Surge Energy

Surge Energy Inc. Announces Third Quarter 2016 Results

CALGARY, Nov. 9, 2016 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") (TSX: SGY) announces its operating and financial results for the quarter ended September 30, 2016.

As world crude oil prices rallied from their February lows, in late May of 2016 Surge management moved to add a substantial, organic production per share growth component back into the Company's growth and dividend business model – all sustainable at less than current strip pricing for crude oil.

Accordingly, based on continued excellent drilling results at the Company'sShaunavon, Sparky, and Valhalla core areas, Surge's recent 14 well drilling program added over 2,000 boepd (>85 percent oil) for a total capital expenditure of $19.75 million. This successful, low cost drilling program, combined with ongoing waterflood activities, allowed Surge to deliver production per share growth in the third quarter of 2016 of eight percent over the second quarter of 2016.

On this basis, in the third quarter of 2016 Surge production averaged more than 13,120 boepd (79 percent oil) – which is higher than the Company's original 2016 production exit rate target of 13,000 boepd.

In addition, on September 6, 2016 Surge management announced an upward revision to the Company's 2016 exit rate target from 13,000 boepd to 13,500 boepd.

THIRD QUARTER HIGHLIGHTS

- Surge's average production (and production per share) increased eight percent in the third quarter of 2016 to 13,120 boepd, as compared to an average of 12,182 boepd in the second quarter of 2016;
- Funds flow from operations was $19.1 million in the third quarter ($0.09 per share), up 13 percent over the third quarter of 2015 at $17.0 million ($0.08 per share);
- Unhedged funds flow per share increased by 39 percent in the third quarter of 2016, as compared to the third quarter of 2015 - at similar US$ WTI crude oil prices;
- Operating costs dropped 16 percent in the third quarter of 2016 to $11.27 per boe, as compared to $13.35 per boe in the third quarter of 2015;
- Surge achieved an unhedged corporate netback of $17.23 per boe in the quarter, an increase of 44 percent from $11.97 per boe in the third quarter of 2015;
- Surge achieved a debt to cash flow ratio of 1.84 times annualized cash flow for the quarter;
- During the third quarter, Surge drilled and completed 13 net wells (7 Shaunavon and 6 Sparky), for total drilling and completion capital of $16.1 million. Surge set individual cost reduction records for both plays, with leading edge drilling and completion well costs in Shaunavon of $1 million, and Sparky of $0.85 million;
- Surge reduced its general and administration expense by 16 percent in the third quarter to $1.66 per boe, as compared to the second quarter of 2016 in which G&A expense was $1.98 per boe;
- During the third quarter of 2016 the Company reduced interest expense by seven percent to $1.28 per boe, as compared to the second quarter of 2016 where interest expense was $1.38 per boe; and
- On September 6th, Surge released preliminary 2017 financial guidance. In 2017 the Company plans to grow production 5 percent per share, and pay its current dividend, all within cash flow at less than US $50 WTI per barrel pricing.

FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended			Three Months Ended		
	Sep 30, 2016	**Sep 30, 2015**	**% Change**	**Sep 30, 2016**	**Jun 30, 2016**	**% Change**
Financial highlights						
Oil sales	**40,656**	42,560	(4)%	**40,656**	37,523	8 %
NGL sales	**1,255**	650	93 %	**1,255**	1,367	(8)%
Natural gas sales	**3,333**	2,569	30 %	**3,333**	2,053	62 %
Total oil, natural gas, and NGL revenue	**45,244**	45,779	(1)%	**45,244**	40,943	11 %
Funds from operations[1]	**19,138**	17,009	13 %	**19,138**	22,063	(13)%
Per share basic ($)	**0.09**	0.08	13 %	**0.09**	0.10	(10)%
Per share diluted ($)	**0.09**	0.08	13 %	**0.09**	0.10	(10)%
Capital expenditures - petroleum & gas properties[2]	**20,764**	17,653	18 %	**20,764**	16,810	24 %
Capital expenditures - acquisitions & dispositions[2]	**—**	(3,735)	nm[4]	**—**	—	nm
Total capital expenditures[2]	**20,764**	13,918	49 %	**20,764**	16,810	24 %

