



## **SURGE ENERGY INC. ANNOUNCES 2019 CAPITAL BUDGET AND PRODUCTION GUIDANCE**

CALGARY, ALBERTA (January 14, 2019) Surge Energy Inc. (“Surge” or the “Company”) (TSX: SGY) announces that its Board of Directors has formally approved the Company’s 2019 capital budget, production and operation guidance. Surge’s 2019 budget is consistent with its stated goal of delivering consistent shareholder returns through disciplined per share growth, as well as a sustainable dividend.

### **2019 GUIDANCE; SUSTAINABLE PRODUCTION WITH FLEXIBILITY TO GROW**

Given the recent extreme volatility in both West Texas Intermediate (“WTI”) crude oil prices, and Canadian crude oil differentials, Surge has reduced its previously-announced preliminary 2019 capital budget from \$160 million to \$135 million. This reduction provides substantial flexibility to react to changing commodity prices, while allowing the Company to continue to deliver its sustainable dividend to shareholders. Surge’s first half 2019 capital budget targets an all-in payout ratio<sup>1</sup> of less than 100 percent at current strip commodity prices<sup>2</sup>.

The Company’s 2019 capital budget will be focused on the continued development of its extensive portfolio of low-risk, large-OOIP<sup>3</sup>, light and medium gravity crude oil assets. Surge will execute this plan, while maintaining the Company’s low 23 percent corporate decline rate, and Surge’s estimated \$130 million<sup>4</sup> of credit availability. On the Company’s approved 2019 capital program of \$135 million, Surge expects to deliver more than 20 percent growth in average production over 2018, with an average production rate of 22,000 boepd for 2019.

Surge will continue to monitor the impact of Canadian crude oil prices, the Alberta government production curtailments, as well as the advancement of export pipelines, and will be prepared to adjust the Company’s 2H 2019 capital program, as required.

Surge’s 2H 2019 capital spending forecast has further flexibility to be increased by an additional \$25 million of exploration and development capital, if the outlook for Canadian crude oil pricing and egress improves. The decision to spend this incremental capital will be made by Surge’s Board of Directors prior to the end of Q2 2019. The additional capital would allow Surge to achieve a five percent exit growth rate for the year, exiting 2019 at over 23,000 boepd.

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<sup>1</sup> This is a capital management measure which is defined in the Non-GAAP Financial Measures and Capital Management Measures section of this document.

<sup>2</sup> Strip pricing reflects the following for January through June, 2019: US\$52 WTI; 0.75 CAD/USD FX; US\$15 WCS differential; US \$6.75 EDM differential.

<sup>3</sup> See Reserves Data in the Forward Looking Statement section of this document.

<sup>4</sup> Calculated as follows: \$550 million credit facility less \$420 million in estimated bank debt as of December 31, 2018.



## 2019 CAPITAL EXPENDITURE DETAILS

Capital Category	2019 Total
Drilling and completions	\$100 million
Facilities, equipment and pipelines	\$25 million
Other (land, seismic, G&A)	\$10 million
<b>Total exploration and development capital</b>	<b>\$135 million</b>

## PRODUCTION AND COST GUIDANCE

<b>2019e Average Production</b>	22,000 boepd (84% liquids)
<b>2019e Exit Production*</b>	22,000 boepd (84% liquids)
<b>2019e Operating Costs</b>	\$15.45-\$15.95 per boe
<b>2019e Transportation Costs</b>	\$1.50-\$1.75 per boe
<b>2019e General &amp; Administrative Costs</b>	\$1.75-\$1.90 per boe

**\*Note:** Exit 2019 production growth would increase by five percent if the Company elects to increase its total 2019 capital budget by \$25 million, and add an estimated 1,000 boepd of production in Q4 2019.

## OPERATIONAL HIGHLIGHTS

During the fourth quarter of 2018, the Company drilled 14 (net) wells distributed across Surge's four core areas. Eight (net) of these wells were completed in Q4 2018, while the remainder will be coming on production early in Q1 2019.

