CALGARY, March 16, 2016 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") (TSX: SGY) announces its operating and financial results for the year and quarter ended December 31, 2015.

FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended			Years Ended December 31,		
	Dec 31, 2015	Sep 30, 2015	% Change	2015	2014	% Change
Financial highlights						
Oil sales	36,509	42,560	(14)%	218,761	447,794	(51)%
NGL sales	1,250	650	92%	4,600	9,173	(50)%
Natural gas sales	3,183	2,569	24%	14,542	28,719	(49)%
Total oil, natural gas, and NGL revenue	40,942	45,779	(11)%	237,903	485,686	(51)%
Funds from operations[1]	15,302	17,009	(10)%	118,873	245,264	(52)%
Per share basic ($)	0.07	0.08	(13)%	0.54	1.22	(56)%
Per share diluted ($)	0.07	0.08	(13)%	0.54	1.22	(56)%
Capital expenditures - petroleum & gas properties[2]	18,309	17,653	4%	76,731	149,551	(49)%
Capital expenditures - acquisitions & dispositions[2]	1,117	(3,735)	nm	(463,568)	575,713	nm
Total capital expenditures[2]	19,426	13,918	nm	(386,837)	725,264	nm
Net debt at end of period[3]	160,374	143,200	12%	160,374	590,168	(73)%
Operating highlights						
Production:						
Oil (bbls per day)	10,297	10,635	(3)%	12,871	14,801	(13)%
NGLs (bbls per day)	795	599	33%	697	552	26%
Natural gas (mcf per day)	18,570	13,731	35%	17,362	16,297	7%
Total (boe per day) (6:1)	14,187	13,523	5%	16,462	18,069	(9)%
Average realized price (excluding hedges):						
Oil ($ per bbl)	38.54	43.49	(11)%	46.57	82.89	(44)%
NGL ($ per bbl)	17.08	11.80	45%	18.09	45.53	(60)%
Natural gas ($ per mcf)	1.86	2.03	(8)%	2.29	4.83	(53)%
Netback ($ per boe)						
Oil, natural gas and NGL sales	31.37	36.80	(15)%	39.60	73.64	(46)%
Realized gain (loss) on commodity contracts	3.49	1.70	nm	7.18	(1.45)	nm
Royalties	(5.89)	(6.47)	(9)%	(6.34)	(13.18)	(52)%
Operating expenses	(12.57)	(13.35)	(6)%	(15.03)	(15.52)	(3)%
Transportation expenses	(1.75)	(1.90)	(8)%	(1.60)	(1.72)	(7)%
Operating netback						

(13)%

23.81

41.77

(43)%

G&A expense	(1.69)	(1.76)	(4)%	(1.83)	(1.96)	(7)%
Interest expense	(1.19)	(1.35)	(12)%	(2.20)	(2.56)	(14)%
Corporate netback	11.77	13.67	(14)%	19.78	37.25	(47)%

Common shares outstanding, end of period	221,033	220,851	—%	221,033	220,060	—%
Weighted average basic shares outstanding	221,001	221,259	—%	220,661	200,317	10%
Stock option dilution	—	—	nm	—	—	nm
Weighted average diluted shares outstanding	221,001	221,259	—%	220,661	200,317	10%

1 Management uses funds from operations (cash flow from operating activities before changes in non-cash working capital, decommissioning expenditures, transaction costs and cash settled stock-based compensation) 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.

2 Please see capital expenditures note.

3 The Company defines net debt as outstanding bank debt plus or minus working capital, however, excluding the fair value of financial contracts and other current obligations.

