CALGARY, May 10, 2017 /CNW/ - [Surge Energy Inc.](#) ("Surge" or the "Company") (TSX: SGY) announces its operating and financial results for the quarter ended March 31, 2017.

Surge's quarterly operating and financial results continue to exceed management's budgeted expectations based on excellent drilling and waterflood results at the Company's three core areas, rigorous ongoing cost cutting initiatives, and strategic capital allocation decisions designed to create balance sheet flexibility.

HIGHLIGHTS

- Increased production per share in Q1 of 2017 by 8 percent over Q4 of 2016;
- Q1/17 production of 13,866 boepd achieved management's budgeted production estimates - without any contribution from fou successful Valhalla wells (2.5 net) drilled during the quarter (and early into Q2/17). These four wells have now been completed and brought on stream in Q2/17;
- Increased unhedged funds from operations by 574 percent from $3.5 million in Q1/16 to $23.6 million in Q1/17;
- Increased unhedged funds from operations per share by 550 percent from $0.016 per share in Q1/16 to $0.104 per share in Q1/17;
- Increased funds from operations by 189 percent from $7.5 million in Q1/16 to $21.6 million in Q1/17.
- Increased funds from operations per share more than 233 percent from $0.03 per share in Q1/16 to $0.10 per share in Q1/17;
- On February 23, 2017 Surge announced record low all-in FD&A costs for 2016 of $3.74 per boe, and a recycle ratio of 4.61 times on a proven plus probable basis; providing an increase in the Company's proved developed producing reserves of more than 25 percent;
- Increased Surge's independently engineered net asset value per share, on a proven plus probable basis, by 12 percent to $5.47.
- Late in 2016 Surge revised upward the Company's 2017 average daily production estimate to 14,000 boepd from 13,500 boepd, and Surge's 2017 exit production target to 14,450 boepd from 14,000 boepd;
- Increased the Company's dividend on February 8, 2017 as a result of continued excellent drilling and waterflood results in the Company's three core areas providing significant excess free cash flow, while maintaining a conservative simple payout ratio of approximately 15 percent of forecast 2017 funds flow;
- Subsequent to the end of Q1/17, on April 19, 2017 Surge announced:
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    - A strategic $37 million acquisition of low decline, high netback, waterflooded, crude oil producing assets in the Company core Sparky area in Central Alberta, which included two key sections of undeveloped land in Surge's core operated Eyehill asset;
    - A further upward revision to the Company's 2017 average daily production estimate to 14,450 boepd, and Surge's 2017 production exit rate target to 15,150 boepd from 14,450 boepd;
    - A further planned increase in the Company's annual dividend to $0.095 per share ($0.00792 per share per month), while maintaining a conservative simple payout ratio of 16 percent of forecast annualized 2H/17 funds flow; and
    - A large increase to the Company's bank line from $250 million to $285 million, providing the Company with over $85 million of unutilized credit availability.

FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended			Three Months Ended		
	Mar 31, 2017	Mar 31, 2016	% Change	Mar 31, 2017	Dec 31, 2016	% Change
Financial highlights						
Oil sales	48,194	26,166	84 %	48,194	45,356	6 %
NGL sales	2,240	769	191 %	2,240	1,284	74 %
Natural gas sales	4,016	2,211	82 %	4,016	3,595	12 %
Total oil, natural gas, and NGL revenue	54,450	29,146	87 %	54,450	50,235	8 %
Adjusted funds from operations[1]	21,640	7,491	189 %	21,640	21,534	—%
Per share basic ($)	0.10	0.03	233 %	0.10	0.10	—%
Capital expenditures - petroleum & gas properties[2]	34,041	12,873	164 %	34,041	23,515	45 %
Capital expenditures - acquisitions & dispositions[2]	(269)	(41,141)	(99)%	(269)	14,921	(102)%
Total capital expenditures[2]	33,772	(28,268)	(219)%	33,772	38,436	(12)%
Net debt at end of period[3]	178,753	133,816	34 %	178,753	161,735	11 %