Of note, the Company drilled and rig released its first two light oil wells in the newly acquired Greater Sawn area. In the Sparky core area, Surge drilled its first infill horizontal well in the operated Sparky MM pool. This well was in close proximity to multiple legacy vertical producers, and is currently onstream at 130 boepd after 30 days. This exciting result further supports Surge's large Sparky core area drilling inventory of over 400 (net) internally estimated drilling locations<sup>5</sup>.

With the significant decline in commodity prices in Q4 2018, the Company has taken proactive measures to manage its assets and maximize cash flow from operating activities. As such, approximately 600 boepd of production has been

<sup>5</sup> See Drilling Locations in the Forward Looking Statement section of this document. Of the 400 net internally estimated drilling locations 97 net locations are booked.



restricted due to individual well economics, or delayed maintenance activities. These restrictions are expected to be in place until commodity prices recover to normalized levels.

## **2019 OUTLOOK - SUSTAINABLE GROWTH, LONG TERM VALUE, INCOME**

Management's stated goal is to be the best positioned light/medium gravity crude oil growth and dividend paying public company in our peer group in Canada.

Over the last two and a half years Surge has continued to build and maintain the Company's track record, delivering:

1. consistent successful drilling and waterflood results;
2. timely and accretive core area acquisitions;
3. increased production over the last 10 financial quarters by more than 80 percent (84 percent oil and NGL's);
4. increased cash flow from operating activities per share by over 125 percent; and
5. increased Surge's dividend three times by a cumulative 33 percent, while maintaining a dividend payout ratio<sup>6</sup> of under 20 percent.

On a very positive note, following the completion of several large refinery turn-arounds in the US refining complex in late 2018, significant increases in crude-by-rail exports from Canada, as well as the Alberta government curtailment order, Canadian crude oil prices have increased dramatically in the last few weeks. Western Canadian Select crude oil prices have now increased by over 550 percent, rising from an average of C\$8.00 per barrel in December 2018, to over C\$55/bbl<sup>7</sup> recently.

Furthermore, following the December 2018 OPEC production cuts of 1.2 million barrels per day, WTI crude oil prices have shown significant strength of late; rising over US\$9 per barrel, up from low of US\$42.46 per barrel in December 2018 to over US\$52 per barrel currently.

During these times of volatile commodity prices, the Company continues to focus on sustainability, balance sheet management, and cost controls to deliver consistent returns to Surge shareholders. Surge will also continue to manage its asset base in order to be positioned for growth when commodity prices recover to normalized levels.

## **FORWARD LOOKING STATEMENTS:**

More particularly, this press release contains statements concerning: Surge's stated goals, objectives and focus; Surge's 2019 exploration and development capital expenditure program and budget (the "**2019 Budget**"); the ability of Surge to execute the 2019 Budget; the potential to increase Surge's 2H 2019 exploration and development capital by up to \$25 million and the anticipated increase in production resulting therefrom; Surge's dividend payout ratio and targeted all-in payout ratio; the sustainability of Surge's dividend; anticipated 2019 guidance, including with respect to average and exit production rates and operating, transportation and general and administrative costs; Surge's ongoing review of commodity

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<sup>6</sup> This is a capital management measure which is defined in the Non-GAAP Financial Measures and Capital Management Measures section of this document.

<sup>7</sup> Spot WCS price in CAD\$, as at January 11<sup>th</sup>, 2019 for WCS crude oil.

prices and the ability of Surge to adjust to any changes thereto; and the availability of undrawn capacity with respect to Surge's credit facility.

The forward-looking statements are based on certain key expectations and assumptions made by Surge, including 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 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 or 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 Annual Information Form dated March 14, 2018 and in Surge's MD&A for the period ended September 30, 2018, both of which have been filed on SEDAR and can be accessed at [www.sedar.com](http://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.

## **Reserves**

Any reserves disclosed in this press release are derived from a third party external evaluation done by Sproule using standard practices as prescribed in the Canadian Oil and Gas Evaluations Handbook and account for associated proved and/or probable reserves, as applicable. Reserves referenced in this presentation account for all of Surge's Acquisitions and Divestiture activity to date, reflecting the bookings that existed (from the respective 3rd party evaluator), as of January 1, 2018 (the "Surge Report").

