

Surge announces \$109 million SE Saskatchewan light oil acquisition, upward revision to 2014 guidance, \$70 million equity financing, and four percent increase in dividend

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CALGARY, Jan. 13, 2014 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") announced today that it has entered into an agreement to acquire (the "Acquisition") certain high quality, low decline, operated, light oil producing assets strategically located in the Company's core area of SE Saskatchewan (the "Assets"). The Assets include an estimated annualized 1,250 boepd (97 percent oil) of high netback light crude oil production. The purchase price for the Assets is \$109 million, payable in cash (the "Purchase Price").

As a result of the Acquisition, Surge will be revising upward the Company's 2014 guidance, as set forth below.

In addition, based on the accretive Acquisition, and better than anticipated operational and drilling results, Surge will be increasing the Company's annual dividend four percent from \$0.52 per share per year (\$0.04333 per share per month), to \$0.54 per share per year (\$0.045 per share per month).

Furthermore, pursuant to the accretive Acquisition, even with the above increase in Surge's dividend, the Company's "all-in" payout/sustainability ratio improves from 92.1% to 91.0%.

The closing of the Acquisition is subject to customary conditions including receipt of applicable regulatory approvals and is expected to occur on or about March 3rd, 2014 (the "Closing").

In conjunction with the Acquisition, Surge has entered into a \$70 million bought deal financing (the "Equity Financing") with a syndicate of underwriters led by Macquarie Capital Markets Canada Ltd., which is described in further detail below. Members of the Surge team will be participating in the Equity Financing. The Equity Financing is subject to customary conditions including receipt of applicable regulatory approvals and is expected to close on or about February 4, 2014.

ACQUISITION OVERVIEW

The Acquisition comprises elite, operated, low decline light oil assets strategically located within Surge's core operating area of SE Saskatchewan. The production is focused in several large, high quality, light oil reservoirs - with combined original oil in place ("OOIP")¹ of over 240 million barrels.

The Assets possess a low annual decline of less than 18 percent, which will provide significant annual free cash flow to Surge. The Acquisition fits very well with the Company's focused business strategy, and with Surge's dividend-paying / modest growth business model.

Surge management has identified significant upside with respect to the Assets, primarily from infill and stepout development drilling, and optimizations.

ACQUISITION METRICS

The following sets forth the metrics with respect to the Acquisition:

1. Purchase Price:

The Purchase Price for the Acquisition is \$109 million, subject to normal adjustments based on a January 1, 2014 effective date, and will be payable in cash at Closing.

2. Long Life Oil Reserves:

The Acquisition adds Proven and Probable (P+P) reserves of 4.6 million boe as at December 31, 2013 (96 percent crude oil), assessed internally by Surge consistent with NI 51 - 101 guidelines. On this basis, Surge is paying \$23.70 per barrel for P+P reserves.

Based on current production, the Assets have a long reserve life index of more than 10 years (P+P).

3. Production Metrics:

Estimated annualized production relating to the Acquisition is approximately 1,250 boe per day, composed of more than 97 percent light gravity crude oil (36 degree API).

On this basis, Surge is paying approximately \$87,200 per flowing barrel of production with respect to the Acquisition.

4. Solid Netbacks and Strong Recycle Ratio:

Operating netbacks for the Assets are over \$51 per barrel, based on guidance pricing (as set out below), resulting in a recycle ratio of approximately 2.2 times in relation to the Acquisition.

5. Annual Cash Flow:

Annual cash flow from the Assets, based on guidance pricing (as set out below) and using forecast average production for 2014 (less an annual decline of 18 percent), is estimated to be more than \$21 million.

On this basis, Surge estimates that the Company is paying approximately 5.2 times annualized cash flow for the Acquisition.

6. Producing Infrastructure:

The Acquisition possesses key producing infrastructure, including batteries, pipelines, and waterflood facilities.

7. Undeveloped Land:

The Assets include approximately 12,000 net acres of undeveloped land.

8. Operatorship and High Working Interests:

The Assets have an average working interest of approximately 78 percent, and the net production acquired is more than 90 percent operated.

EQUITY FINANCING

In connection with the Acquisition, Surge has entered into an agreement on a "bought-deal" basis with a syndicate of underwriters (the "Underwriters") led by Macquarie Capital Markets Canada Ltd., and including GMP Securities LP, National Bank Financial Inc., CIBC World Markets Inc., Scotia Capital Inc., Dundee Securities Ltd., FirstEnergy Capital Corp., Cormark Securities Inc., TD Securities Inc., and Raymond James Ltd. for an offering of 11,112,000 subscription receipts ("Subscription Receipts") of the Company at a price of CDN\$6.30 per Subscription Receipt (the "Offering Price") with each Subscription Receipt entitling the holder to receive one common share of the Company ("Common Share") for aggregate gross proceeds of \$70,005,600. The Underwriters will have an over-allotment option to purchase up to an additional 15 percent of the Subscription Receipts, on the same terms, exercisable in whole or in part at any time up to the 30th day following initial closing of the Equity Financing.

