Surge Energy

CALGARY, AB, Jan. 27, 2021 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") (TSX: SGY) is pleased to announce its 2021 budget guidance, as approved by the Company's Board of Directors, as well as an update on Surge's ongoing Environmental, Social and Governance ("ESG") program.

2021 BUDGET – CONTINUED FOCUS ON SUSTAINABILITY

Surge's focus in 2021 continues to be on disciplined capital allocation, with cash flow strategically allocated between capital projects, net bank debt[1] repayment, and the Company's substantial abandonment and reclamation program. As a result of Surge's very low 19 percent annual corporate decline, and focusing drilling operations to the top tier production efficiencies associated with the Company's core Sparky play, Surge can grow its production in 2021 while continuing to pay down net bank debt at current prices.

In 2021, the Company is budgeting to spend $55 million of exploration and development capital (including corporate overhead charges), which includes bringing on production 32 gross (32 net), wells of which 9 gross (9 net) wells were rig released in late Q4/20. The 2021 capital budget is primarily focused on Surge's Sparky core area. Additionally, Surge intends to drill a well at Valhalla, offsetting the Company's prolific Montney well that came on production in late 2019, which has produced over 200,000 barrels of oil to date. This medium/light oil focused drilling program is fully funded by cash flow, increases Surge's production by six percent, from 17,000 boepd exit 2020 to 18,000 boepd on average for 2021, and pays down net bank debt at current prices.

2021 BUDGET HIGHLIGHTS

The Company's 2021 budget:

- Increases production from 17,000 boepd currently, to over 19,250 boepd at the conclusion of the 1H/21 drilling program, with average production for 2021 currently forecast at 18,000 boepd;
- Maximizes 2H/21 free cash flow, through a Q1/21 weighted, returns focused capital program;
- Continues to pay down net bank debt at current prices;
- Maintains operational flexibility to adjust to changes in the commodity price environment; and
- Provides disciplined capital allocation, with cash flow strategically allocated between capital projects, net bank debt repayment and the Company's substantial abandonment and reclamation program.

With the emphasis on free cash flow generation in 2H/21, the Company's 2021 budget provides for a second half maintenance capital program. However, as global crude oil prices continue to strengthen, Surge anticipates providing an update on the size and scope of a potential, more substantial second half drilling program in early Q3/21.

Further details relating to the 2021 budget are set forth below:

2021 Guidance:	
Total 2021(e) exploration & development capital	**$55 million**
Exit 2020(e) production	**17,000 boepd (84% liquids)**
Q2/21(e) production	**19,000 boepd (85% liquids)**
Average 2021(e) production	**18,000 boepd (84% liquids)**
2021(e) Net operating expenses[2]	**$14.75 - $15.25 per boe**
2021(e) Transportation expenses	**$1.40 - $1.60 per boe**
2021(e) General & administrative expenses	**$1.95 - $2.05 per boe**

CAPITAL PROGRAM HIGHLIGHTS

- This program is anticipated to add over 3,575 boepd of production on an IP180 basis, for drilling and completions expenditures of $39 million (inclusive of Q4/20 costs of approximately $9 million), generating top-tier production efficiencies[3] of $10,900 per flowing boe;
- The program involves drilling 31 net highly economic, operated locations in 5 separate, large OOIP[3], shallow, conventional Sparky reservoirs;
- An additional follow-up well will be drilled at Valhalla, offsetting Surge's initial horizontal Montney well, which came on production at over 1,250 boepd and is currently producing at approximately 400 boepd; and
- The capital program continues to focus on Surge's extensive, 14 year drilling inventory[3] of over 500 Sparky locations - across multiple large OOIP, shallow, conventional Sparky reservoirs.

FINANCING INITIATIVES

As previously announced on November 17, 2020, Surge 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.

Additionally, Surge also announced 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.

Concurrent with the above Credit Facility reconfirmation, Export Development Canada ("EDC") provided $50.6 million in funding into Surge's existing $335 million credit facility. This large capital injection provides the Company with a significant new Syndicate banking partner in the Credit Facility.

This addition 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 growth for its stakeholders.

ESG AND ALBERTA SITE REHABILITATION PROGRAM UPDATE

As part of the Company's commitment to ESG stewardship, Surge and its service providers submitted more than 1,700 applications under the Government of Alberta's Site Rehabilitation Program ("SRP") to abandon and reclaim well bores, pipelines and well sites. The Government of Alberta is administering the SRP in various phases, providing grant funding through service providers for the abandonment or remediation of oil and gas sites.

To date, the Company has received more than $11 million in grant funding from the Alberta Site Rehabilitation Program. Surge's abandonment budget, complimented by this grant funding, will significantly increase the number of inactive wells, pipelines, and facilities the Company can abandon in 2021. In addition, Surge has received funding from the Saskatchewan Accelerated Site Closure Program to complete abandonments on the Company's Saskatchewan properties. Through these programs, Surge expects to receive the benefit of additional funding in subsequent grants.

