Surge Energy

CALGARY, Feb. 13, 2018 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") announced the results of its independent reserves evaluation (the "Sproule Report") effective December 31, 2017, as prepared by Sproule Associates Limited ("Sproule").

Surge is pleased to announce an increase in the Company's year-end 2017 net asset value ("NAV") of more than 10 percent per share over 2016, to $6.06 per share. Sproule's 2017 year end price forecast has 2018 WTI crude oil prices below current average strip pricing for 2018.

The Company also reported that its 2017 capital expenditure program resulted in an increase of 13 percent in Surge's total reserves on a total proved plus probable basis, to 95 million barrels of oil equivalent ("boe")- with over 82 percent being oil and NGL's.

2017 RESERVES HIGHLIGHTS:

Surge's focused operating strategy of utilizing growth capital to acquire, exploit and waterflood high quality, large original oil in place ("OOIP[1]"), conventional, sandstone reservoirs, continues to provide excellent consistent results, as demonstrated by the following:

- Increased the Company's 2017 NAV by 11 percent to $6.06 per common share; Sproule's 2018 crude oil price forecast is below current strip oil pricing for 2018.
- Surge's Total Proved ("1P") 2017 NAV has been independently evaluated to be $3.67 per basic share, an increase of 9 percent from 2016.
- Increased Total Proved and Probable ("2P") reserves by 13 percent, to 95.2 million boe.
- Proved developed producing reserves value increased by 10 percent over 2016, from $553 million to $607 million on a NPV10 BT basis.
- Added 9.28 MMboe of proved developed producing reserves, replacing over 170 percent of 2017 production (estimated at 5.45 MMboe).
- Delivered an "all-in" FD&A cost of $13.60 per boe2, on a total proved plus probable basis, including changes in undiscounted FDC.
- Reported a 2017 recycle ratio of 1.74 times FD&A3, on a total proved plus probable basis, with oil prices averaging US $50.95 WTI per barrel.
- Only 292 of Surge's 700 gross internally estimated well inventory has been booked in the 2017 Sproule Report; this conservative booking reflects FDC of 4 years of estimated 2017 funds flow.
- Based on successful results from the Company's ongoing waterflood activities, incremental waterflood reserve bookings were added in both the Upper Shaunavon and Sparky core areas.

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1 Original Oil in Place (OOIP) is the equivalent to Discovered Petroleum Initially In Place (DPIIP) for the purposes of this press release.
2 "All-in" FD&A was calculated by dividing the total 2017 capital (total 2017 development capital and 2017 A&D capital and 2017 DFDC capital) by the total 2017 TPP reserve "Adds and Revisions".
3 Recycle Ratio is equal to Surge's 2017 Operating netback, divided by FD&A.

2017 INDEPENDENT RESERVES EVALUATION:

The evaluation of our reserves was done in accordance with the definitions, standards and procedures contained in the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook") and National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities ("NI 51-101"). Additional reserves information as required under NI 51-101 will be included in Surge's Annual Information Form which will be filed on SEDAR on or before March 31, 2018.

Independent reserve evaluators, Sproule, evaluated 100 percent of Surge's total net present value reserves.

RESERVES SUMMARY:

The following tables summarize Surge's working interest oil, natural gas liquids and natural gas reserves and the net present values ("NPV") of future net revenue for these reserves (before taxes) using forecast prices and costs as set forth in the Sproule Report.

	Oil Equivalent	**BTax NPV of Future Net Revenue Discounted at**

Gross Reserves[4]:	Crude Oil and NGLs[5]	Natural Gas[6]	Total Reserves	5%	10%	15%
	(Mbbls)	(MMcf)	(Mboe)	($000's)	($000's)	($000's)
Proved:						
Proved Producing	27,430	34,321	33,151	737,123	606,591	517,242
Proved Non-Producing	1,665	766	1,792	36,972	31,203	26,605
Proved Undeveloped	20,910	31,663	26,187	486,270	358,162	271,793
Total Proved	50,005	66,752	61,130	1,260,365	995,956	815,640
Probable	28,440	33,874	34,086	801,350	556,062	414,968
Total Proved plus Probable	78,445	100,625	95,216	2,061,715	1,552,018	1,230,607

(4) Amounts may not add due to rounding.
(5) Includes light, medium, heavy and tight oil and natural gas liquids.
(6) Includes conventional natural gas, solution gas and coal bed methane.

