Surge Energy

Surge Energy Inc. Announces Closing of Strategic $160 Million Southeast Saskatchewan Light Oil Acquisition; Closing of New Credit Facilities; Approval of Share Consolidation; and 2022 Guidance

CALGARY, AB, Aug. 18, 2021 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") (TSX: SGY) is pleased to announce that it has successfully completed the previously announced acquisition (the "Acquisition") of Astra Oil Corp. ("Astra") pursuant to an arrangement (the "Arrangement") under the provisions of *the Business Corporations Act* (Alberta).

SPECIAL MEETING RESULTS; 95% VOTE IN FAVOR OF ACQUISITION AND GREATER THAN 93% VOTE IN FAVOR OF THE SHARE CONSOLIDATION

All the issued and outstanding common shares of Astra were acquired by Surge for aggregate consideration consisting of: 1) the issuance of approximately 229 million common shares of Surge ("Surge Shares"), and 2) approximately $13.5 million in assumed debt. At the special meeting of Surge shareholders to approve the issuance of Surge Shares pursuant to the Acquisition, held on August 17, 2021 (the "Meeting"), 26.5% of the outstanding Surge Shares were represented and the issuance was approved by 95.0% of the Surge Shares voted at the Meeting.

Additionally, Surge shareholders voted to approve the consolidation of Surge Shares ("Consolidation") on the basis of one (1) post-Consolidation Surge Share for each 8.5 pre-Consolidation Surge Shares. At the Meeting, 26.9% of the outstanding Surge Shares were represented and the Consolidation was approved by 93.2% of the Surge Shares voted at the Meeting.

Accordingly, immediately after the Acquisition, the 608.5 million pre-Consolidation Surge Shares issued and outstanding will be consolidated to approximately 71.6 million Surge Shares on a post-Consolidation basis.

Surge expects trading of Surge Shares on a post-Consolidation basis on the Toronto Stock Exchange ("TSX") will commence 2-3 business days following the closing of the Arrangement. The Company's name and trading symbol will remain unchanged.

2022 OUTLOOK - STRONG OPERATIONAL PERFORMANCE CONFIRMS GUIDANCE

Consistent and disciplined development of the Company's high quality, low cost, conventional crude oil asset base, including Surge's premier Sparky play in Alberta, complemented by the high netback, light oil Southeast Saskatchewan assets obtained through the Acquisition, positions Surge to provide shareholders with significant free cash flow generation in 2022 and beyond.

Today, Surge possesses the key operational indicia and financial attributes required for a successful public oil company, including:

- Over 2.5 billion barrels of net combined, internally estimated, conventional OOIP[1] - with a low 6 percent recovery factor to date;
- Combined proven plus probable year end 2020 reserves of over 95 million boe (85 percent liquids);
- Exit 2021 production of more than 20,200 boepd (85 percent liquids weighted);
- A low base corporate decline of 25 percent;
- A large development drilling inventory: >850 net locations (internally estimated) [2]; providing a development drilling inventory of more than 13 years;
- High operating netbacks[3] of >$33 per boe at US$65 WTI;
- A 13 year reserve life index (total proved plus probable);
- Top tier production efficiencies[4] (<$15,000 per boepd; IP 180);
- Forecast adjusted funds flow[3] per share in 2022 of $2.94 at US$65 WTI (post consolidation);
- Shares outstanding (basic): 71 million (post consolidation);
- An excellent balance sheet with estimated net debt3 to annualized Q4/22 adjusted funds flow of approximately 1 times at US$65 WTI;
- Forecasted free cash flow[3] of over $85 million in 2022 at US$65 WTI; and
- Strategically, from an operational perspective, all of Surge's core operating areas independently rank in the top conventional oil plays in Canada[5].