The Company will apply to list the Subscription Receipts and the Common Shares issuable pursuant to the Equity Financing on the Toronto Stock Exchange.

The net proceeds from the issuance of Subscription Receipts will be used to partially fund the Acquisition.

The Equity Financing will be completed by way of short form prospectus in all of the provinces of Canada and on a private placement basis in the United States pursuant to exemptions from the registration requirements of the U.S securities laws. The Equity Financing is subject to customary conditions including receipt of applicable regulatory approvals and is expected to close on or about February 4, 2014.

The gross proceeds from the sale of Subscription Receipts will be held in escrow pending the satisfaction of all conditions to the completion of the Acquisition, provided that the closing date of the Acquisition is on or before April 30, 2014, upon which time each Subscription Receipt will entitle the holder to receive a Common Share, without further payment or action on the part of the holder, upon the closing of the Acquisition. If the Acquisition is not completed on or before April 30, 2014 or is terminated at an earlier time, holders of Subscription Receipts will receive, for each Subscription Receipt held, a cash payment equal to the Offering Price and any interest earned thereon during the term of the escrow.

The Subscription Receipts will be eligible to receive all dividends that accrue from the date hereof and prior to conversion of the Subscription Receipts into Common Shares.

UPWARD REVISION TO 2014 GUIDANCE

The Acquisition is accretive to Surge's 2014 guidance estimates on a reserves, production, and cash flow per share basis.

Furthermore, pursuant to the accretive Acquisition, even with the increase in Surge's dividend referred to herein, the Company's "all-in" payout/sustainability ratio improves from 92.1% to 91.0%.

The following sets forth Surge's upwardly revised guidance for full year 2014 estimates.

Operational:

	<u>Surge 2014E Guidance (Prior to the Acquisition)²</u>	<u>Surge 2014E Guidance (After the Acquisition and the Equity Financing)²</u>
2014E Average Production (boe/d)	15,250 (83% Oil/NGLs)	16,125 (84% Oil/NGLs)
2014E Exit Production (boe/d)	15,500 (83% Oil/NGLs)	16,550 (84% Oil/NGLs)
2P Reserves ³	69.7 mmboe	74.3 mmboe
RLI (based on 2013E exit production)	>12.5 years	>12.5 years
2014E Capital Spending	\$114.5 million	\$116 million
2014E Wells Drilled (gross/net)	38 / 36.1 wells	39 / 37.1 wells
2014 Decline	24%	24%

Financial:

	<u>Surge 2014E Guidance (Prior to the Acquisition)²</u>	<u>Surge 2014E Guidance (After the Acquisition and the Equity Financing)²</u>
2014E Funds from Operations ("FFO") ⁴	\$221 million (\$1.33 per share)	\$236 million (\$1.34 per weighted average share)
2014E Operational Netback	\$44.04/boe	\$44.45/boe
2014E Cash Flow Netback	\$39.69/boe	\$40.08/boe
Basic Shares Outstanding	167 million	178 million
Annual Dividend ⁴	\$87 million	\$95 million
2014E Dividend	\$0.52 per share	\$0.54 per share
Yield ⁵	8.3%	8.6%
Basic Payout Ratio 2014E	39.6%	41.2%
"All-in" Payout Ratio	92.1%	91.0%
2014E Exit Net Debt	\$287 million	\$326 million
2014E Exit Net Debt / FFO	<1.39x	<1.39x

INCREASED DIVIDEND

As a result of the accretive Acquisition, together with better than expected operational and drilling results, Surge will be increasing the Company's annual dividend four percent from \$0.52 per share per year (\$0.04333 per share per month) to \$0.54 per share per year (\$0.045 per share per month).

ADVISORS

CIBC World Markets Inc., National Bank Financial Inc., and Scotia Capital Inc. acted as financial advisors to Surge with respect to the Acquisition.

