	118,873	(41)%
Per share basic (\$)	0.10	0.07	43 %	0.32	0.54	(41)%
Per share diluted (\$)	0.10	0.07	43 %	0.32	0.54	(41)%
Capital expenditures - petroleum & gas properties <sup>2</sup>	23,515	18,309	28 %	73,962	76,731	(4)%
Capital expenditures - acquisitions & dispositions <sup>2</sup>	14,921	1,117	nm <sup>4</sup>	(26,220)	(463,568)	(94)%
Total capital expenditures <sup>2</sup>	38,436	19,426	98 %	47,742	(386,837)	nm
Net debt at end of period <sup>3</sup>	161,735	160,375	1 %	161,735	160,375	1 %
<b>Operating highlights</b>						
Production:						
Oil (bbls per day)	9,832	10,297	(5)%	9,605	12,871	(25)%
NGLs (bbls per day)	504	795	(37)%	570	697	(18)%
Natural gas (mcf per day)	15,036	18,570	(19)%	16,276	17,362	(6)%
Total (boe per day) (6:1)	12,842	14,187	(9)%	12,888	16,462	(22)%
Average realized price (excluding hedges):						
Oil (\$ per bbl)	50.14	38.54	30 %	42.58	46.57	(9)%
NGL (\$ per bbl)	27.69	17.08	62 %	22.42	18.09	24 %
Natural gas (\$ per mcf)	2.60	1.86	40 %	1.88	2.29	(18)%
<b>Netback (\$ per boe)</b>						
Oil, natural gas and NGL sales	42.52	31.37	36 %	35.10	39.60	(11)%
Realized gain (loss) on commodity contracts	(1.85)	3.49	nm	0.84	7.18	(88)%
Royalties	(5.08)	(5.89)	(14)%	(4.07)	(6.34)	(36)%
Operating expenses	(12.69)	(12.57)	1 %	(12.22)	(15.03)	(19)%
Transportation expenses	(1.38)	(1.75)	(21)%	(1.55)	(1.60)	(3)%
Operating netback	21.52	14.65	47 %	18.10	23.81	(24)%
G&A expense	(1.79)	(1.69)	6 %	(1.85)	(1.83)	1 %
Interest expense	(1.51)	(1.19)	27 %	(1.37)	(2.20)	(38)%
Corporate netback	18.22	11.77	55 %	14.88	19.78	(25)%
Common shares outstanding, end of period	225,755	221,033	2 %	225,775	221,033	2 %
Weighted average basic shares outstanding	225,278	221,001	2%	222,252	220,661	1%
Stock option dilution	—	—	nm	—	—	nm
Weighted average diluted shares outstanding	225,278	221,001	2%	222,252	220,661	1%

1 Management uses adjusted 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. Adjusted 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 capital expenditures note.

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”.



## **OPERATIONS OVERVIEW**

In 2016 Surge had total capital expenditures (including corporate G&A) of \$74.0 million, which involved the drilling of 37 gross (36.8 net) wells in the Company's three primary operating areas of Shaunavon, Sparky and Valhalla, as well as associated capital expenditures for infrastructure, land and seismic. Surge achieved a 100 percent success rate for the 2016 drilling program, adding an estimated 4,200 boepd of production (91 percent oil), prior to annual corporate declines.

In addition to record low production efficiencies, Surge experienced exciting initial waterflood response at two of the Company's core assets at Shaunavon and Eyehill. Surge also reduced corporate operating expenses from \$15.03 per boe in 2015, to \$12.22 per boe in 2016, a 19 percent reduction.

Surge delivered record low "all-in" FD&A costs of \$3.74 per boe for 2016 (including changes to FDC), with a top tier recycle ratio of 4.61 times. Based on the Company's record drilling results, combined with successful waterflood activities, Surge's new December 31, 2016 independently engineered net asset value ("NAV") increased 12 percent to \$5.47 per share.

Wet weather conditions in all three of Surge's primary operating areas negatively impacted production volumes in October and November of 2016. The Alliance pipeline outage negatively impacted Valhalla production volumes in October and early November of 2016. As discussed above, however, record drilling results in Q4 allowed Surge to significantly exceed the Company's upwardly revised 2016 production exit rate target of 13,500 boepd. In December of 2016 Surge averaged more than 13,800 boepd.

