

## Surge Energy Inc. Announces Third Quarter Results, Continued Drilling Success, and Dividend Reduction

CALGARY, Nov. 9, 2015 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") (TSX: SGY) announces its operating and financial results for the quarter ended September 30, 2015. This quarter represents the first full quarter of operating and financial results for Surge post the \$430 million sale of the Company's SE Saskatchewan and Manitoba assets. This asset disposition closed on June 15, 2015.

### Business Strategy - Prepare for a "Lower for Longer" Scenario

Given the significant drop in world crude oil prices from US WTI \$108 per barrel in June of 2014, to a low of \$38 per barrel in August of 2015, together with OPEC's stated change of strategy in November of 2014 (i.e. to protect market share rather than the price of crude oil), Surge management has acted decisively and aggressively to properly position the Company for a "lower for longer" crude oil price scenario.

Accordingly, in the first half of 2015 the Company sold 5,300 boepd in two transactions for combined gross proceeds of \$465 million to completely reposition Surge's balance sheet to grow and prosper in a significantly lower crude oil price environment. In addition, in the first half of 2015 Surge management unwound the Company's fixed price crude oil hedges for 2015, and realized a significant gain of over \$35 million. These proceeds were also utilized to pay down debt and enhance the Company's balance sheet.

As a result of these, and other capital allocation strategies and business decisions (including disciplined capital spending and rigorous cost cutting), Surge now enjoys a strong balance sheet, and is uniquely positioned to grow and pay dividends in virtually any reasonable crude oil price scenario.

### Impact of Third Quarter Outages

During the third quarter of 2015, the Company had approximately 5,000 boepd shut in at Valhalla for over five weeks due to two downstream industry pipeline outages. Based on continued strong drilling results at the Company's core properties of Shaunavon and Valhalla, Surge still met consensus expectations with third quarter production levels of 13,522 boepd. Had these industry outages not occurred, Surge estimates third quarter 2015 production would have averaged over 15,000 boepd.

These excellent drilling results, coupled with lower corporate declines, position Surge to exceed management's 2015 production exit rate target of 14,500 boepd. Contributing to the lower corporate declines are successful waterflood projects at Wainwright, Silver, Eye Hill, Nipisi, Sunset, Nevis, Westrose, Chip Lake, Windfall, and Valhalla (Doe Creek).

As a result of the industry pipeline outages referred to above, Surge's third quarter 2015 cash flow was reduced by approximately \$2.6 million. In addition, Surge incurred an additional \$1.2 million charge in the third quarter in relation to acquiring alternate gas gathering options. Had the industry outages not occurred, proforma cash flow for Surge in the third quarter of 2015 is estimated to have been approximately \$21 million. This provides a proforma third quarter 2015 debt to cash flow of 1.7 times.

### **FINANCIAL AND OPERATING SUMMARY**

(\$000s except per share amounts)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% change	2015	2014	% change
<b>Financial highlights</b>						
Oil and NGL sales	<b>43,210</b>	135,548	(68)%	<b>185,640</b>	357,536	(48)%
Natural gas sales	<b>2,569</b>	8,161	(69)%	<b>11,360</b>	21,888	(48)%
Total oil, natural gas, and NGL revenue	<b>45,779</b>	143,709	(68)%	<b>197,000</b>	379,424	(48)%
Funds from Operations <sup>1</sup>	<b>17,009</b>	71,298	(76)%	<b>103,571</b>	190,593	(46)%
Per share basic (\$)	<b>0.08</b>	0.33	(76)%	<b>0.47</b>	0.98	(52)%
Per share diluted (\$)	<b>0.08</b>	0.32	(75)%	<b>0.47</b>	0.98	(52)%
Net income (loss)	<b>(34,820)</b>	34,655	nm <sup>4</sup>	<b>(149,294)</b>	76,004	nm
Per share basic (\$)	<b>(0.16)</b>	0.16	nm	<b>(0.68)</b>	0.39	nm
Per share diluted (\$)	<b>(0.16)</b>	0.16	nm	<b>(0.68)</b>	0.39	nm
Capital expenditures -						

petroleum & gas properties <sup>2</sup>	<b>17,653</b>	32,473	(46)%	<b>58,422</b>	109,799	(47)%
Capital expenditures - acquisitions & dispositions <sup>2</sup>	<b>(3,735)</b>	(52,473)	nm	<b>(464,685)</b>	529,350	nm
Total capital expenditures <sup>2</sup>	<b>13,918</b>	(20,000)	nm	<b>(406,263)</b>	639,149	nm
Net debt at end of period <sup>3</sup>	<b>143,200</b>	503,004	(72)%	<b>143,200</b>	503,004	(72)%

