

CALGARY, May 11, 2016 /CNW/ - [Surge Energy Inc.](#) ("Surge" or the "Company") (TSX: SGY) announces its operating and financial results for the quarter ended March 31, 2016.

POSITIONING FOR THE TURNAROUND

In the first quarter of 2016, one of the lowest commodity price quarters for both crude oil and natural gas in many years, Surge management continued to focus on disciplined, conservative balance sheet management, and corporate cost cutting initiatives.

In the first quarter, Surge negotiated and closed the \$28 million sale of non-core assets at Sunset in NW Alberta, and the sale of facilities at Valhalla for \$15 million. Proceeds from these two transactions were used to again reduce debt.

In terms of cost cutting initiatives, Surge has continued to experience success in reducing corporate operating expenses, interest expense and G&A expenses. Management estimates that cost cutting initiatives implemented for the three expense categories mentioned above, now cumulatively total over \$8.00/boe of expense savings. This has had a significant and positive impact on Surge's netback and profitability.

In the last 23 months, Surge has generated over \$760 million of liquidity for the Company and its shareholders - without issuing a single treasury share. This has preserved significant cash flow per share growth potential for shareholders. In addition, as crude oil prices rally, Surge management will now look to strategically re-introduce a meaningful production per share growth component back into the Company's business model - to further enhance shareholder returns.

Surge has been patient, disciplined and conservative during the downturn, as oil prices bottomed out at US \$26.75 WTI per barrel in February of this year, and management has continued to work hard to be one of the best positioned crude oil growth and dividend paying companies in Canada - when crude oil prices recover.

As a result of the implementation of Surge's strategic capital allocation decisions, as well as managements rigorous cost cutting measures, Surge is now 100 percent sustainable as a growth and dividend paying oil company (capital and dividend), based on the May 5, 2016 forward twelve month strip for crude oil pricing.

With oil prices rising over 65 percent in the last nine weeks, over \$250 million of credit availability on the Company's current bank facility, and with a large 12 to 14 year drilling inventory of over 700 net locations, Surge is in the enviable and flexible financial position of being able to add a meaningful production per share growth component to the Company's second half of 2016 production estimates (continuing on into 2017), should crude oil prices continue to rally.

FINANCIAL AND OPERATING SUMMARY

(\$000s except per share amounts)

	Three Months Ended		
	Mar 31, 2016	Dec 31, 2015	% change
Financial highlights			
Oil sales	26,166	36,509	(28)%
NGL sales	769	1,250	(38)%
Natural gas sales	2,211	3,183	(31)%
Total oil, natural gas, and NGL revenue	29,146	40,942	(29)%
Funds from operations ¹	7,491	15,302	(51)%
Per share basic (\$)	0.03	0.07	(57)%
Per share diluted (\$)	0.03	0.07	(57)%
Capital expenditures - petroleum & gas properties ²	12,873	18,309	(30)%
Capital expenditures - acquisitions & dispositions ²	(41,141)	1,117	nm ⁴
Total capital expenditures ²	(28,268)	19,426	nm

Net debt at end of period ³	133,816	160,375	(17)%
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Operating highlights

Production:

Oil (bbls per day)	9,821	10,297	(5)%
NGLs (bbls per day)	615	795	(23)%
Natural gas (mcf per day)	17,829	18,570	(4)%
Total (boe per day) (6:1)	13,408	14,187	(5)%

Average realized price (excluding hedges):

Oil (\$ per bbl)	29.28	38.54	(24)%
NGL (\$ per bbl)	13.75	17.08	(19)%
Natural gas (\$ per mcf)	1.36	1.86	(27)%

Netback (\$ per boe)

Oil, natural gas and NGL sales	23.89	31.37	(24)%
Realized gain (loss) on commodity contracts	3.26	3.49	nm
Royalties	(3.14)	(5.89)	(47)%
Operating expenses	(12.27)	(12.57)	(2)%
Transportation expenses	(2.33)	(1.75)	33 %
Operating netback	9.41	14.65	(36)%
G&A expense	(1.96)	(1.69)	16 %
Interest expense	(1.32)	(1.19)	11 %
Corporate netback	6.13	11.77	(48)%

Common shares outstanding, end of period	221,047	221,033	— %
Weighted average basic shares outstanding	221,042	221,001	— %
Stock option dilution	—	—	nm
Weighted average diluted shares outstanding	221,042	221,001	— %

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 the capital expenditures note in the MD&A.

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".