Operating highlights

Production:						
Oil (bbls per day)	10,298	9,821	5 %	10,298	9,832	5 %
NGLs (bbls per day)	684	615	11 %	684	504	36 %
Natural gas (mcf per day)	17,302	17,829	(3)%	17,302	15,036	15 %
Total (boe per day) (6:1)	13,866	13,408	3 %	13,866	12,842	8 %
Average realized price (excluding hedges):						
Oil ($ per bbl)	52.00	29.28	78 %	52.00	50.14	4 %
NGL ($ per bbl)	36.39	13.75	165 %	36.39	27.69	31 %
Natural gas ($ per mcf)	2.58	1.36	90 %	2.58	2.60	(1)%
Netback ($ per boe)						
Oil, natural gas and NGL sales	43.63	23.89	83 %	43.63	42.52	3 %
Realized gain (loss) on commodity contracts	(1.59)	3.26	(149)%	(1.59)	(1.85)	(14)%
Royalties	(5.64)	(3.14)	80 %	(5.64)	(5.08)	11 %
Operating expenses	(13.95)	(12.27)	14 %	(13.95)	(12.69)	10 %
Transportation expenses	(1.57)	(2.33)	(33)%	(1.57)	(1.38)	14 %
Operating netback	20.88	9.41	122 %	20.88	21.52	(3)%
G&A expense	(1.93)	(1.96)	(2)%	(1.93)	(1.79)	8 %
Interest expense	(1.61)	(1.32)	22 %	(1.61)	(1.51)	7 %
Corporate netback	17.34	6.13	183 %	17.34	18.22	(5)%
Common shares outstanding, end of period	225,766	221,047	2%	225,766	225,755	—%
Weighted average basic shares outstanding	225,764	221,042	2%	225,764	225,278	—%
Stock option dilution	3,427	—	nm[4]	3,427	—	nm
Weighted average diluted shares outstanding	229,191	221,042	4%	229,191	225,278	2%

1 Management uses adjusted 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. Adjusted 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".

OPERATIONS OVERVIEW

In Q1/17 Surge budgeted an active drilling program with total capital expenditures of $34.0 million (including corporate G&A), which involved the drilling of 14 wells (13 net) in the Company's three primary operating areas of Sparky, Valhalla, and Shaunavon, together with associated capex for infrastructure, land and seismic. Surge achieved a 100 percent success rate for the Q1/17 program.

Surge achieved management's budgeted production estimates for Q1/17 - without any contribution from four successful Valhalla wells (2.5 net) drilled during the quarter (and early into Q2/17). These wells have now been completed and brought on stream in Q2/17.

Current production rates already exceed Surge's upwardly revised average daily production estimate for 2017 of 14,450 boepd (82 percent oil).

In Q1/17 Surge experienced modest cost escalation of approximately six to eight percent for drilling and completion services. This increase is reflected in Surge's previously announced budget capex assumptions. In January and February of Q1/17, the Company experienced a number of one time workover expenditures for well reactivations that led to higher operating expenses than budget. March operating expenses were in line with management's 2017 budget expectations of $12 to $12.50 per boe.

Sparky – Production Growth Continues

Based on excellent development drilling and waterflood results, together with the strategic $37 million asset acquisition referred to above (which closed early in Q2/17 – please refer to the Press Release dated April 19, 2017), Surge's Sparky core area continues to be a key growth asset for the Company. Surge's Sparky core area now comprises over half a billion barrels of net OOIP of medium and light crude oil, over 5,400 boepd of current production (90 percent oil), and more than 230 well (10 year) inventory.

Surge's ongoing Eyehill Sparky drilling and waterflood program at its operated, 130 million barrel (107 million barrel net) OOIP, 29° API gravity oil asset, has significantly exceeded expectations. The Company drilled six consecutive successful development wells in Q1 of 2017. Current production rates at the Eyehill battery recently exceeded 2,000 bopd net to Surge, up from approximately 385 bopd in Q2 of 2016.

Operating costs at Eyehill are budgeted at less than $5.00 per boe for 2017, down from $7.40 per boe in 2016. With over 75 net remaining locations at Eyehill, this area will continue to underpin Surge's production per share growth for the foreseeable future. Internal risked rates of return for Sparky development wells are now over 150 percent at strip pricing for primary reserves only.

In the second half of 2017 Surge anticipates drilling up to 9 more wells (9 net) in the Sparky area at Eyehill, Betty Lake and Provost.

Valhalla – Four New Wells Onstream

In Q1 (and early Q2) of 2017 Surge drilled four wells (2.5 net) at Valhalla with excellent results. As a result of increased demand for pressure pumping services in this area Surge elected to delay the completion of these wells until Q2/17. All of the four (2.5 net) successful Valhalla wells have now been completed and are on-stream with production rates at type-curve levels or better.