Net debt at end of period[3]	**141,155**	143,200	(1)%	**141,155**	134,613	5 %
Operating highlights						
Production:						
Oil (bbls per day)	**9,807**	10,635	(8)%	**9,807**	8,958	9 %
NGLs (bbls per day)	**597**	599	(0)%	**597**	564	6 %
Natural gas (mcf per day)	**16,296**	13,731	19 %	**16,296**	15,959	2 %
Total (boe per day) (6:1)	**13,120**	13,523	(3)%	**13,120**	12,182	8 %
Average realized price (excluding hedges):						
Oil ($ per bbl)	**45.06**	43.50	4 %	**45.06**	46.03	(2)%
NGL ($ per bbl)	**22.86**	11.67	96 %	**22.86**	26.64	(14)%
Natural gas ($ per mcf)	**2.22**	2.03	9 %	**2.22**	1.41	57 %
Netback ($ per boe)						
Oil, natural gas and NGL sales	**37.48**	36.80	2 %	**37.48**	36.94	1 %
Realized gain (loss) on commodity contracts	**(1.38)**	1.70	nm	**(1.38)**	3.45	nm
Royalties	**(4.76)**	(6.47)	(26)%	**(4.76)**	(3.27)	46 %
Operating expenses	**(11.27)**	(13.35)	(16)%	**(11.27)**	(12.69)	(11)%
Transportation expenses	**(1.28)**	(1.90)	(33)%	**(1.28)**	(1.16)	10 %
Operating netback	**18.79**	16.78	12 %	**18.79**	23.27	(19)%
G&A expense	**(1.66)**	(1.76)	(6)%	**(1.66)**	(1.98)	(16)%
Interest expense	**(1.28)**	(1.35)	(5)%	**(1.28)**	(1.38)	(7)%
Corporate netback	**15.85**	13.67	16 %	**15.85**	19.91	(20)%
Common shares outstanding, end of period	**222,278**	220,851	1 %	**222,278**	221,047	1 %
Weighted average basic shares outstanding	**221,615**	221,259	— %	**221,615**	221,047	— %
Stock option dilution	**—**	—	nm	**—**	—	nm
Weighted average diluted shares outstanding	**221,615**	221,259	— %	**221,615**	221,047	— %

[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 discussion in this 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".

OPERATIONS UPDATE

Shaunavon

All eight Upper Shaunavon wells drilled in the Company's late second quarter/early third quarter 2016 drilling program ranked in the top ten producing oil wells in the Province of Saskatchewan for the month of July, 2016.

Through a recent Crown purchase in Surge's Shaunavon core area, the Company has acquired more than five contiguous sections of 100 percent working interest land prospective for Upper Shaunavon production. The acquired lands have an internally estimated OOIP of more than 15 million barrels, and directly offset some of Surge's top performing Upper Shaunavon wells drilled to date.

Drilling, fraccing, and on-stream costs at Shaunavon have now dropped below $1.1 million per well, and the Company anticipates 150,000 barrels of internally estimated ultimate recovery per well for primary production.

The Company's waterflood project continues to deliver excellent, measurable results, and Surge recently expanded the Shaunavon waterflood by converting three additional wells to injection. The Company has now converted a total of five wells to water injection in the Upper Shaunavon.

Operating expenses at Shaunavon are now below $7.50 per barrel. Surge's high quality, shallow Upper Shaunavon sandstone reservoir is internally estimated to have more than 250 million barrels of net OOIP - with a one percent recovery factor to date. The Company has now drilled 37 wells in the Upper Shaunavon.

In the third quarter of 2016, Surge drilled seven wells of a new 14 well program. Two additional wells have been drilled to date in the fourth quarter, and operations will continue with the drilling of the remaining five wells by year end. The Company estimates that it has a drilling inventory of more than 10 years in relation to this core asset, comprised of more than 175 Upper Shaunavon drilling locations, and over 75 Lower Shaunavon locations.

Sparky

Surge's recent six well Eyehill Sparky drilling program exceeded expectations, adding more than 750 boepd (80 percent oil) at a total cost of

less than $6 million (i.e. drilling, fraccing, and on-stream costs are now below$1 million per Sparky well). The Company anticipates 140,000 barrels of internally estimated ultimate recovery per well at Eyehill for primary production.

As a result of these excellent drilling results, production at Eyehill has more than doubled from approximately 500 boepd to over 1,250 boepd (80 percent oil). Operating expenses at Eyehill have subsequently dropped to less than $5.50 per boe.

Surge's waterflood project at Eyehill continues to deliver excellent, measurable results, with two water injector conversions to date. The Company has applied to expand the horizontal waterflood scheme in 2017 under the Alberta Enhanced Hydrocarbon Recovery Program in order to obtain the applicable waterflood royalty incentives.

Surge's high quality, shallow Sparky sandstone reservoir at Eyehill is internally estimated to have more than 125 million gross (85 million net) barrels of OOIP - with a one percent recovery factor to date. Surge estimates that there are over 50 net drilling locations remaining at Eyehill.

Surge plans to drill up to six more Eyehill Sparky wells in late 2016 and early 2017, increasing production to over 1,500 boepd.

The Company estimates it has more than 150 net drilling locations in its greater Sparky core area – providing a low risk, 10 year drilling inventory.

Valhalla

In the third quarter Surge continued to optimize its coreValhalla light oil asset inNW Alberta, installing 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. Operating expenses at Valhalla have now dropped to less than $9.75 per boe.