Q1/16 Highlights

- Maintained superior balance sheet flexibility with over \$250 million in undrawn credit availability.
- Achieved a first quarter average production rate of 13,408 boe per day, which reflects approximately 500 boe/d of shut-in production due to economic conditions. This has resulted in approximately \$2 million in savings in the first quarter as compared to budget.
- Drilling and completion capital expenditures were \$12.9 million during the quarter, which were lower than originally expected by nearly eight percent - resulting in savings of over \$0.5 million as compared to budget. Current pricing for oil industry services remains favorable as compared to 2016 budgeted levels.
- Operating expenses in the Company's three main operating areas have dropped over 36 percent from the first quarter of 2015 to the first quarter of 2016.
- Corporate operating expenses continue to trend lower (\$12.27/boe), partially supported by prior period recoveries.
- Transportation expenses were \$2.33/boe for the first quarter, which reflects higher than expected utilization of sour gas processing facilities at Valhalla. Transportation expenses are expected to trend to the guidance range of \$1.75-1.85/boe for the second quarter and balance of 2016.
- Surge closed the sale of its non-core Sunset property in NW Alberta for proceeds of \$28 million.
- Surge also closed a mid-stream facilities sale, on select Valhalla facilities, for proceeds of \$15 million.

OPERATIONS OVERVIEW

Valhalla

Surge completed a new well in the large northern extension of the Company's operated Valhalla light oil pool in mid-January of 2016. The 400 meter down-spaced well encountered virgin reservoir pressure, is currently tracking Surge's Valhalla type curve. Recently available public data establishes this light oil well as the second best oil well in Alberta for the month of February, 2016.

In mid-April of 2016, Surge spud a 100 percent working interest well at 103/16-7-75-8W6. Early results confirm Surge's geological model, and management is pleased with the drilling progress to date.

In addition to this drilling activity, the Company is currently performing an artificial lift review at Valhalla. With recent facilities re-configurations, high pressure sweet gas service is now available at Valhalla. A gas lift pilot has also been initiated in the field.

The Valhalla light oil property accounted for 32 percent of Surge's corporate operating cash flow⁵ in the first quarter of 2016. Valhalla's first quarter unhedged operating netbacks were \$7.38/boe, and operating expenses were \$7.93/boe, down 36 percent year over year, from \$12.47/boe in the first quarter of 2015. At current US\$45 WTI per barrel pricing, operating netbacks at Valhalla are estimated at \$19/boe.

The new Modernized Royalty Framework introduced by the Alberta Government has been designed to encourage and accelerate new drilling in Alberta. Surge management anticipates this new framework will reduce the royalty impacts on Surge's prolific Doig light oil reservoir at Valhalla.

⁵ "Corporate operating cash flow" is defined as the Company's Funds from Operations, less corporate expenditures.

Shaunavon

In the first quarter of 2016, Surge drilled two wells in the southern portion of Surge's 54 section land block. Both of these wells encountered high quality reservoir, with excellent porosity levels that reached 18 percent. Based off available public data, these two wells have now proven to be two of the top oil wells drilled in Saskatchewan this year.

Surge is now experiencing a successful waterflood response (at 200 meter inter-well spacing) in the Company's Upper Shaunavon horizontal waterflood pilot. After 8 months of injection, the production from the well offsetting the injector has flattened at a rate more than 50 percent above the wells expected type curve, and gas/oil ratios have stabilized. Management has not yet observed a response at the 400 meter pilot, after the same period and volume of injection. This confirms the requirement for 200 meter drilling spacing in the Upper Shaunavon for full waterflood implementation. The Upper Shaunavon zone has over 250 million barrels of net original oil in place ("OOIP"⁶), and Surge now expects that development drilling and waterflood implementation will more than double the expected recovery factor from 10 percent on primary, to more than 20 percent on full field development (current Upper Shaunavon recovery is less than one percent, with reserves booked to approximately three percent as per Surge's 2015 Sproule reserve report).

Due to favorable, dry weather conditions, the Company has mobilized a drilling rig into the Shaunavon field in early May. The

original budget called for a spud date in early July, so the Company has accelerated four Shaunavon wells in the program by two months.

The Shaunavon property accounted for 38 percent of Surge's corporate operating cash flow in the first quarter of 2016. First quarter unhedged operating netbacks were \$15.54/boe, and operating expenses were \$6.45/boe, down 37 percent year over year, from \$10.25/boe in the first quarter of 2015. Based on current US\$45 WTI per barrel pricing, operating netbacks at Shaunavon are estimated to be \$25/boe.

