CALGARY, Dec. 9, 2015 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") is pleased to provide corporate guidance for its 2016 operating and capital budget. Given the continued weakness and uncertainty in energy commodity prices, the Company's initial 2016 plans reflect a minimal amount of capital and activity in order to maintain stability in the Company's corporate base production and balance sheet. Going forward, Surge intends to update corporate guidance on a quarterly basis and make adjustments according to the market outlook at that time.

The following table provides 2016 guidance ranges for key financial operating items. Assumptions behind these values are based on strip pricing as of December 1, 2015.

Operating Category	2016 Guidance
Annual production avg. (boe/d)	14,000 with 76% liquids mix
Total capital net of acq/disp (M$)	49,000-51,000
Corporate oil price discount as % of Edmonton light	18-20%
Royalties as % of revenue	17-18%
Operating expenses, $/boe	13.75-14.25
Transportation expense, $/boe	1.45-1.55
G&A, $/boe	1.75-1.80

The formal capital budget and production guidance outlined above represents a slight reduction in activity compared to previously estimated 2016 levels. This downward revision is a result of the sharp drop in crude oil prices over the past month. The following table provides further breakdown for guidance of $50 million in 2016 all-in capital:

Capital Category	Amount (M$)
Drill & Complete, Tie-in	26,850
Waterflood	1,500
Facilities	6,205
Workover	7,700
Land, Capitalized G&A, other	7,745
Total	50,000

Important to note is that 75 percent of the facilities budget above is to be deployed in the first half of 2016. The majority of these costs are one time capital expenditures associated with directing a significant portion of Surge's solution gas at Valhalla to firm capacity at a sweet processing facility. This will allow the Company to maximize the oil production from its large, light oil pool at Valhalla.

2016 Planned Activity

Surge is cognizant of the pending announcement of the results of the Alberta Royalty review and has allocated 2016 capital predicated on the assumption of minimal impact to the existing fiscal environment in Alberta. Should that not be the case, Surge will re-evaluate and adjust expenditures accordingly.

For reference, the following table summarizes the updated economic assumptions utilizing strip pricing as of December 1, 2015, and as such are considered conservative numbers by Surge management. The economics underpin the capital allocation decisions for each property and reflect budgeted well costs for 2016.

Property	Shaunavon	Valhalla	Eye Hill Sparky
Well cost (M$)	1,600	3,600	1,400
BT ROR (%)	66%	171%	42%
Capital efficiency (180 day IP)	$11,200	$6,500	$12,700

Upper Shaunavon

Surge currently plans to drill seven wells in the Upper Shaunavon in 2016. One of the key developments for the Upper Shaunavon play in 2016 will be the results of the waterflood pilot implemented in late August of 2015. Surge management expect a favorable response to the waterflood pilot early in 2016 for several reasons, including 1) successful offset Upper Shaunavon analogue waterfloods, 2) early implementation, 3) conventional sandstone reservoir, 4) low gas/oil ratio, and 5) low water saturation.

The Company plans to continue to delineate both the northern and southern portions of the Upper Shaunavon field in 2016. Very little capital is required to tie in additional wells or implement new waterflood pilots as extensive existing infrastructure is already in place. Continued investment at Shaunavon is underpinned by low operating expenses, favorable royalty rates, and excellent well results.

The Company is also pleased to report positive preliminary drilling results for the three wells drilled at Shaunavon in the fourth quarter of 2015. Average total fluid deliverability for the three wells reflects the current type curve, while production continues to clean up delivering an increasing oil cut.

Valhalla

Surge expects to continue benefitting from excellent drilling results, and a new firm processing facility at Valhalla in 2016. The pipeline to connect to the new sales point is now completed, and remains on schedule for an in-service date in mid-December. The Company will also install compression at the southern end of the new pipeline, which is anticipated to be in service mid-March. The compression will facilitate the direction of approximately 75% of Surge's associated solution gas to this firm capacity. This infrastructure solution is expected to significantly reduce the volume curtailments experienced in the past at Valhalla, which were primarily related to lack of firm processing capacity. It will also remove any constraint with respect to potential pool expansion and development in the northern half of the Doig light oil pool.

This project is also expected to increase total field capacity at Valhalla. It will serve to reduce field operating pressures and provide for minor system de-bottlenecking. Minimal contributions from facilities de-bottlenecking are included in the 2016 forecast for Valhalla production.

Surge is currently planning to drill three additional wells in the prolific northern end of the Valhalla pool in 2016. Due to outstanding well results in 2015, capital allocation to the play is well supported by excellent economic returns at lower prices.

Eye Hill Sparky

Following the success of the two monobore wells at Eye Hill in the fourth quarter, Surge plans to drill three more wells at Eye Hill in 2016. As monobore well costs continue to improve, Surge anticipates Eye Hill Sparky drilling may attract additional capital in the Company's portfolio of projects as economics become increasingly competitive.