Following successful drilling programs by both Surge and Astra in the first half of 2021, the Company confirms it is on track to meet or exceed previously announced guidance for Surge's 2021 exit production rate of 20,200 boepd. Surge also confirms financial and operational guidance for 2022, as detailed below:

Guidance	**@ US $65 WTI***	**@ US $70 WTI***	**@ US $75 WTI***
Exit 2021 production (boepd)	20,200		
Average 2022 production (boepd)	20,200		
% oil and NGL's	85%		
2022 Adjusted funds flow ($MM)	**$210**	$235	$265
2022 Cash flow from operations ($MM)	**$195**	$220	$250
2022 Exploration and Development Capital Expenditures ($MM)	**$110**	$110	$110
2022 Free cash flow ($MM)	**$85**	$110	$140
2022 All-in payout ratio	**56%**	50%	44%
2022 Net debt to annualized Q4/22 adjusted funds flow	**1.0x**	0.8x	0.6x

*All pricing variables including differentials (WCS: US$13.50, EDM US$5.00), Fx of $0.80 and AECO of $2.50 per mcf remain constant. Adjusted funds flow and cash flow from operations exclude realized gains/losses from financial derivatives.

CLOSING OF NEW $215 MILLION CREDIT FACILITIES

In combination with the Acquisition, the Company has also amended and extended its first lien credit facilities.

Surge's fully conforming first lien revolving credit facilities are now $215 million, with the Company's next bank review scheduled to be on or before November 30, 2021. Additionally, the maturity of Surge's first lien revolving credit facilities has been extended from July 1, 2022 to November 30, 2022.

This amendment and extension is forecast to provide the Company with ample available liquidity upon the closing of the Acquisition, return the Company to a standard, single-tranche first lien credit facility, and significantly reduce Surge's annual interest expense going forward.

ONGOING COMMITMENT TO ESG

Surge's ongoing commitment to be an ESG leader in its Canadian peer group is demonstrated by the establishment of an internal ESG team to drive the Company's ESG strategy and evaluate potential projects and opportunities. Surge's inaugural ESG report will be published in the fourth quarter of 2021.

Recent ESG highlights include:

- Abandoned over 300 of total inactive wells over the last 10 months;
- Forecast abandonment and reclamation spends of $6 million in 2021; plus an additional $4 - $6 million of incremental abandonment and reclamation projects funded by the Alberta Site Rehabilitation Program ("SRP"). Surge has received $14 million in SRP funding to date;
- Ongoing capital projects to reduce GHG emissions;
  - A gas conservation project underway at the Company's operated Shaunavon asset in SW Saskatchewan that will tie in approximately 90% of the gas volumes currently being flared by Q4/21; and
  - A significant emissions reduction project in conjunction with the Astra acquisition will result in the completion of a 45km pipeline project to conserve natural gas from operated fields in SE Saskatchewan;
- Emphasis on a diversified Board of Directors; 33% proven, qualified female directors.
- Active community engagement and consultation with key stakeholders in Surge's core operating areas; and
- Ongoing supporter of charitable organizations in the communities in which the Company operates.

COMPLETION OF SHARE CONSOLIDATION

Surge has filed articles of amendment to effect the Consolidation of its issued and outstanding Surge Shares on the basis of one (1) post-Consolidation Common Share for every 8.5 pre-Consolidation Surge Shares.

The post-Consolidation Surge Shares are anticipated to commence trading on the Toronto Stock Exchange 2-3 business days following the closing of the Arrangement. There is no name change to the Company and no change to the stock symbol. The new CUSIP is 86880Y877.

The 608.5 million Surge Shares issued and outstanding on a pre-Consolidation basis were reduced to approximately 71.6 Surge Shares on a post-Consolidation basis, which number includes the Surge Shares issued to former holders of shares in the capital of Astra Oil Corp. by way of a plan of arrangement closing immediately prior to the Consolidation, pursuant to which Surge acquired all of the issued and outstanding shares of Astra ("Astra Shares").

Letters of transmittal were mailed to registered shareholders of Surge on July 23, 2021, requesting them to deposit their direct registration system ("DRS") statement(s) or share certificate(s), together with a duly completed letter of transmittal, with the Corporation's transfer agent for its Surge Shares, Odyssey Trust Company ("Odyssey"), in exchange for a DRS statement or share certificate representing the number of post-Consolidation Surge Shares to which they will be entitled. If a registered shareholder did not receive a letter of transmittal, please contact Odyssey at corp.actions@odysseytrust.com. Registered holders of Astra Shares were mailed a letter of transmittal on July 23, 2021 in connection with the Arrangement and are not required to submit a separate letter of transmittal with respect to the Consolidation.