The Company's Proved Developed Producing reserves are 82 percent liquids.

NET ASSET VALUE:

The Company's new NAV, as of December 31, 2017, has been evaluated to be $6.06 per basic share – utilizing Sproule's December 31, 2017 independent reserves valuation and price forecast. Notably, Sproule's 2017 year end price forecast has crude oil prices below current average strip pricing for 2018.

Surge's December 31, 2017 detailed NAV calculation is set forth below:

NAV		
Proved Plus Probable Reserve Value NPV10 BT (incl. FDC)	$M	1,552,000
Undeveloped Land and Seismic (internally estimated)	$M	100,000
Estimated Net Debt (unaudited)	$M	(241,000)
Total Net Assets	$M	1,411,000
Basic Shares Outstanding (000's)		233,000
Fully Diluted Shares Outstanding (000's)		244,600
Estimated NAV per Basic Share	$/share	6.06
Estimated NAV per Fully Diluted Share	$/share	5.77

Surge's 1P 2017 NAV has been independently evaluated to be $3.67 per basic share.

SUMMARY OF SELECTED SPROULE PRICE FORECASTS AS AT DECEMBER 31, 2017:

Year	WTI Cushing Oklahoma 40º API ($US/bbl)	AECO-C Spot CAD$/Mmbtu	Exchange Rate $US/$CAD
2018	55.00	2.85	0.79
2019	65.00	3.11	0.82
2020	70.00	3.65	0.85
2021	73.00[7]	3.80	0.85

RESERVE LIFE INDEX ("RLI"):

Surge management creates shareholder value through the efficient development of high quality, large OOIP, conventional, crude oil reservoirs. The cost-effective growth of the Company's reserves, combined with the sustainable production of these reserves, will continue to generate long term returns for Surge shareholders.

7	Escalation Rate 2 percent thereafter

The following table highlights Surge historical RLI:

Reserve Life Index (Years)(8)	2017	2016	2015
Total Proved	11.2	11.1	10.3
Total Proved plus Probable	17.5	17.9	16.8

(8) Calculated based on the amount for the relevant reserves category prepared by Sproule, divided by the production estimate for the applicable year.

FUTURE DEVELOPMENT COSTS ("FDC"):

Future development cost estimates reflect Sproule's best estimate of the costs required to bring the total proved and proved plus probable reserves on production. The Company has 50.4 MMboe of total proved and probable undeveloped and non-producing reserves assigned to $485 million of FDC. At a cost of $9.64 per boe, these future reserves generate $731 million of net present value discounted at 10 percent, before income tax.

The Company estimates 2017 corporate capital expenditures at $98.5 million (unaudited), and an additional $73 million pursuant to acquisitions and divestitures.

During the year, the Company completed two strategic core-area acquisitions of high quality assets with large OOIP, low decline, light and medium gravity crude oil production, and associated undeveloped acreage directly offsetting Surge's core operated, large OOIP, Eyehill and Sounding Lake crude oil assets. Surge internally estimates over 65 net crude oil drilling locations on these core area acquisitions.

The following table sets forth the schedule of FDC required to develop Surge's future undeveloped reserves (using forecast prices and costs).

Future Development Costs	Total Proved	Total Proved plus Probable
	($M)	($M)
2018	75,076	82,049
2019	111,086	143,373
2020	129,388	152,206
2021	38,024	84,492
2022	6,568	23,096
Remaining	0	260
Total (Undiscounted)	360,142	485,477
Total (Discounted at 10%)	302,267	399,526

INTENTION TO REINSTATE NORMAL COURSE ISSUER BID:

Over the last six quarters Surge has delivered excellent drilling and waterflood results at its three core areas of Sparky, Shaunavon and Valhalla – all conventional, low cost assets that generate top tier production efficiencies, and high rates of return at strip oil prices. The Company has now increased production per share by more than 22 percent in the past 18 months, while maintaining a corporate decline estimated to be less than 24 percent.

As world crude oil prices increased from US$26 WTI per barrel on February 11th, 2016 to over US $58 WTI today, the price of Surge's common shares have decreased from $1.91 per share on February 11th, 2016, to $1.77 per share today. Surge's new 2017 PDP NAV is $2.01[9] per share.

