

Surge Energy Inc. Announces Closing of \$40 Million, 4 Year BDC Term Facility; Confirms Extension of Credit Facility Maturity to December 31, 2021; Receipt of \$50.6 Million EDC Credit Facility Commitment

CALGARY, AB, Nov. 17, 2020 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") (TSX: SGY) is pleased to announce that it has executed definitive agreements with the Business Development Bank of Canada ("BDC"), in partnership with the Company's syndicate of lenders (the "Syndicate"), for a non-revolving facility of \$40 million, providing attractive interest rates over a four year term (the "Term Facility").



Surge Energy Inc. announces closing of its \$40 million, 4 year non-revolving Term Facility, confirming extension of its \$335 million revolving and non-revolving Credit Facility maturity to December 31, 2021, and receipt of \$50.6 million EDC Credit Facility Commitment.

Calgary, Alberta (November 17, 2020) - Surge Energy Inc. ("Surge" or the "Company") is pleased to announce that it has executed definitive agreements with the Business Development Bank of Canada ("BDC"), in partnership with the Company's syndicate of lenders (the "Syndicate"), for a non-revolving facility of \$40 million, providing attractive interest rates over a four year term (the "Term Facility").

Surge is also pleased to announce that it has closed an extension of the Company's existing \$335 million first-lien credit facility ("Credit Facility"). Maturity of the Credit Facility has been extended from March 31, 2021 to December 31, 2021 and the Company's next semi-annual borrowing base redetermination has been extended to June 30, 2021.

Additionally, Export Development Canada ("EDC") has joined Surge's lending Syndicate, providing a \$50.6 million injection of capital into the Company's \$335 million Credit Facility.

FOUR YEAR TERM FACILITY FINALIZED

Surge has closed the previously announced \$40 million Term Facility under the BDC's Business Credit Availability Program ("BCAP") Mid-Market Financing Program, which provides the Company with a four year, non-revolving second lien Term Facility, maturing on November 17, 2024, at attractive interest rates.

In conjunction with closing, BDC and the Syndicate have agreed to fund an immediate initial draw of \$32.5 million on the \$40 million Term Facility. Surge will use these funds for the development of its high-quality, medium and light crude oil asset base which is expected to return the Company's production to near pre-COVID-19 levels and, in turn, generate net asset value per share growth for its shareholders.

EXTENSION OF CREDIT FACILITY CONFIRMED

Concurrent with closing of the Term Facility, Surge's lending Syndicate has also reconfirmed the Company's existing \$335 million Credit Facility.

Surge's lending Syndicate has agreed to extend the maturity of the Company's revolving and non-revolving facilities from March 31, 2021 to December 31, 2021. In addition, Surge's next semi-annual borrowing base redetermination has been extended to June 30, 2021.

\$50.6 MILLION EDC CREDIT FACILITY FUNDING COMPLETE

Concurrent with the above Credit Facility reconfirmation, EDC has provided \$50.6 million in funding into Surge's existing \$335 million credit facility. This capital injection provides the Company with a significant new Syndicate banking partner in the Credit Facility.

The above Credit Facility reconfirmation and extension, in combination with the Term Facility, provides Surge with more than \$75 million in available liquidity on its credit facilities¹.

The Company appreciates the support and partnership of the BDC, EDC, and the entire Syndicate of lenders.

SURGE OUTLOOK: A COMPELLING VALUE PROPOSITION

Surge has a high quality, low decline, light and medium gravity crude oil asset and opportunity base. With the Company's low (19 percent) annual production decline, high netbacks, large OOIP² per section (conventional) crude oil assets, Surge provides investors with an excellent opportunity to participate in the ongoing crude oil price recovery.

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The closing of more than \$90 million in new credit commitments provides Surge with significant additional long term liquidity at reasonable interest rates, allowing the Company to pursue attractive development opportunities with a view to generating net asset value per share growth for its shareholders.

Surge anticipates strategically deploying capital into its Sparky play between now and spring breakup, which typically occurs in mid to late March each year. Management currently expects to provide 2021 guidance in January, 2021. Surge's industry leading Sparky play has some of the best production efficiencies² (<\$10,000/boepd IP90), and internal rates of return ("IRR") for drilling new wells in all of Canada. Surge estimates a weighted average, risked IRR, of greater than 50 percent² for its entire 500 net well (14 year) Sparky drilling inventory at US \$40 WTI per barrel flat pricing. These excellent risked returns are for primary drilling only, and do not include waterflood upside.

Additionally, Western Canadian Select ("WCS") differentials have contracted meaningfully in the last several months, with WCS to WTI differentials currently over 20 percent tighter than the historical long term average. Surge anticipates that its Sparky play will benefit significantly from this tightening of long term WCS differentials, with cashflows, netbacks and reserve values in this premier conventional medium/light gravity crude oil asset increasing commensurately.

Management believes that Surge's premium Sparky crude oil growth asset is unique within the Company's entire peer group in Canada.

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 the anticipated benefits of the Term Facility; EDC credit commitment and credit facility extension; Surge's anticipated production levels; Surge's assets and performance, the characteristics thereof, and the potential for shareholders to benefit from such assets; management's expectations and plans with respect to the development of its assets and the timing thereof; Surge's expectations regarding commodity prices and differentials; management's expectation regarding net asset value growth; Surge's flexibility regarding capital deployment; anticipated internal rates of return; the ability of management to protect stakeholder's capital; and Surge's declared focus and primary goals; and Surge's expectations respecting internal rates of return.

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 as a result of fluctuating commodity prices and reserve determinations by the lenders or otherwise.

Certain of these risks are set out in more detail in Surge's AIF dated March 9, 2020 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. "Bopd" and "bbl/d" 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.

Surge's internally used type curves were constructed using a representative, factual and balanced analog data set, as of January 1, 2020. All locations were risked appropriately, and EUR's were measured against OOIP estimates to ensure a reasonable recovery factor was being achieved based on the respective spacing assumption. Other assumptions, such as capital expenditures, operating expenses, wellhead offsets, land encumbrances, working interests and NGL yields were all reviewed, updated and accounted for on a well by well basis by Surge's Qualified Reserve Evaluators. All type curves fully comply with Part 5.8 of the Companion Policy 51 – 101CP.

Surge's weighted average internal Sparky type curve economics have an IRR of greater than 50% @US\$40/bbl WTI (C\$2.00/mmbtu AECO, US\$13/bbl WCS differential and 0.75 FX) and are supported by >460 internally evaluated Sparky locations by Surge's Qualified Reserve Evaluators (with weighted average metrics of: capital expenditures of ~\$1.15 MM per well, ~100 boe/d IP180 per well and ~125 mboe Estimated Ultimate Recoverable reserves per well).

Internal Rate of Return is the discount rate required to achieve a net present value of \$0.

Production efficiencies are calculated by dividing capital expenditures of a project by the average production from that project for a given period of time. IP90 is the average production rate of a well over the first 90 days on production.

The average IP90 from Surge's 2019 & 2020 programs (>40 wells) was 125 boe/d. Using the weighted average capital expenditures of \$1.15 MM per well, and average production from the 2019 and 2020 programs of 125 boe/d, generates production efficiencies over these two years of <\$10,000/boepd on an IP90 basis.

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 Based on bank debt of \$296.1 million as at September 30, 2020 and a Credit Facility of \$335 million, combined with \$40 million of credit availability under the Term Facility.

2 See Oil and Gas Advisories section



SOURCE Surge Energy Inc.

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