Surge's internal ongoing abandonment program, together with the enhanced SRP abandonment program, will significantly reduce the Company's decommissioning liability over the next 12 months. The Company has already abandoned over 260 wells over the past four months, and anticipates abandoning an additional 60 wells by March, 2021. Once completed, this will result in the abandonment of over 26 percent of Surge's total inactive wells.

Surge remains actively engaged with the Government of Alberta regarding additional SRP developments, as well as new developments in both Federal and Government of Saskatchewan programs, in order to accelerate the decommissioning of the Company's asset retirement obligations.

Surge strives to be a leader in reducing the impact of its operations on the environment. The Company is committed to producing energy in a safe, responsible, and sustainable manner.

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 declared focus and primary goals; management's expectations and plans with respect to the development of its assets and the timing thereof; Surge's annual exploration and development capital expenditure program and budget and its flexibility to make adjustments thereto; Surge's drilling program and inventory, and the risk associated therewith; management's expectations regarding production growth, 2021 Q2 and 2021 average production; management's expectations regarding net bank debt repayment at current prices; management's expectations regarding 2021 estimated operating expenses, transportation expenses and general and administrative expenses; commodity prices and management's ability to react to changes thereto; Surge's abandonment and reclamation program and management's expectations regarding reductions in Surge's decommissioning liability; and liquidity under Surge's credit facility.

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, 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

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") 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.

Production efficiencies are calculated by dividing capital expenditures of a project by the average production from that project for a given period of time. IP180 is the average production rate of a well over the first 180 days on production.

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.

Drilling Locations

This press release discloses drilling locations in two categories: (i) booked locations; and (ii) unbooked locations. Booked locations are proved locations and probable locations derived from an internal evaluation using standard practices as prescribed in the Canadian Oil and Gas Evaluations Handbook and account for drilling locations that have associated proved and/or probable reserves, as applicable.

Unbooked locations are internal estimates based on prospective acreage and assumptions 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. Unbooked locations have been identified by Surge's internal certified

Engineers and Geologists (who are also Qualified Reserve Evaluators) as an estimation of our multi-year drilling activities based on evaluation of applicable geologic, seismic, engineering, production and reserves information. There is no certainty that the Company will drill all unbooked drilling locations and if drilled there is no certainty that such locations will result in additional oil and gas reserves, resources or production. The drilling locations on which the Company actually drills wells will ultimately depend upon the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors. While certain of the unbooked drilling locations have been de-risked by drilling existing wells in relative close proximity to such unbooked drilling locations, the majority of other unbooked drilling locations are farther away from existing wells where management has less information about the characteristics of the reservoir and therefore there is more uncertainty whether wells will be drilled in such locations and if drilled there is more uncertainty that such wells will result in additional oil and gas reserves, resources or production.

Of the over 500 net drilling locations identified in the Company's Sparky core area 184 net are booked locations. Of these booked locations 137 net are Proved locations and 47 net are Probable locations based on 2019YE reserves. Assuming an average number of 35 wells drilled per year in the Sparky area, Surge's >500 locations provides 14 years of drilling. At US$50 WTI, Surge still has >450 economic Sparky locations, with a weighted average IRR of 97% and PIR10 of 1.53.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, 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 Qualifies Reserve Evaluators. All type curves fully comply with Part 5.8 of the Companion Policy 51 – 101CP.

"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.

Non-GAAP Financial Measures

Certain secondary financial measures in this press release – namely, "net bank debt" and "net operating expenses" are not prescribed by GAAP. These non-GAAP financial measures are included because management uses the information to analyze business performance, cash flow generated from the business, leverage and liquidity, resulting from the Company's principal business activities and it may be useful to investors on the same basis. None of these measures are used to enhance the Company's reported financial performance or position. The non-GAAP measures do not have a standardized meaning prescribed by IFRS and therefore are unlikely to be comparable to similar measures presented by other issuers. They are common in the reports of other companies but may differ by definition and application. All non-GAAP financial measures used in this document are defined below:

Net Bank Debt

There is no comparable measure in accordance with IFRS for net bank debt. Net bank debt is calculated as current portion of bank debt plus or minus working capital (accounts receivable, prepaid expenses and deposits and accounts payable and accrued liabilities).

Net Operating Expenses

Net operating expenses are determined by deducting processing and other revenue primarily generated by processing third party volumes at processing facilities where the Company has an ownership interest. It is common in the industry to earn third party processing revenue on facilities where the entity has a working interest in the infrastructure asset. Under IFRS this source of funds is required to be reported as revenue. However, the Company's principal business is not that of a midstream entity whose activities are dedicated to earning processing and other infrastructure payments. Where the Company has excess capacity at one of its facilities, it will look to process third party volumes as a means to reduce the cost of operating/owning the facility. As such, third party processing revenue is netted against operating costs in the MD&A.

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 This is a non-GAAP financial measure which is defined in the Non-GAAP Financial Measures section of this document.
2 This is a non-GAAP financial measure which is defined in the Non-GAAP Financial Measures section of this document.

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

SOURCE Surge Energy Inc.

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https://surgeenergy.mediaroom.com/2021-01-27-Surge-Energy-Inc-Announces-2021-Capital-and-Operating-Budget-ESG-Update?pageId=10448