Surge Energy

CALGARY, Dec. 13, 2016 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") (TSX: SGY) announces that its Board of Directors has formally approved an upward revision to the Company's previously announced 2017 preliminary production guidance.

Pursuant to a Press Release dated September 6, 2016, Surge provided preliminary capital expenditure and production guidance for 2017.

Based on continued successful development drilling results at the Company's Shaunavon, Sparky and Valhalla core areas, combined with ongoing waterflood activities, Surge is now increasing its 2017 production guidance as set forth below, with no corresponding increase to capital expenditures.

APPROVED GUIDANCE FOR 2017

The Company's 2017 $85 million capital expenditure program and increased production growth estimates are set forth below - at a US $55 WTI per barrel pricing assumption. This guidance has now been formally approved by the Company's Board of Directors.

In 2017 Surge's average daily production estimate has been increased from 13,500 boepd to 14,000 boepd (80 percent oil), and the Company's 2017 exit rate guidance has now been increased from 14,150 boepd to 14,450 boepd. On this basis, Surge will be providing shareholders with organic production per share growth of 18 percent from the second quarter of 2016 to the end of 2017.

	Revised 2017 Guidance at US $55 WTI
OPERATIONAL	
2017 Average Production (boe/d)	14,000
2017 Exit Production (boe/d)	14,450
Total Capital Spending	$85 million
Operating Expenses ($/boe)	$11.45/boe to $11.95/boe
Transportation Expenses ($/boe)	$1.50/boe
Royalties as a % of Revenue	12% to 13%
Estimated Funds Flow from Operations[1]	$124.3 million
Funds Flow from Operations per Share ($/share)	$0.55

	Revised 2017 Guidance at US $55 WTI
FINANCIAL	
Basic Shares Outstanding (MM)	225.7
Annual Dividend Payable	$16.9 million
Exit 2017 Debt	$128.4 million
Debt/Cash Flow[2]	1.0x
Payout/Sustainability Ratio[3]	82%

CAPITAL EXPENDITURE BREAKDOWN

In 2017 Surge anticipates spending $85 million of total capital, broken down as follows:

Capital Category	**Amount**
Drill & Complete, Tie-in	$53 million
Waterflood	$4 million
Facilities	$8 million
Workovers	$9 million
Land, Capitalized G&A, other	$11 million
Total	**$85 million**

Sparky

Following the success of the 10 monobore Sparky wells at Eyehill in the second half of 2016, Surge plans to drill

13 net Sparky wells at Eyehill, Provost, and Betty Lake in 2017. Drilling, fracing, and on-stream costs at Sparky have now dropped below $1.0 million per well, and the Company anticipates 140,000 boe of internally estimated ultimate recovery per well for primary production only.

The latest four monobore wells drilled at Eye Hill in the fourth quarter of 2016, are currently on production, and exhibiting good overall fluid deliverability and increasing oil cut. Importantly, the wells drilled by Surge at Eyehill this year have exceeded the Company's current Eye Hill type curve.

As a result of these consistent excellent drilling results, production at Eyehill has increased from approximately 500 boepd to over 1,500 boepd (80 percent oil) in the last five months. Operating expenses at Eyehill have now dropped to less than $5.50 per boe, and are budgeted to be under $5 per boe in 2017.

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.

Shaunavon

Surge currently plans to drill 20 net wells at Shaunavon in 2017.

The Company will continue to delineate both the northern and southern portions of Surge's 58 section Upper Shaunavon field in 2017. Very little capital is required to tie in additional wells or implement new waterflood pilots, as extensive existing infrastructure is already in place in the Shaunavon field, including an operated 10,000 bopd battery. Continued investment at Shaunavon is underpinned by low operating expenses (budgeted to be under $6 per boe in 2017), favorable royalty rates, top tier well results, and excellent rates of return at strip oil prices.

The Company is also pleased to report positive preliminary drilling results from the 14 wells recently drilled at Shaunavon in the fourth quarter of 2016. Average total fluid deliverability for the 14 wells continues to meet Surge's current Upper Shaunavon per well expectations.

