

Surge Energy Inc. Announces Corporate Update; Redetermination of Credit Facility; Sparky Technical Update

CALGARY, AB, June 22, 2020 /CNW Telbec/ - Surge Energy Inc. ("Surge" or the "Company") (TSX: SGY) provides a corporate update, confirmation of a redetermination under the Company's reserves-based credit facility (the "Credit Facility"), and a technical update in regards to the Company's Sparky core area.



CORPORATE UPDATE – MACRO ENVIROMENT FOR OIL IMPROVING

In 2019, with US WTI crude oil prices averaging US\$57 WTI per bbl, Surge successfully maintained the Company's annual production (cost effectively), paid its prior dividend (using just 17 percent of the Company's adjusted funds flow¹), and reduced net debt¹ by \$79 million (adding significantly to the net asset value and liquidity of the Company).

In early 2020, crude oil prices rallied to over US\$63 WTI per bbl. Accordingly, pursuant to Surge's strategic hedging program, the Company locked-in a significant portion of its 2020 oil production at these attractive, pre-COVID, price levels.

In March and April of 2020, massive crude oil demand destruction from the COVID-19 pandemic, together with increased oil production from OPEC and Russia, contributed to a dramatic decrease in the price of oil. On this basis, Surge's management and Board acted decisively to protect the Company's balance sheet and net asset value ("NAV") during this period as follows:

1. On March 9, 2020, Surge was the first public oil company in Canada to reduce its dividend (by 90 percent);
2. In early March the Company suspended all major capital expenditures providing operational and financial flexibility for the balance of 2020;
3. Prior to suspending Q1/20 capital expenditures, Surge completed its previously-announced Q1 development drilling program, drilling 19 consecutive successful Sparky oil wells (i.e. of a budgeted 26 well program). The Company added more than 2,500 boepd (>90 percent medium/light oil) with this reduced program at an all-in cost of \$22 million, providing top tier capital efficiencies² of \$8,800 per boepd;
4. On April 14, 2020, the Company was one of the first oil companies in Canada to implement temporary production curtailments. This curtailment included up to 4,400 boepd (~21 percent of March volumes, 96 percent liquids) of lower netback production in order to maximize corporate cashflows;
5. On April 14, 2020, Surge suspended the Company's dividend in its entirety until market conditions improve; and
6. The Company identified approximately \$40 million of annualized operating and G&A cash reductions through, workforce optimizations, temporary production curtailments, as well as the minimization and elimination of discretionary corporate costs.

Crude oil prices have now increased over 225 percent, from a low of US\$11.57 per bbl WTI on April 21, 2020 to over US\$39 per bbl WTI currently. Furthermore, positive May, 2020 employment numbers in the US and Canada, historic OPEC+ production curtailments, rising US gasoline demand, rapidly increasing Chinese oil demand, combined with massive global production curtailments, capital expenditure reductions, and significant US shale oil declines, have all led to crude oil prices recovering much faster than management anticipated.

Management's proactive capital allocation decisions set forth above, along with the Company's strategic hedging program, have worked very well to protect both Surge's balance sheet, and the Company's December 31, 2019 independently engineered Sproule proved developed producing NAV of \$1.08 per share, as well as Surge's total proved NAV of \$2.37 per share.

CREDIT FACILITY REDETERMINATION – REVOLVER EXTENDED TO DECEMBER 15, 2020

The Company, in partnership with its syndicate of lenders ("Syndicate"), has completed the redetermination of its Credit Facility. Surge's Credit Facility has been confirmed at \$335 million, with the revolving period extended to December 15, 2020 and the term period amended to March 31, 2021.

The Company has agreed to a maintenance capital budget for 2020 of approximately \$45 million, with the ability to expand this budget with Board and unanimous Syndicate approval. Surge anticipates the Credit Facility will provide sufficient liquidity to execute on its business plan through the balance of 2020, with the Company drawn approximately \$305 million as of June 19, 2020 and having spent \$32.5 million in capital as at March 31, 2020.

As a result of the Company's very low, 23 percent, corporate decline, its strategic hedging program, and management's proactive decisions detailed above, Surge anticipates reducing net debt meaningfully over the rest of the year at strip oil prices³. This will continue to both enhance the Company's balance sheet and increase Surge's NAV per share.

SPARKY TECHNICAL UPDATE

Over the past five years in Surge's Sparky core area, the Company has amassed a dominant, conventional, low cost, low risk, medium/light oil play that has the following characteristics⁴:

- >1 billion bbls of net internally estimated OOIP;
- An extensive, low risk, 500 net location, >12 year drilling inventory - with waterflood upside; and
- Per well economics that deliver quick payouts and excellent rates of return at US\$40 WTI per bbl flat pricing.

Surge has now grown its Sparky core area production by more than 650 percent in the last 6 years, from 1,200 boepd to more than 9,000 boepd today (>94% liquids).

The Company has now drilled 138 consecutive successful wells into its prolific core Sparky asset. Over the last few months Surge completed an internal technical analysis of the Company's drilling results in the Sparky area. This analysis confirmed that the average production from the original 400m primary Sparky wells, were identical to the subsequent 200m 'infill' wells, on an IP180 day basis.

This exciting verification of Surge's deep Sparky drilling inventory is due to the high quality, large OOIP per section nature of the reservoirs. These Sparky reservoirs are shallow, conventional, sandstones with up to 30 percent porosity. Given the low drilling costs associated with the play (ie. \$1.15MM 'all-in' drilled, completed, on-stream), the Company's Sparky wells generate top tier production efficiencies.

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, including plans to reduce its bank debt and close certain asset dispositions in 2020; Surge's assets and the characteristics 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; commodity prices and management's ability to react to changes thereto; Surge's hedging program; maintenance of Surge's decline rate; ability of Surge to protect its balance sheet and net asset value; production curtailments; export pipelines; availability of undrawn capacity with respect to Surge's credit facility; and Surge's dividend policy.

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

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.

Capital efficiencies is calculated as total exploration and development expenditures during the period, divided by an initial production rate for a specified number of days (i.e.\$22 million divided by 2,500 boepd). Management uses capital efficiency to understand the amount of development and exploration capital expenditures required to add an additional boe of production per day.

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 40 wells drilled per year in the Sparky area, Surge's >500 locations provides 12 years of drilling. At \$40 WTI, Surge still has >375 economic Sparky locations, with a weighted average IRR of 41% and PIR10 of 0.51. 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 Qualified 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 "adjusted funds flow" and "net debt" 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:

Adjusted Funds Flow

The Company adjusts cash flow from operating activities in calculating adjusted funds flow for changes in non-cash working capital, decommissioning expenditures and cash settled transaction and other 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 and other 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.

Net Debt

There is no comparable measure in accordance with IFRS for net debt. Net debt is calculated as bank debt 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.

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 See Oil & Gas Advisories

³ Based on strip pricing on June 19th, 2020.

⁴ See Oil & Gas Advisories

SOURCE Surge Energy Inc.

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