### Operating highlights

#### Production:

Oil and NGL (bbls per day)	<b>11,234</b>	17,180	(35)%	<b>14,402</b>	14,723	(2)%
Natural gas (mcf per day)	<b>13,731</b>	18,879	(27)%	<b>16,955</b>	15,269	11 %
Total (boe per day) (6:1)	<b>13,523</b>	20,327	(33)%	<b>17,228</b>	17,268	(0)%
Average realized price (excluding hedges):						
Oil and NGL (\$ per bbl)	<b>41.81</b>	85.76	(51)%	<b>47.22</b>	88.95	(47)%
Natural gas (\$ per mcf)	<b>2.03</b>	4.70	(57)%	<b>2.45</b>	5.25	(53)%

### Netback (\$ per boe)

Oil, natural gas and NGL sales	<b>36.80</b>	76.85	(52)%	<b>41.89</b>	80.49	(48)%
Realized gain (loss) on commodity contracts	<b>1.70</b>	(2.47)	nm	<b>8.20</b>	(4.18)	nm
Royalties	<b>(6.47)</b>	(13.61)	(52)%	<b>(6.46)</b>	(14.00)	(54)%
Operating expenses	<b>(13.35)</b>	(16.02)	(17)%	<b>(15.71)</b>	(15.44)	2 %
Transportation expenses	<b>(1.90)</b>	(1.82)	4 %	<b>(1.55)</b>	(1.82)	(15)%
Operating netback	<b>16.78</b>	42.93	(61)%	<b>26.37</b>	45.05	(41)%
G&A Expense	<b>(1.76)</b>	(1.99)	(12)%	<b>(1.87)</b>	(2.06)	(9)%
Interest Expense	<b>(1.35)</b>	(2.81)	(52)%	<b>(2.47)</b>	(2.48)	(0)%
Corporate netback	<b>13.67</b>	38.13	(64)%	<b>22.03</b>	40.51	(46)%

### Common shares (000s)

Common shares outstanding, end of period	<b>220,851</b>	217,713	1 %	<b>220,851</b>	217,713	1 %
Weighted average basic shares outstanding	<b>221,259</b>	217,689	2 %	<b>220,540</b>	193,739	14 %
Stock option dilution (treasury method)	—	1,718	nm	—	1,279	nm
Weighted average diluted shares outstanding	<b>221,259</b>	219,407	1 %	<b>220,540</b>	195,018	13 %

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 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

### Excellent Q3 Shaunavon Drilling Results; Waterflood Initiated

In the third quarter of 2015, Surge drilled four of the Company's originally planned seven well program at Shaunavon, Saskatchewan. Production additions from the four new Upper Shaunavon oil wells contributed over 800 boepd for the first 45 days of production. This result exceeds Surge's type curve expectations for the Upper Shaunavon play. Drilling and completion costs for Surge's Upper Shaunavon wells have now dropped from \$2.1 million in 2014 to less than \$1.7 million today.

Surge's operating costs for the Shaunavon field are now \$9 per barrel, with new production volumes coming on at less than \$5 per barrel. Surge's type curve Upper Shaunavon wells deliver a risked rate of return of 65 percent (on primary recovery only), based on November 2015 strip pricing.

In late August, Surge initiated the Company's waterflood in the Upper Shaunavon formation by converting two producing wells to injectors. Surge anticipates an early response for this exciting waterflood project. The Upper Shaunavon is amenable to waterflood due to its current low recovery factors and excellent rock qualities.

### **Valhalla Drilling Success Continues; Infrastructure Options Resolved**

As previously disclosed, Surge has developed a large northern extension of the Company's operated light oil pool at Valhalla. This Doig sandstone reservoir is 30 - 40 meters thick, and has more than 150 million barrels of OOIP. Three recent 100 percent wells drilled into the northern extension have now qualified as the top producing oil wells in Alberta in 2015. These wells have come onstream significantly above type curve at more than 2,300 boepd each on 60-day IP rates. In their first four months of production, the wells have delivered cumulative production of more than 175,000 boe each (over 70 percent liquids).

Type curve wells at Valhalla now cost less than \$4 million to drill and complete. Based on November 2015 strip pricing, type curve wells pay out in less than ten months, and they generate a risked rate of return of approximately 150 percent. Surge has more than 35 (net) wells to drill at Valhalla (north and south) based on 300 meter spacing.

Surge has now identified and implemented several long term solutions for processing the Company's associated natural gas at Valhalla. During the third quarter, the Company completed a connection to the Wembley gas processing plant. Surge now has the ability to flow natural gas to both the nearby Wembley and Sexsmith processing plants.

In addition, Surge has initiated the construction of a pipeline to strategically connect to a nearby gas plant that will take up to 10 mmcf/d of Surge's associated Valhalla natural gas from the north end of the field. Surge estimates the cost of this pipeline to be approximately \$4.2 million. The Company expects this pipeline to be completed by early-to-mid December, 2015.