The Company's waterflood project continues to deliver excellent, measurable results, and Surge continues to expand the Upper Shaunavon waterflood having now converted a total of five wells to water injection.

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

Valhalla

Surge's latest well at Valhalla, drilled in the fourth quarter of 2016, is the longest horizontal well drilled by the Company to date at 2,350 meters of lateral section, and a measured depth of 4,580 meters; combined with the most frac intervals to date at 27 stages. This exciting well into the northern extension of Surge's large, Doig light oil pool, was also the Company's first 200 meter infill well - which is the inter well spacing Surge is now pursuing.

Surge currently plans to drill five net wells at Valhalla in 2017, and will continue to advance the Company's 200 meter down spacing program. Operating costs are budgeted to be $8.40 per boe in 2017 at Valhalla.

OUTLOOK – POSITIONING FOR SUCCESS

Surge's stated goal is to be the best positioned light/medium crude oil, growth and dividend paying company in Canada. During the extended downturn in world crude oil prices, Surge management focused on creating balance sheet flexibility, and implementing rigorous cost cutting initiatives. Management also high-graded and optimized the Company's asset base into high quality, large OOIP crude oil reservoirs in Surge's three core areas - through low risk development drilling, and the implementation of successful waterfloods.

As a result of the Company's continued successful development drilling results in the fourth quarter of 2016, and ongoing waterflood activities, Surge is now well positioned to exceed management's projected 2016 exit rate of 13,500 boepd.

In addition, as set forth above, Surge is now revising upwards the Company's 2017 average daily production estimate to 14,000 boepd, from 13,650 boepd, and Surge's 2017 production exit rate to 14,450 boepd, from 14,150 boepd. This will provide shareholders with an 18 percent increase in organic production per share growth by the end of 2017, over the Company's reported second quarter 2016 production level of 12,182 boepd.

The upward revision to the Company's 2017 production growth estimates is occurring with no corresponding increase to Surge's preliminary 2017 capex estimate of $85 million.

This upward revision will result in a 74 percent increase in estimated funds flow per share in 2017, as compared to the current forecast for 2016.

	2016 Forecast	2017 Budget	% Change
Funds Flow Netbacks ($/boe)	$14.82	$24.32	64%
Funds Flow ($MM) Per Share (Basic)	$70 $0.31	$124.3 $0.55	77% 74%
Net Debt to Funds Flow	2.1x	1.0x	(49%)
Pricing Assumptions			
WTI ($US/bbl)	$42.86	$55.00	28%
CAD/USD Exchange Rate	$0.76	$0.76	0%
Natural Gas (AECO C/$GJ)	$1.96	$2.95	51%

Surge's ongoing strategic hedging program protects the execution of the Company's 2017 drilling program through spring break-up, at a crude oil price level as low as US $39 WTI, while maintaining a first half of 2017 debt-to-cash flow ratio of under 2.0 times (i.e. at that low crude oil pricing assumption).

In accordance with managements disciplined, low risk, growth and dividend strategy, in 2017 Surge will now deliver more than six percent annual growth in production per share, plus pay its current dividend, with an "all-in" payout ratio of less than 100 percent - at less than US $50 WTI per barrel pricing. Strip oil prices for 2017 are currently above US $55 WTI per barrel.

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 per share growth in the current commodity price environment.

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, operating expenses, 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, prevailing weather conditions, exchange rates, licensing requirements, the impact of completed facilities on operating costs and the availability, costs of capital, labour and services and 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 16, 2016 and in Surge's MD&A for the period ended September 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.

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.

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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] Debt/Cash Flow is calculated as Exit 2017 Debt divided by Estimated Funds Flow from Operations
[3] Payout/Sustainability Ratio is calculated as the sum of Annual Dividend Payable and Total Capital Spending, divided by Estimated Funds from Operations for the period.

SOURCE Surge Energy Inc.

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