Non-registered shareholders holding Surge Shares through an intermediary (a securities broker, dealer, bank, or financial institution) should be aware that the intermediary may have different procedures for processing the Consolidation than those that will be put in place by the Corporation for the registered shareholders. If shareholders hold Surge Shares through an intermediary and they have questions in this regard, they are encouraged to contact their intermediaries.

As a result of the Consolidation and in accordance with the terms of the applicable debenture indenture, the conversion rate of the 5.75% convertible subordinated debentures of Surge due on December 31, 2022 (the "Initial Debenture") (TSX: SGY.DB) and 6.75% convertible unsecured subordinated debentures of Surge due on June 30, 2024 (the "Series 2 Debenture") (TSX: SGY.DB.A) have been adjusted as follows: (i) the conversion rate of the Initial Debenture has decreased from 366.2876 Surge Shares for each $1,000 principal amount of Initial Debentures to 43.0927 Surge Shares for each $1,000 principal amount of Initial Debentures; and (ii) the conversion rate of the Series 2 Debenture has decreased from 444.4444 Surge Shares for each $1,000 principal amount of Series 2 Debentures to 52.2876 Surge Shares for each $1,000 principal amount of Series 2 Debentures.

Further details with regard to the background, reasoning, and impact of the Consolidation are contained in the joint management information circular of the Corporation and Astra dated July 16, 2021, copies of which have been filed on SEDAR and can be accessed at www.sedar.com.

ADVISORS

Scotiabank is acting as exclusive financial advisor to Surge with respect to the Arrangement and has provided a fairness opinion to the Surge Board of Directors. ATB Capital Markets, and BMO Capital Markets have been appointed strategic advisors to Surge on the Arrangement. McCarthy Tétrault LLP is acting as legal advisor to Surge with respect to the Arrangement.

National Bank Financial Inc. is acting as exclusive financial advisor to Astra. Burnet, Duckworth & Palmer LLP is acting as legal advisor to Astra with respect to the Arrangement.

FORWARD LOOKING STATEMENTS:

This news release includes statements containing certain "forward-looking information" within the meaning of applicable securities law ("forward-looking statements"). Forward-looking-statements in this release include, but are not limited to, the opinions and beliefs of management. Forward-looking statements are frequently characterized by words such as "plan", "continue", "expect", "project", "intend", "believe", "anticipate", "estimate", "may", "will", "potential", "proposed" and other similar words, or statements that certain events or conditions "may" or "will" occur. 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.

Various assumptions were used in drawing the conclusions or making the projections contained in the forward-looking statements throughout this news release. Forward-looking statements are based on the opinions and estimates of management at the date the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements.

More particularly, this press release contains statements concerning management's expectations and assumptions concerning the anticipated benefits of the Consolidation, the Arrangement and the transaction metrics related thereto; the timing of various matters in connection with the Consolidation; and Surge's revised guidance for the remainder of 2021 and preliminary guidance for 2022.

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, 2021 and in Surge's MD&A for the year ended December 31, 2020, 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, and expressly disclaims any intention or 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. All oil and gas metrics/terms used in this document are defined below:

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, 2021.

Net of Surge disposition from March 25, 2021, the pro forma Company (Surge + Astra) will have 2020YE TPP reserves of 98.9 mmboe. Astra reserves have been audited by Sproule from 2016YE through to 2020YE. Similarly, Sproule has audited all of Surge's assets from 2015YE to 2020YE.

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.

Drilling Inventory

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.

Net of Surge March 25, 2021 disposition, the pro forma Company (Surge + Astra) will have over >925 gross (>850 net) drilling locations identified herein, of these >450 gross (>400 net) are unbooked locations. Of the 461 net booked locations identified herein, 347 net are Proved locations and 114 net are Probable locations based on Sproule's 2020YE reserves. Assuming an average number of net wells drilled per year of 65, Surge's >850 net locations provide 13 years of drilling.

Surge's internally developed type curves (for both Surge and Astra) were constructed using a representative, factual and balanced analog data set, as of Jan 1, 2021 for Surge type curves and April 15, 2021 for Astra type curves. 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 Qualified Reserve Evaluators. All type curves fully comply with Part 5.8 of the Companion Policy 51 – 101CP.