4 The Company views this change calculation as not meaningful, or "nm".

2015 HIGHLIGHTS

- Completed $465 million in accretive asset sales (at $90,000/boed in 1H/15), setting the stage for a "lower for longer" scenario for crude oil prices, via top tier balance sheet strength.
- Further delineation of the Upper Shaunavon field solidified years of visible drilling inventory. Realized a 30 percent annual reduction for drilling and completion costs for this key asset.
- Delineated a large northern extension at Valhalla which resulted in the top three oil wells in Alberta for both cumulative production, and initial 90 day average rates, in 2015.
- Identified and implemented a facilities solution at Valhalla that has provided firm service processing capacity and de-bottlenecked the field. This strategic investment will provide for a more stable production profile going forward, and reduce the Valhalla processing fee by 50 percent for Surge's sweet solution gas.
- Implemented a horizontal monobore well design at Eyehill Sparky, and realized a 17 percent reduction in drilling and completion costs.
- Further reduced the Company's corporate decline rate from 22 percent to 19 percent in 2015, as a result of Surge's low risk operating strategy and successful waterflood initiatives in the Company's three core areas.
- Reduced operating expenses in the quarter ended December 31, 2015 to $12.57 per boe from $15.72 per boe for the same period in 2014.
- Gross G&A expense was reduced 36 percent since the fourth quarter of 2014, representing $7.3 million in annualized gross G&A savings.
- Reported "all-in" Proved plus Probable finding and development costs for 2015 of $6.08/boe.
- Utilizing Sproule's much lower independent engineering price deck – Surge's 2015 year-end net asset value ("NAV") per share is $4.88.

Q4/15 HIGHLIGHTS

- Achieved a fourth quarter average production rate of 14,187 boe per day, a 5 percent increase from the previous quarter.
- Surge's production mix for the quarter was 78 percent liquids, trending towards 2016 guidance of 76 percent.
- Capital expenditures excluding A&D totaled $18.3 million for the fourth quarter. This includes $8.7 million to drill 5 gross (5 net) wells. Total capital also includes $7.7 million in facilities expenditures, including completion of the pipeline to connect Valhalla associated gas production to a sweet gas processing plant located to the north of the field.
- Subsequent to the quarter, Surge signed a definitive agreement to divest its non-core Sunset property in Northern Alberta for proceeds of $28 million.
- Subsequent to the quarter, Surge also agreed on terms for a facilities sale on select Valhalla facilities. Proceeds of this transaction are expected to be $15 million.
- Pro-forma the $43 million in gross proceeds from the two asset divestures mentioned above, Surge's net debt as at December 31, 2015 was $117.4 million, which provides for a pro-forma Q4 debt-to-cash flow of 1.9 times.

OPERATIONS OVERVIEW

Shaunavon Results Continue to Outperform; Early Waterflood Response Detected

Highlights from the fourth quarter drilling program include two wells in the southern portion of Surge's 54 section land block, both of which encountered high quality reservoir. These wells have averaged 235 bopd over a 90 day period, and ranked in the top five oil wells drilled in Saskatchewan for 2015. As a follow up to the two fourth quarter Upper Shaunavon wells in the south, Surge subsequently drilled two more wells in the same area in the first quarter of 2016. Both of these wells also encountered high quality reservoir, with excellent porosity levels reaching 18 percent. Early results indicate that these wells are similar in productive capacity to the two fourth quarter wells.

Surge is also pleased to report that a waterflood response has been detected in a 200m offset oil producer in the Upper Shaunavon waterflood pilot area. Recent production data from offsetting wells indicates a positive type curve result in the field compared to Surge's budget.

Surge is currently conducting an internal resource update of the Upper Shaunavon field. Once definitive waterflood results have been observed, the Company will provide an update to the market.

Processing Options Expanded at Valhalla

During the fourth quarter, the pipeline connecting production of the solution gas from the Valhalla field to sweet gas processing options in the north was finalized and operational in mid-December. More recently, Surge commissioned additional compression capacity in order to maximize delivery to the Company's firm service and draw down field line pressures. The Company is currently sending more than 12 mmcf/d of sweet gas to the northern sweet processing facilities. Surge holds strategic firm transportation at Valhalla, with both area service providers. Current transportation commitments are aligned with the Company's outlook for sustained production at Valhalla.

In early 2016 Surge also completed the acquisition of an increased working interest (and operatorship) in the Company's nearby owned Doe Gas Plant at 8-30-075-09W6. Surge could ultimately take a significant portion of its associated gas production to the 8-30 plant.