The two new monobore wells at Eye Hill are currently on-line and exhibiting overall good fluid deliverability and increasing oil cut. Importantly, these two wells are longer laterals than reflected in the current Eye Hill type curve, and they directly offset a recently converted, horizontal water injection well.

Financial Update and Outlook

On an annualized basis, Surge's intention is to operate with three primary financial goals:

- Visible path to maintaining debt/cf < 2.0x
- All-in sustainability ratio = 100-110%
- Dividend payout ratio = 35-40%

Surge intends to continue to add to its 2016-17 financial hedge position in order to help preserve these operating metrics. The

Company's intent, however, will be to utilize derivative instruments and price levels that allow for meaningful upside to price realizations. In a scenario where commodity prices don't support the above metrics, the Company will continue to monitor dividend payout levels, asset dispositions, and further capital reductions as a means to counter the effects of lower commodity prices.

Conversely, the Company expects to generate free cash above the 100% sustainability ratio as US WTI oil prices recover. At this point, Surge management would expect reinvestment of excess cash to be directed towards either incremental drilling in its Upper Shaunavon play, debt repayment, or the current normal course issuer bid to support the stock buy-back program.

Subsequent to the November 9th, 2015 earnings release, Surge has entered into new financial derivative positions as outlined in the table below.

Commodity	Time Frame	Volume	Value
WCS oil differential	Calendar 2016	2,000 bbl/d	USD$WTI less USD$14.70/bbl
Nymex Henry Hub natural gas	Jan – Oct 2017	3,500 mcf/d	CAD $3.65/mcf
FX variable rate collar (USD/CAD)	Calendar 2016	USD $2 million per month	$1.3175 x $1.3900 ($1.3390 cap)
FX forward (USD/CAD)	Calendar 2017	USD $2 million per month	$1.3333

Despite the current pricing environment, Surge management remains excited about the continued development and prospects for its asset base in 2016. The Company remains well positioned with its attractive balance sheet to sustain further downside in prices, yet is positioned to benefit tremendously to an upside pricing scenario. Surge looks forward to providing further updates in 2016.

FORWARD LOOKING STATEMENTS:

This press release contains forward-looking statements. More particularly, this press release contains statements concerning Surge's expectations regarding its average daily production; the impact of weakness and uncertainty surrounding commodity pricing; its balance sheet; its capital spending program and corporate guidance for 2016 and its plan to undertake a minimal amount of capital activity in order to maintain stability in Surge's base production and balance sheet; capital allocation decisions for Surge's properties; drilling and development plans and enhanced recovery projects and the timing and results to be expected thereof; netbacks; the Company's declared focus and primary goals, including financial goals; the Company's ability to generate cash and plans to reinvest such cash; cost reduction initiatives; the ability of the Company to weather the present commodity price environment; the Company's hedging activities; the timing, amount and sustainability of future dividend payments; and the Company's available options to counter the effects of lower commodity prices, including monitoring dividend payout levels, asset dispositions and further capital reductions.

The forward-looking statements are based on certain key expectations and assumptions made by Surge, including expectations and assumptions concerning 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, worldwide supply and demand for oil and natural gas; development and completion activities, the performance of new wells, the successful implementation of waterflood programs, the availability of and performance of facilities and pipelines, increases to field capacity, the geological characteristics of Surge's properties, the successful application of drilling, completion and seismic technology, prevailing weather conditions, exchange rates, licensing requirements, the successful completion of the disposition transactions, the impact of completed facilities on operating costs and the availability, costs ofand ability to attract capital, labour and services, and the creditworthiness of industry partners and thecontinued approval of the lenders under Surge's bank line.

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 required approvals from the lenders under Surge's bank line to increases thereto. Certain of these risks are set out in more detail in Surge's Annual Information Form dated March 19, 2014 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.All subsequent forward-looking statements, whether written or oral, attributable to Surge or persons action on Surge's behalf, are expressly qualified in their entirety by these cautionary statements.

Test Results and Initial Production Rates

Any references in this news release to initial, early and/or test production/performance rates are useful in confirming the presence of hydrocarbons, however, such rates are not determinative of the rates at which such wells will continue production and decline thereafter. While encouraging, readers are cautioned not to place reliance on such rates in calculating aggregate production. The initial production rate may be estimated based on other third party estimates or limited data available at this time. Initial production or test rates are not necessarily indicative of long-term performance of the relevant well or fields or of ultimate recovery of hydrocarbons.

Reserves Data

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. Bbl means barrels of oil. Boepd means barrel of oil equivalent per day. Mmboe means million barrel of oil equivalent. RLI means reserve life index. PUD means proven undeveloped. NAV means net asset value.

Financial Outlooks

The estimate of forward debt to cash flow ratio contained in this press release may be considered 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. 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.

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.

SOURCE Surge Energy Inc.

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