As a result of these successful drilling results, together with field wide optimization activities, Surge's operating expense at Valhalla for 2017 is now budgeted to be $8.50 per boe. Internal risked rates of return for Valhalla development wells are over 150 percent at strip pricing for primary reserves only.

Surge plans to drill two additional wells (2 net) at Valhalla in 2H/17. Surge estimates a 10 year inventory of more than 45 net development drilling locations in its Valhalla core area.

Shaunavon – Development Drilling and Waterflood Implementation

Surge successfully drilled five Upper Shaunavon wells in Q1 of 2017. Two wells were drilled in the southern Upper Shaunavon core development area. In Surge's third Upper Shaunavon development area, the Company has recently completed the drilling of two extended reach delineation wells, with 39 frac stages completed in the first well, and 36 stages in the second. Both wells are on production with the first performing above type curve, and the second well is currently cleaning up.

In 2H/17 the Company plans to drill up to 15 more Upper Shaunavon wells. Surge also intends to commence a second pilot waterflood in the southern development area at Shaunavon, with operations to commence in Q3 of 2017.

As a result of Surge's excellent ongoing development drilling results, together with the Company's expanding waterflood activities, operating expenses at Shaunavon are now budgeted to be $5.88 per barrel in 2017. Internal risked rates of return for Upper Shaunavon development wells are over 150 percent at strip pricing for primary reserves only.

Surge estimates a 10 year inventory of more than 170 net development drilling locations in its Shaunavon core area.

OUTLOOK – CONTINUED PER SHARE GROWTH

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

In the last eight months, Surge has upwardly revised the Company's production per share estimates three times. As a result of Surge's successful ongoing drilling and waterflood activities in the Company's three primary operating areas, together with the core Sparky area asset acquisition referred to herein, Surge will now be delivering production per share growth of more than 24 percent from Q2/16 to the end of Q4/17.

Current production rates already exceed Surge's upwardly revised average daily production estimate for 2017 of 14,450 boepd (82 percent oil).

In addition, Surge has increased the Company's dividend per share by 26.7 percent since the start of 2017, while maintaining a conservative simple payout ratio of 16 percent of forecast Q4/17 cash flow annualized, versus a peer group average payout ratio of approximately 25 percent.

Accordingly, as a result of management's strategic capital allocation decisions, rigorous cost cutting initiatives, and excellent operational results, we believe that Surge is well positioned to continue delivering solid per share growth, and to pay the Company's dividend, on a go-forward basis.

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: production volumes; drilling activities; Surge's capital expenditure program, including drilling and development plans and enhanced 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; guidance with respect to 2017 average and exit production and production per share; Surge's dividend; payout ratio; Surge's hedging program and the benefits thereof; management's estimates and expectations regarding capital expenditures, operating and G&A costs, growth opportunities and strategies, rates of return and reserves; the Company 2017 guidance; the availability of Surge's bank line to fund provide the Company with sufficient liquidity and financial flexibility; the impact of cost savings initiatives; production and cash flow per share growth; and anticipated commodity prices; drilling inventories and locations; and management's expectations regarding debt levels.

The guidance for 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 2017, including exit production, total capital, royalties, operating expenses, transportation expenses, Surge's dividend, payout ratios and annualized funds flow from operations and funds flow from operations per share. 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, prevailing weather conditions, exchange rates, licensing requirements, the impact of completed facilities on operating costs and the availability, costs of capital, labour and services and the creditworthiness of industry partners and the impact of transactions on 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 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 15, 2017 and in Surge's MD&A for the period ended March 31, 2017, 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.

Non-IFRS Measures

This press release contains the terms "adjusted funds from operations", "funds from operations" and "payout ratio" 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 "adjusted funds from operations" and "funds from by operations" to analyze operating performance and leverage. Management believes that in addition to net income, adjusted funds from operations and funds from operations are useful supplemental measures as they provide an indication of the results generated by the Company's principal business activities before the consideration of how those activities are financed or how the results are taxed. Payout ratio is calculated on a percentage basis as dividends declared divided by funds flow from operations. Payout ratio is used by management to monitor the dividend policy and the amount of funds flow from operations retained by the Company for capital reinvestment. 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.

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