Finally, Surge has executed a \$2 million offer to acquire an increased facility participation interest (and operatorship) in the Company's nearby owned Doe gas plant at 8-30-075-09W6. Surge will ultimately take a significant portion of its associated gas production to the 8-30 plant. This strategic acquisition is set to close in early January, 2016.

Surge holds strategic firm transportation at Valhalla (with both area service providers). Current transportation commitments are aligned with the Company's outlook for sustained production at Valhalla.

### **Disciplined Q4/15 Capital Expenditure Program**

In addition to the Valhalla pipeline project mentioned above, Surge plans to drill five net wells in the fourth quarter. This budget includes two net wells in the Company's Central Alberta Sparky core area, and three net wells in the Upper Shaunavon formation.

The two Sparky wells are to be drilled at Surge's operated Eyehill asset. These wells are strategically designed to validate the efficacy of lower cost mono-bore drilling technology, and to offset competitive drainage. The Company is pleased to report that both wells have been successfully drilled and cased, and are awaiting frac stimulation. This success will lead to significant cost reductions for future wells.

The three Shaunavon drills are low risk, strategic development wells designed to further delineate and develop this expanding, high netback crude oil asset.

### **Hedging Update**

Subsequent to the third quarter, Surge implemented new hedge positions for WTI, oil differentials, natural gas, electric power, and foreign exchange. These hedges are summarized in the table below:

<b>Commodity</b>	<b>Time Frame</b>	<b>Volume</b>	<b>Value</b>

WTI oil collars (put/call)	Calendar 2016	1,000 bbl/d	CAD \$60.00 x \$80.30
Edmonton light oil differentials	Calendar 2016	2,000 bbl/d	USD \$3.55/bbl
Natural gas Chicago index swap	Calendar 2016	10,000 mcf/d	CAD \$3.50/mcf
FX variable rate collar (USD/CAD)	Calendar 2016	USD \$2 million per month	\$1.295 x \$1.370 (\$1.3155 cap)
FX forward (USD/CAD)	Calendar 2017	USD \$2 million per month	\$1.3125
Electric Power	Calendar 2016	35,136 MWh	CAD \$41.00 per mwh
Electric Power	Calendar 2017	17,520 MWh	CAD \$41.77 per mwh

The natural gas position provides Surge with 100% coverage under its Alliance Pipeline volume commitments at Chicago for 2016.

### **Bank Redetermination Update, Dividend Reduction and Outlook**

Surge's bank line has recently been renewed by the Company's bank syndicate at \$400 million. This line provides excess credit availability of more than \$250 million on the Company's bank lines.

During the third quarter, Surge re-purchased approximately 740,000 common shares under its existing normal course issuer bid ("NCIB"). The Surge management team continues to evaluate capital allocation alternatives on a weekly basis. Given the current outlook, a lower level of participation in the NCIB is expected in the fourth quarter as compared to third quarter levels. The NCIB remains in effect, however, Surge has ceased making purchases under the automatic share purchase plan which it had entered into for the purpose of facilitating repurchases of its common shares under the NCIB.

The Company's long term financial strategy is to maintain a dividend level at or near an all-in 100 percent sustainability ratio in any given calendar year. Implicit in this strategy are reasonable assumptions for commodity prices, realized differentials, and FX rates. Surge will be providing 2016 budget guidance before year-end, and intends to communicate its financial and commodity price outlook for 2016 at that time.

As discussed above, world crude oil prices have stayed "lower longer" than many analysts and investors expected. Consequently, Surge management and Board have determined to reduce the Company's dividend from \$0.30 cash per share per year, to \$0.15 cash per share per year, effective immediately.

Factors relating to this strategic capital allocation decision, include the following:

1. While Surge has one of the best balance sheets in its peer group in Canada (with over \$250 million of availability on the Company's bank lines), preserving the Company's balance sheet and shareholder's equity capital outweighs the higher dividend in this "lower for longer" scenario.
2. Subject to Surges' annual budget process, management anticipates that the Company can keep production flat and pay its dividend at current 2016 strip pricing. Surge's low annual corporate decline (less than 21 percent), excellent production efficiencies, and low cost structure allow the Company to operate efficiently in a low oil price environment.
3. The dividend reduction allows Surge to continue utilizing (and possibly expanding) the Company's existing normal course issuer bid - which allows Surge management to continue returning capital to its shareholders pursuant to both the dividend and the share buyback program.
4. Strategically, protecting the Company's balance sheet by maintaining a low payout ratio, allows Surge shareholders to participate in capital appreciation upside, dividend increases, and higher per share growth, when crude oil prices recover.

