CALGARY, Sept. 6, 2016 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") (TSX: SGY) announces preliminary guidance for 2017, with production averaging more than 13,650 boepd, and a 2017 production exit rate of 14,150 boepd. In addition, Surge announces an upward revision to the Company's previously announced 2016 production exit rate estimate from 13,000 boepd to 13,500 boepd.

PRELIMINARY GUIDANCE FOR 2017

In 2017 Surge plans to deliver approximately five percent growth in production per share from low risk development drilling and waterflood activities – funded entirely from existing funds flow at US$50 WTI pricing for crude oil[1]. Average production for 2017 is forecast to be 13,650 boepd (81 percent liquids), with an exit rate of 14,150 boepd (82 percent liquids).

Surge's preliminary guidance for 2017 is set forth below:

	2017 Guidance at US$50 WTI[1]	Preliminary 2017 Guidance at US$60 WTI[2]
OPERATIONAL		
2017 Average Production (boe/d)	13,650 (81 percent liquids)	13,650 (81 percent liquids)
2017 Exit Production (boe/d)	14,150 (81 percent liquids)	14,150 (81 percent liquids)
Total Capital Spending	$85 million	$85 million
Est. Base Decline	<24%	<24%
Operating Expenses	$11.45/boe to $11.95/boe	$11.45/boe to $11.95/boe
Transportation Expenses	$1.50/boe	$1.50/boe
Royalties as a % of Revenue	13% to 13.5%	13.5% to 14%
Corporate Oil Price Discount to Edmonton light	[illegible] to -$12/bbl	-$11/bbl to -$12/bbl
Estimated Funds Flow from Operations[3]	$107 million to [illegible] million	$122 million to $134 million
Funds Flow from Operations per Share	[illegible] to $0.48 per share	$0.55 to $0.60 per share
FINANCIAL		
Basic Shares Outstanding	222.2 million	222.2 million
Annual Dividend Payable	$16.7 million ($0.075 per share per annum)	$16.7 million ($0.075 per share per annum)
Exit 2017 Debt	$128 million to $143 million	[illegible] million to $117 million
Debt/Cash Flow	[illegible]	[illegible] to 0.84x
Payout/Sustainability Ratio[4]	[illegible] to 100%	[illegible] to 79%

The Company anticipates spending 70 percent of its preliminary 2017 capital budget on drilling activity. The great majority of the drilling activity will be focused at Surge's three core areas of Shaunavon, Sparky and Valhalla.

In the event of commodity prices above the US$50 WTI base case, Surge management will evaluate all capital allocation options for the resultant free cash flow.

In conjunction with this preliminary 2017 guidance, the Company has restructured its 2017 CAD WTI collar positions as follows:

	1H 2017	2H 2017
Previous Floor ($CAD WTI/bbl)	CAD$49.00	CAD$53.33
Revised Floor ($CAD WTI/bbl)[5]	CAD$61.71	CAD$60.00
Previous Volume	2,500bbl/d	1,500bbl/d
Revised Volume	3,500bbl/d	1,500bbl/d

Accordingly, Surge now has a CAD$61.71 WTI floor on 3,500 bbl/d of production in 1H 2017 and 1,500 bbl/d of production in 2H 2017.

Surge's ongoing strategic hedging program protects the execution of the Company's 2017 drilling program through spring break-up, at a crude oil price level as low as US$39 WTI, while maintaining a 1H 2017 debt-to-cash flow ratio of under 2.0 times.

UPWARD REVISION TO 2016 EXIT RATE

As disclosed in the Company's press release dated August 3, 2016, Surge has experienced successful development drilling results at its three core areas of Shaunavon, Sparky and Valhalla - recently adding over 2,200 boepd (85 percent oil), at an "all-in" on-stream cost[6] of under $20 million, from the Company's recent 14 well development drilling program. This drilling program provides exceptional netbacks[7], with incremental operating expenses under $5/boe and royalty rates of 2.5 to 5 percent[8].