FORWARD LOOKING STATEMENTS:

This press release contains forward-looking statements. More particularly, it contains forward-looking statements concerning: (i) targeted growth in reserves, production and cash flow per share, (ii) the sustainability of dividends, (iii) potential growth through acquisitions, (iv) ultimate recovery factors at certain of Surge's properties, (v) planned drilling, development and waterflood activities, (vi) the potential number of drilling locations at certain of Surge's properties, (vii) estimated 2014 average production rate, (viii) estimated 2014 exit rate production, (ix) estimated 2014 capital expenditures, wells drilled, decline rates, funds from operations, operating netback, cash flow netback and payout ratio, * estimated 2014 year end net debt and net debt to funds from operations ratio;; (xi) timing and completion of the Acquisition, including expectations and assumptions concerning timing of receipt of required regulatory approvals and the satisfaction of other conditions to the completion of the Acquisition, (xiii) potential development opportunities and drilling locations associated with the Acquisition, expectations and assumptions concerning the success of future drilling and development activities, the performance of existing wells, the performance of new wells, the successful application of technology and the geological characteristics of the Acquisition, (xiv) the timing and amount of future dividend payments, (xvi) debt and bank facilities, (xviii) primary and secondary recovery potentials and implementation thereof, (xiv) decline rates, (xv) funds from operations, (xvi) operating and cash flow netbacks, and (xvii) realization of anticipated benefits of acquisitions.

The forward-looking statements contained in this press release are based on certain key expectations and assumptions made by Surge, including expectations and assumptions concerning the success of future drilling, development and completion

activities, the performance of existing wells, the performance of new wells, the viability of waterflood projects, the availability and performance of facilities and pipelines, the geological characteristics of Surge's properties, the successful application of drilling, completion and seismic technology, prevailing weather conditions, commodity prices, royalty regimes and exchange rates, the application of regulatory and licensing requirements and the availability of capital, labour and services.

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), commodity price and exchange rate fluctuations and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures. Certain of these risks are set out in more detail in Surge's Annual Information Form which has 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.

Financial Outlooks

The estimates of 2014 year end net debt, 2014 funds from operations and 2014 operating netback and cash flow netback contained in this press release are financial outlooks within the meaning of applicable securities laws. These financial outlooks have been prepared by management of Surge to provide an outlook of Surge's anticipated funds from operations and netbacks for a full year of operations with its current assets and based on management's expectations and assumptions as to a number of factors, including commodity pricing, production, operating expenses and royalties. Readers are cautioned that this information may not be appropriate for any other purpose. Management does not have firm commitments for all of the costs, expenditures, prices or other financial assumptions used to prepare the financial outlooks or assurance that such results will be achieved. The actual results of Surge will likely vary from the amounts set forth in the financial outlooks and such variation may be material.

Surge and its management believe that the financial outlooks have been prepared on a reasonable basis, reflecting the best estimates and judgments, and represent, to the best of management's knowledge and opinion, Surge's expected expenditures and results of operations following completion of the Acquisition. However, because this information is highly subjective and subject to numerous risks, including the risks discussed under the note regarding Forward Looking Statements, it should not be relied on as necessarily indicative of future results. Except as required by applicable securities laws, Surge undertakes no obligation to update this information.

Note: 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 means barrel of oil equivalent per day.

In this press release: (i) mcf means thousand cubic feet; (ii) mcf/d means thousand cubic feet per day (iii) mmcf means million cubic feet; (iv) mmcf/d means million cubic feet per day; (v) bbls means barrels; (vi) mbbls means thousand barrels; (vii) mmbbls means million barrels; (viii) bbls/d means barrels per day; (ix) bcf means billion cubic feet; * mboe means thousand barrels of oil equivalent; and (xi) mmboe means million barrels of oil equivalent

NO OFFER IN THE UNITED STATES

This news release does not constitute an offer to sell or a solicitation of an offer to buy any of the securities in the United States. The securities have not been and will not be registered under the *United States Securities Act of 1933*, as amended (the "U.S. Securities Act") or any state securities laws and may not be offered or sold within the United States or to U.S. Persons unless registered under the U.S. Securities Act and applicable state securities laws or an exemption from such registration is available

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 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, plus those estimated quantities in accumulations

yet to be discovered. 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.

² Based on 2014 Edmonton Par \$93.60/bbl; 2014 AECO gas \$3.69/mcf and a 2014 CAD/USD exchange rate of \$0.94.

³ Based on independent and internally generated engineering reports as of December 31, 2012 or later.

⁴ Management uses funds from operations (cash flow from operations before changes in non-cash working capital, legal settlement expenses, transaction costs and current tax on disposition) to analyze operating performance and leverage. Funds from operations as presented does not have any standardized meaning prescribed by IFRS and, therefore, may not be comparable with the calculation of similar measures for other entities.

⁵ Based on a Surge share price of \$6.30.

SOURCE Surge Energy Inc.

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