Surge is on track to achieve management's stated goal of being one of the best positioned light/medium gravity crude oil growth and dividend paying companies in Canada - uniquely positioned for success at virtually any reasonable crude oil commodity price assumption. On this basis, today Surge has the following corporate fundamentals:

- Three core, high netback, operating areas, which comprise over 1.4 billion barrels of net OOIP, with a recovery factor of seven percent to date;

- A low debt to 2016 cash flow ratio of approximately 1.7 times utilizing 2016 pricing of US \$55 per barrel WTI;
- Low operating costs of less than \$14 per boe;
- A 15 year reserve life index;
- A low corporate decline of less than 21 percent;
- More than \$250 million of credit availability on the Company's bank lines;
- A 12-14 year, low risk development drilling inventory, with more than 750 net drilling locations - which generate excellent production efficiencies and rates of return at strip oil prices; and
- A net asset value of \$4.64 per share ("NAV") utilizing Sproule's recent third quarter of 2015 engineering price deck (Proved Producing plus Probable Producing reserves equal to 73 percent of NAV).

## **FINANCIAL STATEMENTS AND ACCOMPANYING MDA:**

Surge has filed with Canadian securities regulatory authorities its financial statements and accompanying MD&A for the three months ended September 30<sup>th</sup>, 2015. 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: (i) the Company's expectations with respect to crude oil prices; (ii) Surge's ability to grow and prosper in the current and anticipated crude oil price environment; (iii) Surge's ability to continue to pay a dividend and grow in what management believes are reasonable crude oil price scenarios; (iv) management's expectations with respect to 2015 year end exit production; (v) Surge's operating costs at Shaunavon on new production volumes; (vi) Surge's type curve wells and estimated risked rates of return; (vii) number of drilling locations and inventory under various spacing scenarios; (viii) Surge's estimates as to take up, costs and timing of Surge's Valhalla pipeline project; (ix) expectations as to timing of Surge's strategic acquisition of additional working interests at the Doe gas plant; \* Surge's estimates as to sustained production at Valhalla; (xi) Surge's drilling and development plans and enhance recovery projects and the timing and results to be expected thereof; (xii) 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; (xiii) management's expectations with respect to the Company's waterflood program, results therefrom and quantity of producing assets that will be placed under waterflood; (xiv) expectations as to participation under Surge's NCIB; and (xv) Surge's strategy to maintain dividend and payout ratios at sustainable levels; (xvi) the timing of the provision of Surge's 2016 budget guidance and the contents of such communication; and (xvii) management's anticipated strategy with respect to production, dividend levels, and the return of shareholder capital.

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 continuation 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.

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 19, 2015 and in Surge's MD&A for the period ended March 31, 2015, 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. IP60 means rate at which a well produces during its first 60 days of production. Bbl means barrel of oil. Mbbbl means thousand barrels. Bbl/d means barrels of oil per day. NGLs means natural gas liquids.

Surge's NAV per share is calculated by taking proved plus probable reserve value NPV10 BT (including future capital), as evaluated by Sproule and McDaniel, and adjusting for undeveloped land and net debt and dividing by the then number of issued and outstanding shares

The reserves data provided in this news release presents only a portion of the Company's reserve information. Additional reserves information are contained in Surge's annual information form dated March 19, 2015, which was filed on and which may be accessed through the SEDAR website.

## **Financial Outlooks**

The estimates of debt to 2016 cash flow ratio contained in this press release are financial outlooks within the meaning of applicable securities laws. These financial outlooks have been prepared by management of Surge to provide an outlook of Surge's anticipated funds from operations for a full year of operations with its current assets and based on management's expectations and assumptions as to a number of factors, including but not limited to commodity pricing, production, operating expenses and royalties. Readers are cautioned that this information may not be appropriate for any other purpose. Management does not have firm commitments for all of the costs, expenditures, prices or other financial assumptions used to prepare the financial outlooks or assurance that such results will be achieved. The actual results of Surge will likely vary from the amounts set forth in the financial outlooks and such variation may be material. Surge and its management believe that the financial outlooks have been prepared on a reasonable basis, reflecting the best estimates and judgments, and represent, to the best of management's knowledge and opinion, Surge's expected expenditures and results of operations. However, because this information is highly subjective and subject to numerous risks, including the risks discussed under the note regarding Forward Looking Statements, it should not be relied on as necessarily indicative of future results. Except as required by applicable securities laws, Surge undertakes no obligation to update this information.

## **Drilling Locations**

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 Company's most recent independent reserves evaluation as of December 31, 2014 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 750 net drilling locations identified herein 570 are unbooked locations. Of the more 35 net additional locations identified herein at Valhalla, 22 are booked 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 "funds from operations", "net debt", "netback", 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 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. 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)).

**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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