In addition to facilities expansions, Surge recently completed a new well in the north at Valhalla. The 400m downspaced well encountered virgin reservoir pressure, and the well is currently tracking Surge's Valhalla type curve. Recent well tests are encouraging, with performance continuing to improve as the well responds to lower operating line pressures in the field.

Surge anticipates that Valhalla Doig drills will benefit greatly from the revised Alberta royalty legislation that is expected to be in place for 2017. This is largely due to the change from volume based to cost based calculations during the capital recovery phase of the well life. A lower overall royalty rate is expected at Valhalla moving forward.

Updated Type Curve at Eyehill Sparky

As previously reported, Surge drilled two new wells at Eyehill in the Sparky formation during the fourth quarter. These wells were successfully completed with a new horizontal monobore well design. The Company's development plan now calls for 1200-1400m lateral length wells at Eyehill. The two new wells at Eyehill have averaged 112 boe/d (75% oil) over a 90 day period.

Based on a data set of seven longer lateral wells, Surge now expects to recover reserves of 140 mboe on primary recovery, compared to 120 mboe previously. Coupled with the expectation of lower well costs at Eyehill, Surge now expects this core area to compete for more capital within the Company.

BUSINESS DEVELOPMENT UPDATE

Subsequent to the fourth quarter, Surge signed a definitive agreement divesting the Company's non-core Sunset property in Northern Alberta. Recent production rates at Sunset were approximately 700 boe/d, and gross proceeds are $28 million.

The second transaction involves the sale of certain Valhalla area production facilities to a third party. Surge will maintain control of the facilities as operator and will pay the purchaser an annual tariff for the life of the agreement, but will also retain all third party processing revenues generated. Gross proceeds from this transaction are expected to be $15 million. The modest increase in operating costs associated with this deal are expected to be completely offset by the decrease in Valhalla processing costs associated with moving Surge's gas to lower cost sweet processing plants. In this regard, Surge has monetized the operating cost savings associated with the recent facilities re-configuration at Valhalla.

Surge anticipates the closing of these two transactions to occur prior to the end of the first quarter 2016, contingent upon final bank approval. The $43 million in gross proceeds will be used to pay down the Company's existing debt facility.

FINANCIAL UPDATE

2016 Guidance

Surge intends to provide updated 2016 financial guidance post the closing of the two transactions discussed above. In addition to the closing of these deals, the Company is monitoring an increased production environment at Valhalla due to reduced field pressure as the recently added compression is optimized. The Company expects to have a clearer picture of a stable production profile at Valhalla over the next several weeks.

Liquidity; Bankline

Pro-forma the $43 million in gross proceeds from the two asset divestures mentioned above, Surge's net debt as at December 31, 2015 was $117.4 million, which provides for a pro-forma Q4 debt-to-cash flow of 1.9 times.

Hedging Update

Subsequent to the fourth quarter, Surge completed several hedge transactions. In January, the Company elected to monetize a 1,000 bbl/d WTI collar for 2016. Proceeds from this transaction were $4.7 million, and will be recognized in the financial statements for the first quarter 2016.

Surge has recently entered into new WTI collar contracts, which are summarized below:

Commodity	Time Frame	Volume	Value
WTI oil collars (put/call)	2H 2016	2,000 bbl/d	CAD $45 x $64.77
WTI oil collars (put/call)	2H 2016 – 1H 2017	1,000 bbl/d	CAD $45 x $70.18
WTI oil collars (put/call)	1H 2017	1,500 bbl/d	CAD $50 x $70

2015 RECAP AND OUTLOOK

Despite the volatile commodity price environment, Surge was able to execute on a number of significant accomplishments in 2015. As stated in the highlights above, the Company's timely disposition of a significant asset in SE Saskatchewan/Manitoba in the first half of 2015 laid the foundation for successfully operating in a lower commodity price environment. Surge management also made the proactive decision of reducing the Company's dividend by a total of 75 percent in 2015. These strategic decisions proved to be correct and necessary to preserve capital as lower commodity prices persisted throughout 2015, and well into 2016.