Surge's high quality, Doig sandstone reservoir atValhalla is estimated to have over 140 million barrels of net OOIP with a recovery factor of only three percent to date. The Company estimates it has over 45 low risk drilling locations at Valhalla - providing an inventory of more than nine years.

As a result of the "early opt-in" under the newAlberta Royalty framework, Surge will now be drilling a 100 percent working interest well at Valhalla in the fourth quarter of 2016 into the large northern extension of the Company's operated, light oil pool.

Surge plans to drill four to five more wells atValhalla in 2017, including two net wells in the first quarter.

OUTLOOK – PRODUCTION PER SHARE GROWTH CONTINUES IN 2017

Upward Revision to 2016 Production Exit Rate

Based on continued excellent development drilling results at the Company's three core areas, together with consistent, successful waterflood results at Shaunavon, Eyehill, Valhalla North, Wainwright, Silver, Nipisi, Windfall, andChip Lake, Surge has already exceeded management's original 2016 production exit rate target of 13,000 boepd.

Accordingly, as disclosed in the Company'sSeptember 6, 2016 press release, Surge has now revised management's 2016 production exit rate estimate upward, to more than 13,500 boepd.

2017 Preliminary Guidance

In 2017, at US$50 WTI per barrel pricing, Surge will deliver five percent production per share growth, pay its dividend, and generate substantial free cash flow (i.e. over and above Surge's budgeted 2017 capital expenditure program, and the Company's current dividend). At these levels Surge will maintain, a debt to cash flow ratio of less than 1.4 times and an "all-in" (i.e. capital plus dividend) sustainability ratio of under 100 percent.

Average production for 2017 is forecast to be 13,650 boepd (81 percent liquids), with an exit rate of 14,150 boepd (82 percent liquids).

The Company anticipates spending approximately 70 percent of its preliminary$85 million 2017 capital expenditure budget on drilling activity. The great majority of Surge's 2017 drilling activity will be focused towards Surge's three core areas of Shaunavon, Sparky and Valhalla.

In the event of commodity prices above theUS$50 WTI budget case, Surge management will evaluate all capital allocation options for the resultant free cash flow.

Detailed information regarding Surge's preliminary guidance for 2017 is set forth in the Company's Press Release dated September 6, 2016.

Positioned for Success

Surge management's stated goal is to be the best positioned light/medium gravity crude oil growth and dividend paying company in our peer group in Canada.

Management has been positioning the Company for success at a lower crude oil price environment for over two years. In the extended downturn for world crude oil prices, we focused on creating financial liquidity, balance sheet management, rigorous cost cutting initiatives, delineation of Surge's high quality, large OOIP crude oil reservoirs, and the implementation of successful waterfloods.

Consequently, at strip prices for crude oil, in 2017, Surge can now grow the Company's production per share aggressively, pay its current dividend, and generate substantial, incremental, free cash flow. With a large internally estimated drilling inventory of more than 10 years, an excellent balance sheet, and a very low cost structure, the Company is well positioned to deliver continued future growth in the current commodity price environment.

As a result of our strategic capital allocation decisions, and the Company's excellent operational performance, we believe Surge will stand out as a top performer in its peer group over the upcoming quarters.

FINANCIAL STATEMENTS AND ACCOMPANYING MDA:

Surge has filed with Canadian securities regulatory authorities its financial statements and accompanying MD&A for the three and nine months ended September 30, 2016. These filings are available for review atwww.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: Surge's capital expenditure program, including drilling and development plans and enhance recovery projects and the timing and results to be expected thereof; 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; management's expectations with respect to the Company's waterflood program, results therefrom and quantity of producing assets that will be placed under waterflood; 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 cash flow ratio; guidance with respect to 2016 exit and 2017 average production and production per share, cash flow; Surge's dividend; management's estimates and expectations regarding production efficiencies, drilling upside, operating costs, growth opportunities and reserves; management's expectations respecting the impact of recent acquisitions; the impact of cost savings initiatives; drilling inventories and locations; production and cash flow per share growth; and anticipated commodity prices.The guidance for 2016 and 2017 set forth in this press release may be considered to be future-oriented financial information or a financial outlook for the purposes of applicable Canadian securities laws. Financial outlook and future-oriented financial information contained in this press release are based on assumptions about future events based on management's assessment of the relevant information currently available. In particular, this press release contains projected operational information for 2016 and 2017, including exit production, total capital, royalties, operating expenses, transportation expenses, as well as the applicable discount price to be received on future production. The future-oriented financial information and financial outlooks contained in this press release have been approved by management as of the date of this press release. Readers are cautioned that any such financial outlook and future-oriented financial information contained herein should not be used for purposes other than those for which it is disclosed herein.

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 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 16, 2016 and in Surge's MD&A for the period endedMarch 31, 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. > 1.7 billion bbls gross (1.5 billion bbls net), 7 percent RF; 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 542 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 "sustainability" 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. 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 Surge 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. 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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