Sparky

During the fourth quarter of 2015, Surge expanded the Company's waterflood at its Eyehill area in Central Alberta, by converting an existing 1,300 meter horizontal well to injection. This new injector offsets by 200 meters, the two new Sparky wells drilled in the fourth quarter of 2015. The original waterflood pilot conducted over the last 18 months confirms the 200 meter spacing requirement for successful waterflood implementation. Surge has observed full waterflood support of the production from the two new wells after five months of injection. The Sparky oil pool at Eyehill contains over 100 million barrels of net OOIP. Surge now expects to more than double the recovery factor for the Sparky reservoir at Eyehill from 10 percent on primary, to over 20 percent with development drilling and waterflood implementation (current Eyehill Sparky recovery is less than one percent, with reserves booked to approximately four percent as per Surge's 2015 Sproule reserve report).

Surge's Sparky area (comprised of Silver, Wainwright, Eye Hill, Macklin, & Provost operating assets) accounted for 25 percent of Surge's corporate operating cash flow in the first quarter of 2016. First quarter unhedged operating netbacks for the Sparky core area were \$8.33/boe and operating expenses were \$11.96/boe, down 36 percent year over year, from \$18.58/boe in the first quarter of 2015. Based on current US\$45 WTI per barrel pricing, operating netbacks are estimated at \$17/boe.

Combined, the Company's three core areas contributed 96 percent of Surge's corporate operating cash flow in the first quarter of 2016.

6 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. 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

FINANCIAL UPDATE

Surge management has no update to the financial guidance provided on April 7, 2016. The Company will monitor drilling results at Valhalla and Shaunavon over the next few months. The next guidance update, if applicable, will be issued in conjunction with Surge's second quarter 2016 results release in August of this year.

Hedging Update

Subsequent to the first quarter, Surge monetized its foreign exchange ("FX") hedge positions. Proceeds from the 2016 variable-rate collar and 2017 forward swap were approximately \$4.2 million. Originally, the FX hedges were intended to be matched with USD-denominated WTI collar/swap positions. After accounting for the existing CAD WTI hedges, it was determined the FX hedges represented additional USD WTI hedging volumes that would have exceeded the Company's desired oil hedging levels. The hedge proceeds will be recognized in second quarter financial results.

Subsequent to the first quarter, Surge also increased its oil hedge position via the following contracts:

Commodity	Time Frame	Volume	Value
WTI oil collars (put/call)	2H 2017	1,000 bbl/d	CAD \$50 x \$77.38

OUTLOOK

Surge management remain encouraged by recent improvements in the crude oil markets. World crude oil prices have increased over 65 percent in just nine weeks.

Surge is now 100 percent sustainable as a growth and dividend paying oil company (capital plus dividend) based on the May 5, 2016 forward twelve month strip for crude oil pricing.

As discussed above, the Company remains well positioned to strategically expand Surge's drilling activity into a higher crude oil price environment for the remainder of 2016, continuing on into 2017. This will add a meaningful production per share growth component back into Surge's business model to enhance shareholders returns, and allow management to aggressively pursue the Company's new, independently engineered net asset value of \$4.79 per share.

The Company looks forward to providing further updates in the near future.

FINANCIAL STATEMENTS AND ACCOMPANYING MDA:

Surge has filed with Canadian securities regulatory authorities its financial statements and accompanying MD&A for the three months ended March 31st, 2016. 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; (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, operating costs, growth opportunities and reserves; (viii) the impact of cost savings initiatives; (ix) drilling inventories and locations; * production and cash flow per share growth; and (xi) anticipated commodity prices.

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, the successful implementation of the Corporation's normal course issuer bid, prevailing weather conditions, exchange rates, licensing requirements, 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 sale 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 March 31, 2016, 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. 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. 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. > 1.7 billion bbls gross (1.4 billion bbls net), 7 percent RF; IP180 means rate at which a well produces during its first 180 days of production. Bbl means barrel of oil. Mbbl means thousand barrels. Bbl/d means barrels of oil per day. NGLs means natural gas liquids.

Drilling Locations

This press release discloses drilling locations in three categories: (i) proved locations; (ii) probable locations; and (iii) unbooked locations. Proved locations and probable locations, which are sometimes collectively referred to as "booked locations", are derived from the Company's most recent independent reserves evaluation as of December 31, 2015 and account for drilling locations that have associated proved or probable reserves, as applicable. Unbooked locations are internal estimates based on the Company's prospective acreage and an assumption 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. Of the more than 700 net drilling locations identified herein 527 are unbooked locations. Unbooked locations have specifically been identified by management as an estimation of our multi-year drilling activities based on evaluation of applicable geologic, seismic, engineering, production and reserves data on prospective acreage and geologic formations. The drilling locations on which we actually drill wells will ultimately depend upon the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results and other factors.

Non-IFRS Measures

This press release contains the terms "funds from operations", "net debt" and "netback", 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. 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).

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.

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