In addition to significantly bolstering its balance sheet, the Company advanced development of its three key assets throughout the year. The significant cost reductions at the Upper Shaunavon have led to improved economics for the play. Recently, high porosity reservoir in the southern portion of the play has been encountered, resulting in delivery of consistent results above type curve. Surge anticipates encountering more of this high quality sandstone reservoir as it further delineates the Company's large, contiguous land base.

Valhalla experienced a transformational year in 2015, in regards to both well results and facilities developments. Discovery of a high porosity Coquina section in the northern extension of the field resulted in three of the top wells in Alberta for the year. As the final leg of a facilities expansion is implemented, the Company looks forward to a more reliable and stable production profile at Valhalla.

At Eyehill, implementation of a monobore well design and longer laterals has increased expectations for the Sparky play, and enhanced economics in this area.

Despite the significant decline in oil prices in 2015, the Company's business model remains intact. The current corporate decline rate of 19 percent underpins this business model. Surge management remains committed to being a moderate growth, dividend paying company. The Company is encouraged by the current business development environment, and the prospects for strengthening its asset base over the balance of the year. Surge management looks forward to delivering further corporate updates as the year progresses.

FINANCIAL STATEMENTS AND ACCOMPANYING MDA AND ANNUAL INFORMATION FORM:

Surge has filed with Canadian securities regulatory authorities its annual audited consolidated financial statements and accompanying MD&A for the year and three months ended December 31st, 2015, as well as its Annual Information Form. These filings are available for review at www.sedar.com or www.surgeenergy.ca.

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: (i) Surge's drilling and development plans and enhance recovery projects and the timing and results to be expected thereof; (ii) estimated sizes, characteristics, efficiencies, rates of return, netbacks, pool recovery factors and risk levels of plays and the number of associated drilling locations, as applicable; (iii) management's expectations with respect to the Company's waterflood program, results therefrom and quantity of producing assets that will be placed under waterflood, including the timing of management updates in connection therewith; (iv) expectations with respect to the Company's ability to operate and succeed in the current commodity price environment; (v) the Company's declared focus and primary goals; (vi) management's forecast of debt to cash flow ratio and the availability of Surge's bank line to fund Surge's future capital requirements; (vii) management's estimates and expectations regarding production efficiencies, drilling upside, drilling inventory, well costs, growth opportunities, reserves and reserve life index and decline rates; (viii) availability and implementation of solutions for the processing and transportation of crude oil and natural gas production and their effect on the Company's production profiles going forward; (ix) the Company's expectations with respect to changes in royalty programs and the Company's ability to benefit from such changes; * the successful completion of the Company's proposed disposition and sale and leaseback transactions, the timing thereof and the use of proceeds therefrom; and (xi) the timing of the Company's provision of updated guidance.

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, 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 timing and completion of the proposed dispositions, the impact of completed facilities on operating costs and the availability, costs of capital, labour and services, the creditworthiness of industry partners and the impact of the pending transactions on the Company'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 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 16, 2016 and in Surge's MD&A for the period ended December 31, 2015, 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.

Reserves Data

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.

Test Results and Initial Production Rates

Any references in this press 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.

Non-IFRS Measures

This press release contains the terms "funds from operations", "net debt", "netback", and "NAV" which do not have a standardized meaning prescribed by International Financial Reporting Standards ("IFRS") and therefore may not be comparable with the calculation of similar measures by other companies. Management uses funds generated by operations to analyze operating performance and leverage. Management believes "net debt" is a useful supplemental measure of the total amount of current and long-term debt of the Company. Mark-to-market risk management contracts are excluded from the net debt calculation. Management believes "netbacks" are a useful supplemental measures of the amount of revenues received after royalties and operating and transportation costs and secondly, the amount of revenues received after the royalties, operating, transportation costs, general and administrative costs, financial charges and asset retirement obligations. NAV is calculated as set forth above. Additional information relating to these 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).

SOURCE Surge Energy Inc.

Contact
Paul Colborne, President & CEO, Surge Energy Inc., Phone: (403) 930-1507, Fax: (403) 930-1011, Email: pcolborne@surgeenergy.com; Paul Ferguson, CFO, Surge Energy Inc., Phone: (403) 930-1021, Fax: (403) 930-1011, Email: pferguson@surgeenergy.ca