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. Bbl means barrel of oil. NGLs means natural gas liquids.

For the purpose of this press release, Original Oil in Place ("OOIP") means Discovered Petroleum Initially In Place ("DPIIP") as at Oct 31st, 2018. 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). The OOIP/DPIIP and potential recovery rate estimates are as at Oct 31st, 2018 and are based on current recovery technologies and have been prepared by Surge's internal Qualified Reserve Evaluators. There is significant



uncertainty as to the ultimate recoverability and commercial viability of any of the resource associated with the OOIP/DPIIP estimates, and as such a recovery project cannot be defined for this volume of OOIP/DPIIP at this time.

### **Drilling Locations**

This presentation discloses drilling locations in two categories: (i) booked locations; and (ii) unbooked locations. Booked locations are proved locations and probable locations derived from a third party external 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. Drilling locations referenced in this presentation account for all of Surge's Acquisitions and Divestiture activity to date, reflecting the bookings that existed (from the respective 3rd party evaluator), as of January 1, 2018.

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 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.

Assuming the January 1, 2018 reference date outlined above, the company discussed in this press release over >400 net drilling locations identified herein, of these >300 net are unbooked locations. Of the 97 net booked locations identified herein 78 net are Proved locations and 19 net are Probable locations.

### **Non-GAAP Financial Measures and Capital Management Measures**

Certain secondary measures in this press release – namely, "adjusted funds flow" (included within the definition of all-in payout ratio, "dividend payout ratio", and "all-in payout ratio" are disclosed for the purpose of providing investors with additional insight as to how the Company evaluates the management of its capital and analyze business performance. Management uses capital management measures to analyze the Company's capital management objectives and to assist in capital allocation decisions. Management believes capital management measures may be useful to investors on the same basis. Non-GAAP financial measures are used by management to analyze cash flow generated 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.

Non-GAAP financial measures and capital management measures do not have a standardized meaning prescribed by IFRS and therefore are unlikely to be comparable to similar measures presented by other issuers. Furthermore, capital management measures do not have a corresponding IFRS measure. They are common in the reports of other companies but may differ by definition and application. The amounts used in the calculation of the capital management measures are derived from the financial statements that are prepared in accordance with IFRS. In some instances, the capital management measure incorporates a non-GAAP measure, such as adjusted funds flow which is defined below in this document.



### ***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, transaction and other costs, and cash settled stock-based compensation plans, particularly cash used to settle withholding obligations on stock-based compensation arrangements that are settled in shares. 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. Subsequent to the third quarter of 2018, all of the Company's stock-based compensation plans are equity classified as the Company has the intention of settling all awards with shares. Cash settled stock-based compensation currently represents the statutory tax withholdings required on stock-based compensation awards and is a discretionary allocation of capital. The Company has the option to either require the holder to sell shares earned in the stock-based compensation plan to satisfy tax withholdings, or the Company can issue less shares to the individual and remit a cash payment to satisfy tax withholding requirements. Each of these expenditures, due to their nature, are not considered principal business activities and vary between periods, which management believes reduces comparability.

### ***All-in Payout Ratio***

All-in payout ratio is calculated using the sum of total exploration and development capital plus dividends paid divided by adjusted funds flow. This capital management measure is used by management to analyze allocated capital in comparison to the cash being generated by the principal business activities. This measure is provided to allow readers to quantify the amount of adjusted funds flow that is being used to either: i) pay dividends; and ii) deployed into the Company's development and exploration program. A ratio of less than 100% indicates that a portion of the adjusted funds flow is being retained by the Company and can be used to fund items such as asset abandonment, repayment of debt, fund acquisitions or the costs related thereto, withholding tax obligations on stock based compensation or other items.

### ***Dividend Payout Ratio***

Dividend payout ratio is calculated as the dividends paid for the respective period divided by adjusted funds flow. This capital management measure is used by management to analyze the level of dividends currently being paid on the stock in comparison to the cash being generated by the principal business activities.

### **FURTHER INFORMATION:**

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