

Surge Energy Inc. Announces COVID-19 Pandemic Response; Corporate Update; Annual General Meeting; Dividend Suspension

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CALGARY, April 14, 2020 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") (TSX: SGY) provides an operational update.



COVID-19: PROTECTING STAFF, FAMILIES, SERVICE PROVIDERS, STAKEHOLDERS AND THE PUBLIC

In response to the rapidly evolving COVID-19 pandemic, Surge has taken all possible steps to protect its staff, their families, service providers, stakeholders and the general public. Health and safety is our number one priority and we have a dedicated team working on proactive measures to limit COVID-19 from negatively impacting our employees and business.

At this time, we have taken the necessary steps to slow the spread of the virus, including heeding the government's advice for physical distancing. We have closed our Calgary office and staff are working remotely. Furthermore, we have mitigation plans in place for all field operations staff across Western Canada. These measures protect their health while they work diligently to ensure the safety and security of our facilities as well as continuing to deliver reliable production. All our locations have implemented enhanced cleaning and sanitation measures.

We will continue to monitor the situation, taking guidance from health authorities, and look for opportunities to participate in any activities that will slow the spread of the virus and "flatten the curve". We thank our staff, their families, our partners and the communities in which we operate, for their participation in these proactive measures.

CORPORATE UPDATE

Both the COVID-19 pandemic, and increased oil production from OPEC and Russia, have dramatically decreased the price of crude oil in recent weeks. Accordingly, Surge's management and Board acted quickly, taking decisive action to protect shareholders and the Company's balance sheet. On March 9, 2020 (US\$31 per bbl WTI), Surge reduced its dividend by 90 percent. In addition, Surge suspended all major capital expenditures in early March, providing the Company with greater operational and financial flexibility for the balance of 2020.

Furthermore, Surge has completed a comprehensive review of operating costs in all production areas, as the Company continues to focus on further reducing its cost structure. On this basis, the Company has elected to temporarily curtail up to 4,400 boepd of lower margin production in order to maximize corporate cash flows. Surge has the ability to restart this production in short order, as commodity prices increase. Additionally, Surge is selectively choosing to work over any wells that meet the Company's internal economic hurdle rate of a six to nine month payout at current strip prices.

After executing these temporary production curtailments, based on the Company's robust, ongoing risk management program, Surge will now have approximately 50 percent of its net, after royalty Crown oil production hedged through the balance of 2020. Surge's excellent WTI hedge position, depicted below, has an average floor price of approximately CAD\$80 per barrel for the first half of 2020.

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Surge's ongoing risk management program encompasses not only WTI crude oil price hedges, but also includes very attractive WCS and MSW oil differential hedges, as well as AECO and NYMEX natural gas hedge positions. For example, Surge has now locked in more than 65 percent of its light oil differentials for Q2 and Q3 2020 at approximately US\$5 per barrel.

Surge has a very low corporate decline of 23 percent. Operationally, the Company's high quality, large original oil in place ("OOIP"), conventional reservoirs continued to deliver excellent results during the first quarter of 2020. Surge completed its Q1 2020 drilling program in early March, drilling 19 successful horizontal wells in seven different Sparky pools, which included the delineation of two new Sparky pool discoveries on its lands at Betty Lake North and Eyehill South.

Currently, 16 of the wells drilled in the quarter are on production, with initial production results performing at or above management's expectations. With these successful drilling results, the Company's production exceeded 21,000 boepd in March (prior to the temporary production curtailments), with three additional Sparky wells to be brought on production as crude oil prices improve.

DIVIDEND SUSPENSION

Subsequent to Surge's March 9th press release, when Surge's management and Board elected to reduce the Company's dividend by 90 percent, crude oil prices have continued to drop precipitously.

In light of this continued volatility in global crude oil markets, as well as the ongoing impacts of the COVID-19 pandemic, the Company is taking further steps to protect shareholder value and corporate cash flow by suspending its dividend (approximately \$33.5 million in annualized savings i.e. when combined with the previously announced March 9th dividend reduction) until such time as Surge's management and Board see a sustainable recovery in world crude oil prices.

As such, the last cash dividend payment prior to suspension will be on April 15, 2020 in respect of March 2020 production, for the shareholders on record March 31, 2020 in the amount of \$0.000833 per share, as declared on March 16, 2020.

GUIDANCE

Given the unprecedented circumstances facing world crude oil markets, along with the aforementioned production curtailments, the Company is also suspending its previously announced 2020 guidance and capital program of \$98.5 million. Surge's capital expenditures were approximately \$34 million in the first quarter, and the Company's capital program will be re-guided as commodity prices improve.

ANNUAL GENERAL MEETING

The Company's Annual General Meeting of Shareholders is currently scheduled for 3:00 PM on Tuesday, May 12, 2020. In light of the COVID-19 pandemic, the Company will ensure that all government measures in effect on May 12, 2020, including physical distancing, will be adhered to at the annual meeting, and Surge does not plan to have a presentation at the conclusion of the meeting.

Given the current circumstances, the Company strongly encourages registered shareholders and proxyholders not to attend the meeting in person. All shareholders are strongly encouraged to submit their vote by proxy ahead of the meeting in accordance with the instructions described in the Company's information circular. In the event Surge must adjust the meeting plans due to the COVID – 19 situation, further information will be shared by way of news release as promptly as possible.

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: Management's expectations and plans with respect to the development of its assets and the timing thereof; Surge's declared focus and primary goals, the impacts of COVID-19 on our business and the measures we are taking in response thereto; the societal, economic and governmental response to COVID-19; Surge's capital expenditure program and its flexibility to make adjustments thereto; Surge's planned production curtailments and its ability to restart production; Surge's cost reduction efforts; corporate decline rates; commodity prices and management's ability to react to changes thereto; Surge's risk management program; Surge's dividend suspension; and Surge's annual meeting of shareholders.

The forward-looking statements are based on certain key expectations and assumptions made by Surge, including expectations and assumptions 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; the availability and 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 condition of the global economy, including

trade, public health (including the impact of COVID-19) and other geopolitical risks; 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; and 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 AIF dated March 9, 2019 and in Surge's MD&A for the period ended December 31, 2019, 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.

Oil and Gas Advisories

The term "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" mean barrel of oil equivalent per day. "Bbl" means barrel of oil and "bopd" means barrels of oil per day. "NGLs" means natural gas liquids.

This press release contains certain oil and gas metrics and defined terms which do not have standardized meanings or standard methods of calculation and therefore such measures may not be comparable to similar metrics/terms presented by other issuers and may differ by definition and application.

Original Oil in Place ("OOIP") means Discovered Petroleum Initially In Place ("DPIIP"). DPIIP is derived by Surge's internal Qualified Reserve Evaluators ("QRE") and prepared in accordance with National Instrument 51-101 and the Canadian Oil and Gas Evaluations Handbook ("COGEH"). DPIIP, as defined in COGEH, is that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production. The recoverable portion of DPIIP includes production, reserves and Resources Other Than Reserves (ROTR). OOIP/DPIIP and potential recovery rate estimates are based on current recovery technologies. There is significant uncertainty as to the ultimate recoverability and commercial viability of any of the resource associated with OOIP/DPIIP, and as such a recovery project cannot be defined for a volume of OOIP/DPIIP at this time. "Internally estimated" means an estimate that is derived by Surge's internal QRE's and prepared in accordance with National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities. All internal estimates contained in this new release have been prepared effective as of Jan 1, 2020.

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.

¹ See the Oil and Gas Advisories section of this document for further details.



SOURCE Surge Energy Inc.

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