Furthermore, on December 13, 2016 Surge upwardly revised the Company's 2017 average daily production estimate to 14,000 boepd from 13,500 boepd, and Surge's 2017 exit production target to 14,450 boepd from 14,000 boepd.

### **Sparky Continues to Attract Capital**

Surge's 2016 Eyehill Sparky drilling program at its operated, 130 million barrel OOIP, 29 API gravity oil asset, significantly exceeded expectations. The Company continued to build on its operational success into this year, drilling six consecutive development wells in Q1 of 2017. Current production rates at the Eyehill battery recently exceeded 1,800 boepd (80 percent oil) net to Surge, up from approximately 470 boepd in Q2 of 2016.

Operating costs at Eyehill are now budgeted at less than \$5.00 per boe for 2017, down from \$7.40 per boe in 2016. With over 65 net remaining locations at Eyehill, this area will continue to underpin Surge's production per share growth for the foreseeable future. Risked rates of return for Sparky development wells are now over 150 percent at strip pricing for primary reserves only.

In addition to excellent primary drilling results, the waterflood pilots at Sparky are positively impacting production declines and financial results. For 2016, Surge booked 280 mboe of proven developed producing reserves, and over 900 mboe of total proved and probable reserves at Eyehill, due to improved recovery from waterflood implementation.

In addition to Eyehill, Surge intends to drill Sparky wells in both the Provost and Betty Lake areas in the second half of 2017. Successful drilling in these areas is expected to continue adding to the Company's extensive Sparky drilling inventory.

Surge estimates a 10 year inventory of 173 net development drilling locations in its greater Sparky core area.



### **A Defining Year for the Upper Shaunavon**

Surge achieved record activity levels at its Upper Shaunavon field in 2016, drilling and completing 24 wells. The Company remains committed to early waterflood implementation, as pilot results continue to confirm the viability of waterflooding this shallow, conventional, sandstone reservoir. As such, Surge has now identified three initial development drilling and waterflood areas in its large 250 million barrel OOIP, Upper Shaunavon oil asset, which are concentrated in the South and Southwestern portions of the Company's acreage.

Waterflood results in the first development area continue to exceed expectations. As such, the Company was able to add in excess of 500 mboe of proven developed producing reserves, and over 1.6 mboe of total proved and probable waterflood reserves at Shaunavon in 2016 due to improved recovery. Surge anticipates implementing a second waterflood pilot in the southernmost development area in mid - 2017.

As a result of these exceptional development drilling results, together with the Company's expanding waterflood activities, Surge's operating expense at Shaunavon is now budgeted to be \$5.88 per barrel in 2017. Risked rates of return for Upper Shaunavon development wells are over 150 percent at strip pricing for primary reserves only.

In Surge's third Upper Shaunavon development area, the Company has recently completed the drilling of two extended reach delineation wells. The first of these wells has been completed and is currently flowing back. Surge looks forward to sharing results from these two extended reach wells in the near future.

Surge estimates a 10 year inventory of more than 200 net development drilling locations in its Shaunavon core area.

### **Valhalla – Stabilizing Base Production; Optimization**

While drilling and completing three wells in 2016, the majority of the activity in Surge's large, 130 million OOIP, Valhalla Doig light oil field was concentrated on base production stabilization and optimization. In addition to adding field compression and marketing outlets during the year, an artificial lift program was implemented in 2016. With the addition of high pressure sweet gas, Surge optimized its gas lift program in the northern portion of the play. The main benefit of the gas lift program has been the reduction of well swabbing operations, which has led to a significant increase in operating run times.

As previously announced, the Company closed a \$15 million tuck-in acquisition in the Valhalla field in December of 2016. This acquisition is directly adjacent to the Northwest portion of Surge's Valhalla acreage. In addition to providing up to 12 Montney light oil drilling locations (seven booked), the Company acquired a two percent working interest in a large sour gas processing plant in the area. This strategic acquisition is expected to further improve Surge's base production reliability at Valhalla.

During Q1 of 2017, Surge successfully drilled 3 gross (1.97 net) Valhalla Doig light oil wells. Reservoir indications from drilling suggest that all three wells will provide type curve results. However, due to increased demand for pressure pumping services in this area, the Company has elected to delay the completion of these wells into Q2 of 2017. It is currently anticipated that all three wells will be completed and brought online during Q2 of 2017.



As a result of these drilling results, together with field wide optimization activities, Surge's operating expense at Valhalla for 2017 is now budgeted to be \$8.50 per boe. Risked rates of return for Valhalla development wells are over 150 percent at strip pricing for primary reserves only.