Accordingly, given Surge's significant available liquidity, and the Company's continued excellent operational results, Surge management and Board have determined to seek TSX approval to re-institute a normal course issuer bid ("NCIB") providing for the repurchase of Surge common shares through the facilities, rules and regulations of the TSX.

Surge will file a notice of intention to make a NCIB with the TSX. The NCIB will be subject to receipt of certain approvals, including acceptance of the notice of intention by the TSX. The NCIB will commence following receipt of all such approvals and will continue for a period of up to one year.

The Company is currently generating significant annualized free funds flow, based on budget pricing assumptions, and current strip WTI pricing for oil of more than US $58 WTI. Surge has approximately $100 million of credit availability on its bank lines.

Further, early in the first quarter of 2018, the Company closed the sale of a minor, non-core property for gross proceeds of $6.8 million. Surge intends to redeploy, on an accretive per share basis, some or all of the proceeds from this non-core asset sale into the NCIB.

Acquiring Surge common shares pursuant to the facilities of the TSX NCIB rules allows Surge management excellent flexibility in assessing market valuations and fluctuations on a weekly basis i.e. if market conditions recover and the trading price for Surge shares increases, management can choose to suspend the NCIB for a short period, or indefinitely, at their discretion.

Further, Surge does not have to pay a dividend on common shares that it acquires pursuant to the NCIB - thereby increasing the Company's sustainability.

The NCIB set forth above provides an excellent return on investment to Surge shareholders, including: significant NAV accretion (using Surge's new December 31, 2017 Sproule NAV of $6.06 per share), dividend savings, less interest on applicable debt. The NCIB provides an additional method for Surge management to return capital to its shareholders, along with the payment of the Company's dividend.

Accordingly, in 2018 Surge anticipates: 1) delivering annual growth of five to seven percent production per share; 2) returning capital to its shareholders pursuant to the Company's attractive dividend; 3) generating substantial free funds flow at current strip pricing and management's budget pricing assumptions; and 4) returning capital to its shareholders pursuant to the accretive buyback of its common shares in accordance with the NCIB.

9 NPV10 before tax, based on Sproule's 2017 year end independent reserves valuation and price forecast, combined with internally estimated values for land, seismic and net debt.

FINANCIAL UPDATE

Since the end of the third quarter 2017, Surge has been augmenting the Company's 2018 crude oil hedge position. Over the past three months, Surge has added on average 1,900 bopd to hedge volumes for 2018. In aggregate this includes 650 bopd of swap contracts with a weighted average price of US $58.02/bbl, and 1250 bopd of put option/option spreads at various prices. The table below provides the detailed contract breakdown:

Type	Contract	Term	bbl/d	Currency	Floor (per bbl)	Ceiling (per bbl)	Swap Price (per bbl)
WTI	Swap	Jan-Feb 2018	2000	USD			$ 57.03
WTI	Swap	Mar-Jun 2018	1000	USD			$ 60.00
WTI	Long Put Option	1Q 2018	2000	USD	$ 53.00		
WTI	Short Put Option	1Q 2018	1000	USD	$ 47.75		
WTI	Long Put Option	2H 2018	1000	USD	$ 60.00		
WTI	Short Put Option	2H 2018	1000	USD	$ 55.00		

As a result of Surge's on ongoing risk management program, the Company now has an average of 4,900 barrels per day of crude oil hedged for 2018, with an average floor price of CAD $67.25 WTI per barrel[10].

OUTLOOK – STRONG PROFITABILITY AT STRIP CRUDE OIL PRICES:

Management's stated goal at Surge is to be the best positioned public crude oil growth and dividend paying company in Canada.

Today Surge has released an exciting new Five Year Business Plan ("Plan") available in the Company's Corporate Presentation - which can be found online at (www.surgeenergy.ca). The Plan illustrates that Surge can organically grow production per share per year at five percent; cash flow per share per year at nine percent; pay Surge's current $0.095 per share, per annum dividend; and, in addition, generate over $215 million of free cash flow over the five years (i.e. above the Company's capex and current dividend) – all at flat US $65 WTI pricing for oil. In this scenario, only 47 percent of Surge's large, 10 year inventory of more than 700 drilling locations will be used.

Surge management believe that the Company's focused operating strategy, top production efficiencies, rigorous cost controls and solid balance sheet, will allow the Company to continue to outperform.