Accordingly, having now exceeded managements projected 2016 production exit rate target of 13,000 boepd, Surge is now revising upward the Company's 2016 guidance as follows:

OPERATIONAL	Revised 2016 Guidance[9]
2016(e) Exit Production (boe/d)	13,500 (79% liquids)
Total Capital Spending	$66 million
Operating Expenses	$11.95/boe to $12.45/boe
Transportation Expenses	$1.50/boe
Royalties as a % of Revenue	11% to 12%
Corporate Oil Price Discount to Edmonton light	$11/bbl to $12/bbl
Estimated Funds Flow from Operations	$74 million
FINANCIAL	
Basic Shares Outstanding	222.2 million
Annual Dividend Payable	$16.7 million ($0.075 per share per annum)
Estimated Year End 2016 Debt	$138 million

In order to protect the majority of the cash flows from the increased 2016 drilling program, Surge management has acquired an additional 2,000 barrels per day of WTI puts at CAD $60/bbl for the fourth quarter of 2016. Accordingly, the Company has now hedged the maximum amount of Q4 2016 WTI exposure allowable under its risk management policy.

OUTLOOK

Surge's goal is to be the best positioned light/medium crude oil, growth and dividend paying company in Canada. During the extended downturn in world crude oil prices, Surge management focused on creating balance sheet flexibility, and implementing rigorous cost cutting initiatives. Management also high-graded and optimized the Company's asset base into high quality, large OOIP crude oil reservoirs in Surge's three core areas - through low risk development drilling, and the implementation of successful waterfloods.

Importantly, Surge management has also preserved significant per share growth potential for shareholders. This ensures that the Company is one of the few in its peer group in Canada who are able to add a substantial, organic, production per share growth component to management's estimates in the second half of 2016 and through 2017 – all within existing cash flow - at strip pricing for crude oil.

Surge's 2017 production exit rate guidance of 14,150 boepd referred to above, represents a 16% increase in organic production per share, over the Company's reported Q2 2016 production level of 12,182 boepd.

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: Surge's drilling and development plans and enhance recovery projects and the timing and results to be expected thereof; expectations with respect to the Company's ability to operate and succeed in the current commodity price environment; the Company's declared focus and primary goals; management's forecast of debt and debt to cash flow ratio; management's estimates and expectations regarding production efficiencies, drilling upside, operating costs, capital expenditures, growth opportunities and netback; the impact of cost savings initiatives; production and cash flow per share growth; the Company's plans with respect to its dividend; guidance with respect to 2016 exit and 2017 exit and average production, capital expenditures, decline rates, operating and transportation expenses, royalties, discount prices to be received on future production, funds flow from operations and funds flow from operations per share, number of shares outstanding, dividend payable, year-end debt and payout and sustainability ratios; the timing and focus of the Company's capital program; and anticipated commodity prices.

The guidance for 2016 and 2017 set forth in this press release may be considered to be future-oriented financial information or a financial outlook for the purposes of applicable Canadian securities laws. Financial outlook and future-oriented financial information contained in this press release are based on assumptions about future events based on management's assessment of the relevant information currently available. In particular, this press release contains projected operational information for 2016 and 2017, including exit production, total capital, royalties, operating expenses, transportation expenses, as well as the applicable discount price to be received on future production. The future-oriented financial information and financial outlooks contained in this press release have been approved by management as of the date of this press release. Readers are cautioned that any such financial outlook and future-oriented financial information contained herein should not be used for purposes other than those for which it is disclosed herein.

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.

Non-IFRS Measures

This press release contains the terms "funds flow from operations", "funds flow from operations per share", "net debt", "payout ratio", "sustainability ratio" 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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[1] Based on 2017 pricing averaging as follows: US$50.00WTI/bbl; CAD$65.79 WTI/bbl; EDM CAD$61.54.bbl; AECO $2.95/mcf.
[2] Based on 2017 pricing averaging as follows: US$60.00WTI/bbl; CAD$75.00 WTI/bbl; EDM CAD$70.75.bbl; AECO $2.95/mcf.
[3] 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.
[4] Calculated as Total Capital Spending plus Annual Dividend, Divided by Funds Flow from Operations.
[5] If market prices settle at or below CAD$50 WTI in 2017, the Company will receive a "locked-in" cash settlement of the market price plus CAD$10 per bbl on 2,500 bbl/d in 1H 2017 and 1,500 bbl/d in 2H 2017. An additional 1,000bbl/d has been swapped at CAD $65.00 WTI in 1H 2017.
[6] On-stream cost is defined as drilling, completion, equipping and tie-in costs ("DCET").
[7] Netbacks are defined as revenue, less royalties, operating and transportation expenses.
[8] Royalty rates reflect royalty holiday rates in Alberta and Saskatchewan.
[9] Based on August 16th, 2016 strip pricing for 2016, averaging as follows: US$42.85 WTI/bbl; CAD$55.84 WTI/bbl; EDM CAD$51.75.bbl; AECO $1.87/mcf.

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