Surge estimates a 10 year inventory of more than 40 net development drilling locations in its Valhalla core area.

## **CONFIRMS MARCH 2017 DIVIDEND**

As discussed above, Surge continues to experience increasing production volumes as a result of continued excellent drilling and waterflood results at its three core properties at Shaunavon, Sparky, and Valhalla.

These consistent operational results and top tier production efficiencies, combined with successful, cost-cutting initiatives, provide the Company with meaningful excess "free" funds flow (i.e. over and above the Company's 2017 \$85 million capital expenditure program, and the present dividend) – at Surge's budgeted crude oil pricing assumption<sup>5</sup>.

Accordingly, with the ongoing protection from Surge's strategic commodity hedging program, and a forward debt to funds flow ratio of less than 1.2 times exiting 2017, on February 8, 2017 the Board of Directors announced that it would be increasing the Company's dividend by 13 percent, from \$17 million annually to approximately \$19.2 million annually, effective March 15th, 2017. This equates to a conservative simple payout ratio of approximately 15 percent of forecast 2017 funds flow, which compares favorably with Surge's peer group average of approximately 25 percent.

On this basis, the Board of Directors has now confirmed a cash dividend of \$0.00708333 per common share will be paid on April 15, 2017 to shareholders of record on March 31, 2017.

The dividend is an eligible dividend for the purposes of the Income Tax Act (Canada).

Surge's go-forward dividend policy will continue to target a simple payout ratio of 20 to 30 percent, and an all-in sustainability ratio in the range of 70 to 85 percent. Additional free funds flow beyond Surge's targeted five to six percent annual production growth targets is expected to be allocated to an expanded capital program, debt repayment, dividend increases, or share buybacks.

## **FINANCIAL UPDATE**

While the Company expects a modest increase in service costs due to increasing industry activity through 2017, Surge will continue to focus on maintaining operational efficiencies. As such, the Company re-affirms its 2017 guidance as detailed in its December 13, 2016 press release.

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<sup>5</sup> Based on US \$55 WTI/bbl; CAD \$72.37 WTI/bbl; EDM CAD \$68.12/bbl; WCS CAD \$52.70/bbl; AECO \$2.95/mcf.





Surge will continue to monitor commodity prices and its ability to drill and pay the dividend within cash flow during 2017. Based on the Company's excellent balance sheet and low-cost structure, management retains the flexibility to potentially increase Surge's 2017 capital budget.

## HEDGING UPDATE

Subsequent to Q4 2016, Surge completed several attractive hedge transactions. The following transactions were entered into, subsequent to December 31, 2016:

TYPE	TERM	HEDGE TYPE	BBL/D	CURR ENCY	FLOOR (PER BBL)	CEILING (PER BBL)	SWAP PRICE (PER BBL)
WTI	Apr-Dec 2017	Swap	1,250	USD	-	-	\$55.18
WTI	Jan-Jun 2018	Collar	1,500	USD	\$50.00	\$60.87	-
WTI	Jul-Dec 2018	Bought Puts	1,500	USD	\$50.00	-	-
WTI	Jul-Dec 2017	Sold Calls	500	USD	-	\$59.00	-
WTI	Jan-Jun 2018	Sold Calls	300	USD	-	\$63.00	-
WCS (PHYSICAL)	Apr-Dec 2017	Collar	2,000	USD	(\$12.75)	(\$18.00)	-
WCS	Apr-Dec 2017	Swap	500	USD	-	-	(\$14.50)

## OUTLOOK – PER SHARE GROWTH CONTINUES

Surge remains committed to management's lower risk, growth and dividend paying business model. As crude oil prices rallied from their February lows, in May of 2016 the Company moved decisively to add a solid production per share growth component back into management's business model, while continuing to drive down the Company's corporate cost structure.

Despite continued volatility throughout the year, in 2016 Surge delivered solid, organic production per share growth, from May onward, while continuing to drive down the Company's corporate cost structure. These activities resulted in Surge's Q4 2016 unhedged corporate netbacks increasing by 142 percent per boe over 2015, and the Company's Q4 2016 unhedged cash flow per share increasing by 120 percent over 2015.

As a result of the Company's recent upward revision to 2017 guidance, Surge now anticipates delivering more than 18 percent production per share growth over the period from Q2 of 2016 to the end of 2017.