10 Assumes $0.78 CAD/USD exchange rate on all USD-denominated positions.

DISCLAIMERS

Unaudited Financial Information

Certain financial and operating information included in this press release for the quarter and year ended December 31, 2017, such as finding and development costs, production information, operating netbacks, recycle ratios and net asset value calculations are based on unaudited financial results for the year ended December 31, 2017 and are subject to the certain limitations as discussed under forward-looking statements outlined at the end of this news release. These estimated amounts may change upon completion of the audited financial statements for the year ended December 31, 2017 and those changes may be material.

Per share information is based on the total common shares outstanding, as at December 31, 2017.

For certain calculations, Management used an estimate of $171.5 million for total capital expenditures for 2017 including acquisitions and dispositions.

Information Regarding Disclosure on Oil and Gas Reserves

The reserve data provided in this news release presents only a portion of the disclosure required under NI 51-101. The oil and gas disclosure statements for the year ended December 31, 2017, which will include complete disclosure of Surge's oil and gas reserves and other oil and gas information in accordance with NI 51-101, will be contained within Surge's Annual Information Form which will be available on Surge's SEDAR profile on or before March 31, 2018 at www.sedar.com.

There are numerous uncertainties inherent in estimating quantities of crude oil, natural gas and NGL reserves and the future cash flows attributed to such reserves. The reserve and associated cash flow information set forth above are estimates only. In general, estimates of economically recoverable crude oil, natural gas and NGL reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially. For those reasons, estimates of the economically recoverable crude oil, NGL and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times, may vary. The Company's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

All evaluations and reviews of future net revenue are stated prior to any provisions for interest costs or general and administrative costs and after the deduction of estimated future capital expenditures for wells to which reserves have been assigned. The after-tax net present value of the Company's oil and gas properties reflects the tax burden on the properties on a stand-alone basis and utilizes the Company's tax pools. It does not consider the corporate tax situation, or tax planning. It does not provide an estimate of the after-tax value of the Company, which may be significantly different. The Company's financial statements and the management's discussion and analysis should be consulted for information at the level of the Company.

The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to effects of aggregations. The estimated values of future net revenue disclosed in this press release do not represent fair market value. There is no assurance that the forecast prices and cost assumptions used in the reserve evaluations will be attained and variances could be material.

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.

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.

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: 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; the Company's estimated decline rate; the Company's intentions with respect to a normal course issuer bid and purchases thereunder and the effects of repurchases under the bid; Surge's dividend; simple payout ratio; management's estimates and expectations regarding capital expenditures and operating costs, growth opportunities and strategies, estimated reserves and estimated resources; the Company's five-year plan; the availability of Surge's bank line to fund provide the Company with sufficient liquidity and financial flexibility; and anticipated commodity prices; management's expectations regarding debt levels. and the timing of the filing of Surge's Annual Information Form and the information to be contained therein.

Statements relating to "reserves" are also deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future.

Certain other measures 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. Future-oriented financial information and financial outlooks contained in this press release are based on assumptions about future events based on management's assessment of the relevant information currently available. 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 future-oriented financial information and financial outlook 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, ability to create shareholder value and generate returns, sustainability of reserves, operational results, liquidity available for Surge to repurchase its shares through the NCIB, ability of Surge to sustain its dividend, free funds flow available at current strip pricing, ability of Surge to reach targets set forth in the Plan, the application of regulatory and royalty regimes, prevailing commodity prices and economic conditions, development and completion activities and the cost thereof, 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 and properties acquired by Surge, 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, costs of capital, liquidity of Surge, 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), failure to obtain the requisite approvals for the NCIB; 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 31, 2017 and in Surge's MD&A for the period ended September 30, 2017, 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.

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 over 700 gross (679 net) drilling locations identified herin 420 are unbooked locations. Of the 292 gross (276 net) booked locations identified herin 228 gross (215 net) are Proved locations and 64 gross (61 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 "operating 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 "operating netbacks" are a useful supplemental measures of the amount of revenues received after royalties and operating and transportation costs. 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).

Select Definitions

bbl	barrel
bbls	barrels
Mbbls	thousand barrels
MMBtu	million British thermal units
NGLs	natural gas liquids
mcf	thousand cubic feet
mmcf	million cubic feet
mmcf/d	million cubic feet per day
boe	barrel of oil equivalent on the basis of 1 boe to 6 Mcf of natural gas.
mboe	thousand boe
$M	thousands of dollars

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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