Non-GAAP Financial Measures

Certain secondary financial measures in this press release – including, "cash flow", "adjusted funds flow", "free cash flow", "net debt", and "net operating income", 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:

Cash Flow & Adjusted Funds Flow

Cash flow is defined as cash from operating activities before changes in non-cash working capital. The Company further adjusts cash flow from operating activities in calculating adjusted funds flow for changes in decommissioning expenditures and transaction costs. Management believes the timing of collection, payment or incurrence of these items involves a high degree of discretion and as such may not be useful for evaluating Surge's cash flows. Changes in non-cash working capital are a result of the timing of cash flows related to accounts receivable and accounts payable, which management believes reduces comparability between periods. Management views decommissioning expenditures predominately as a discretionary allocation of capital, with flexibility to determine the size and timing of decommissioning programs to achieve greater capital efficiencies and as such, costs may vary between periods. Transaction costs represent expenditures associated with acquisitions, which management believes do not reflect the ongoing cash flows of the business, and as such reduces comparability. Each of these expenditures, due to their nature, are not considered principal business activities and vary between periods, which management believes reduces comparability.

The following table reconciles forecast cash flow from operating activities to adjusted funds flow:

($millions)	@ US $65 WTI	2022e @ US $70 WTI	@ US $75 WTI
Petroleum and natural gas revenue	**425**	**458**	**499**
Royalties	**(51)**	**(55)**	**(60)**
Net operating expenses	**(113)**	**(113)**	**(113)**
Transportation expenses	**(8)**	**(8)**	**(8)**
Loss on financial contracts	**(8)**	**(12)**	**(18)**
Operating netback	**245**	**269**	**300**
G&A expense	**(14)**	**(14)**	**(14)**
Interest expense	**(21)**	**(21)**	**(20)**
Adjusted funds flow	**210**	**235**	**265**
Changes in non-cash working capital	**-**	**-**	**-**
Lease repayments	**(9)**	**(9)**	**(9)**
Abandonments	**(6)**	**(6)**	**(6)**
Cash flow from operating activities	**195**	**220**	**250**
Barrels of oil equivalent (boe)	**7.4**	**7.4**	**7.4**
Operating netback ($ per boe)	**$ 33**	**$ 36**	**$ 40**
Adjusted funds flow ($ per boe)	**$ 28**	**$ 32**	**$ 36**

Free Cash Flow

Free cash flow is calculated as cash flow from operating activities less exploration and development capital expenditures. Management uses free cash flow to determine the amount of funds available to the Company for future capital allocation decisions.

Free cash flow per share is calculated using the same weighted average basic and diluted shares used in calculating income per share.

Free cash flow yield is calculated as free cash flow divided by the Company's share price at the date indicated herein. Management uses this measure as an indication of the cash flow return to shareholders based on current share prices.

Net Debt

There is no comparable measure in accordance with IFRS for net debt. Net debt is calculated as bank debt, term debt, dividends payable plus the liability component of the convertible debentures plus or minus working capital, however, excluding the fair value of financial contracts, decommissioning obligations, and lease and other obligations. This metric is used by management to analyze the level of debt in the Company including the impact of working capital, which varies with timing of settlement of these balances.

Net debt to annualized adjusted funds flow ratio is calculated as net debt divided by annualized three month adjusted funds flow (adjusted funds flow for the quarter multiplied by four). Management uses this ratio to assess the period of time that it would take to fund net debt based on the adjusted funds flow from the quarter.

Net Operating Income

Net operating income is calculated as petroleum and natural gas revenue less royalties, net operating expenses and transportation expenses.

Net operating income multiple is calculated as purchase price of the acquisition divided by the annual net operating income related to the acquisition. Management uses this metric as an indication of the cost of the acquisition in relation to the net operating income from the acquired business.

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. Additional information relating to 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).

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[1] See the Oil and Gas Advisories section of this document for further information.

[2] See the Drilling Inventory section of this document for further information.

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

[4] See the Oil and Gas Advisories section of this document for further information.

[5] As per National Bank of Canada Thematic Research "Expanding on the Emerging Clearwater", September 8, 2019.

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 releas

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