The Company also delivered record low production efficiencies and finding costs in 2016. Surge's top tier recycle ratio for 2016 was 4.61 times.

In addition, as discussed above, on February 8, 2017 Surge became the first oil-weighted growth and dividend paying company in its Canadian peer group to increase its dividend – while maintaining a conservative 15 percent payout ratio.

Surge's low risk, disciplined business model is designed to deliver all-in shareholder returns of 11 to 14 percent on an annual basis over the long term. These total annual returns are comprised of production growth per share (5 to 6 percent), dividends (3.5 to 4.5 percent), and a free cash flow yield (2.5 to 3.5 percent).

Surge management will continue to focus on growing the Company's high quality, low decline, medium and light oil asset base, maintaining its low cost structure, and managing Surge's excellent balance sheet, to deliver these attractive annual returns into the future.

#### **FINANCIAL STATEMENTS AND ACCOMPANYING MDA AND ANNUAL INFORMATION FORM:**

Surge has filed with Canadian securities regulatory authorities its annual audited consolidated financial statements and accompanying MD&A for the year and three months ended December 31st, 2016, as well as its Annual Information Form. These filings are available for review at [www.sedar.com](http://www.sedar.com) or [www.surgeenergy.ca](http://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: Surge's drilling and development plans and enhanced recovery projects and the timing and results to be expected thereof; estimated sizes, characteristics, efficiencies, rates of return, netbacks, payout ratios, pool recovery factors and risk levels of plays and the number of associated drilling locations, as applicable; management's expectations with respect to the Company's waterflood program, results therefrom and quantity of producing assets that will be placed under waterflood, including the timing of management updates in connection therewith; expectations with respect to the Company's ability to operate and succeed in the current commodity price environment; the Company's declared focus and primary goals; management's forecast of debt to funds flow ratio; management's estimates and expectations regarding production efficiencies, drilling upside, drilling inventory, well costs, growth opportunities, reserves and reserve life index and decline rates; the Company's 2017 guidance; production and production per share growth; sustainability; anticipated operating costs; dividends; commodity prices; anticipated shareholder returns; and free cash flow growth.

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, prevailing weather conditions, exchange rates, licensing requirements, the timing and completion of the proposed dispositions, 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 transactions 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 production; delays or changes in plans with respect to exploration or development projects or capital expenditures; 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 15, 2017 and in Surge's MD&A for the period ended December 31, 2016, both of which have been filed on SEDAR and can be accessed at [www.sedar.com](http://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. Bbl means barrel of oil. Mbbl means thousand barrels. Bbl/d means barrels of oil per day. NGLs means natural gas liquids.

### **Drilling Inventory**

This press release discloses drilling locations that are booked locations as well as unbooked locations. Proved locations and probable locations, which are sometimes collectively referred to as "booked locations", are derived from the Surge's Reserves Report 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 700 gross (660 net) drilling locations identified herein 434 are unbooked locations. Of the 266 gross (249 net) booked locations identified herein 195 gross (182 net) are Proved locations and 71 gross (67 net) are Probable 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.

### **Test Results and Initial Production Rates**

Any references in this press release to initial, early and/or test production/performance rates are useful in confirming the presence of hydrocarbons, however, such rates are not determinative of the rates at which such wells will continue production and decline thereafter. While encouraging, readers are cautioned not to place reliance on such rates in calculating aggregate production. The initial production rate may be estimated based on other third party estimates or limited data available at this time. Initial production or test rates are not necessarily indicative of long-term performance of the relevant well or fields or of ultimate recovery of hydrocarbons. Non-IFRS Measures

This press release contains the terms “adjusted funds from operations”, “funds from operations”, “net debt”, “netback”, “operating netback”, “sustainability” and “NAV” 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 from by operations” and “adjusted funds from operations” to analyze operating performance and leverage. Management believes that in addition to net income, adjusted funds from operations are useful supplemental measures as they provide an indication of the results generated by the Company's principal business activities before the consideration of how those activities are financed or how the results are taxed. 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” and “operating 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. Sustainability is a comparison of a company’s cash outflows (capital investment and dividends) to its cash inflows (funds flow) and is used by the Company to assess the appropriateness of its dividend levels and the long-term ability to fund its development plans. Sustainability ratio is calculated using the development capital plus dividends paid divided by funds flow. NAV is calculated as set forth above. 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](http://www.sedar.com)).

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