

CALGARY, Aug. 2, 2017 /CNW/ - [Surge Energy Inc.](#) ("Surge" or the "Company") (TSX: SGY) announces its operating and financial results for the quarter ended June 30, 2017.

Based on excellent development drilling results in all three of Surge's core areas, together with successful waterflood results at Shaunavon and Eyehill, the Company's Q2/17 production continued to exceed budgeted expectations.

In Q2/17 Surge's production averaged 15,125 boepd (81 percent oil and liquids) - which is very close to the Company's 2017 production exit rate guidance of 15,150 boepd. This exciting operational result was more than five percent above Surge's budgeted expectations, and was accomplished during spring break-up where the Company had a significantly reduced drilling program.

Surge has now revised upward the Company's production guidance three times in the last 12 months – two times organically, and once relating to the Company's recent Sparky core area acquisition.

HIGHLIGHTS

- Increased production 24 percent year over year, from 12,182 boepd in Q2/16 to 15,125 boepd in Q2/17;
- In Q2/17 Surge increased production per share nine percent over Q1/17;
- In the last 12 months Surge has now increased production per share 22 percent;
- Increased Q2/17 unhedged adjusted funds from operations per share by 19 percent over Q1/17, from \$0.105 to \$0.124 – despite \$US WTI crude oil prices dropping seven percent in Q2/17 compared to Q1/17;
- Increased Q2/17 unhedged adjusted funds from operations per share by 51 percent over Q2/16, from \$0.083 to \$0.124;
- Increased Q2/17 unhedged corporate netback by 24 percent over Q2/16, from \$16.46/boe to \$20.38/boe;
- Increased Q2/17 adjusted funds from operations per share by 25 percent over Q1/17, from \$0.096 to \$0.12 – despite \$US WTI crude oil prices dropping seven percent in Q2/17 compared to Q1/17;
- Increased oil production 29 percent from 8,958 barrels per day in Q2/16 to 11,522 barrels per day in Q2/17;
- Maintained an excellent balance sheet with a debt to cash flow of less than two times, with significant liquidity on Surge's bank line (greater than \$75 million credit available);
- During Q2/17, Surge closed a \$36 million acquisition (net of closing adjustments) of a low decline, high netback, waterflooded, crude oil producing asset in the Company's Sparky core area in Central Alberta. This strategic acquisition also included two key sections of undeveloped land at Surge's core operated Eyehill asset, and provides Surge with up to 29 additional low risk, development drilling locations;
- Successfully renegotiated Surge's syndicated bank line in Q2/17 with a large increase from \$250 million to \$285 million; and
- On April 19, 2017 Surge announced an 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.

FINANCIAL AND OPERATING SUMMARY

(\$000s except per share amounts)

	Three Months Ended June 30, Three Months Ended					
	2017	2016	% Change	June 30, 2017	Mar 31, 2017	% Change
Financial highlights						
Oil sales	54,216	37,523	44 %	54,216	48,194	12 %
NGL sales	2,282	1,367	67 %	2,282	2,240	2 %
Natural gas sales	4,275	2,053	108 %	4,275	4,016	6 %
Total oil, natural gas, and NGL revenue	60,773	40,943	48 %	60,773	54,450	12 %
Adjusted funds from operations ¹	27,018	22,063	22 %	27,018	21,640	25 %
Per share basic (\$)	0.12	0.10	20 %	0.12	0.10	20 %

Capital expenditures - petroleum & gas properties ²	15,064	16,810	(10)%	15,064	34,041	(56)%
Capital expenditures - acquisitions & dispositions ²	35,716	—	nm ⁴	35,716	(269)	nm
Total capital expenditures ²	50,780	16,810	202 %	50,780	33,772	50 %
Net debt at end of period ³	208,061	134,613	55 %	208,061	178,753	16 %
Operating highlights						
Production:						
Oil (bbls per day)	11,522	8,958	29 %	11,522	10,298	12 %
NGLs (bbls per day)	678	564	20 %	678	684	(1)%
Natural gas (mcf per day)	17,547	15,959	10 %	17,547	17,302	1 %
Total (boe per day) (6:1)	15,125	12,182	24 %	15,125	13,866	9 %
Average realized price (excluding hedges):						
Oil (\$ per bbl)	51.71	46.03	12 %	51.71	52.00	(1)%
NGL (\$ per bbl)	36.99	26.64	39 %	36.99	36.39	2 %
Natural gas (\$ per mcf)	2.68	1.41	90 %	2.68	2.58	4 %
Netback (\$ per boe)						
Oil, natural gas and NGL sales	44.16	36.94	20 %	44.16	43.63	1 %
Realized gain (loss) on commodity contracts	(0.75)	3.45	(122)%	(0.75)	(1.59)	(53)%
Royalties	(5.58)	(3.27)	71 %	(5.58)	(5.64)	(1)%
Operating expenses	(12.98)	(12.69)	2 %	(12.98)	(13.95)	(7)%
Transportation expenses	(1.48)	(1.16)	28 %	(1.48)	(1.57)	(6)%
Operating netback	23.37	23.27	0 %	23.37	20.88	12 %
G&A expense	(1.95)	(1.98)	(2)%	(1.95)	(1.93)	1 %
Interest expense	(1.79)	(1.38)	30 %	(1.79)	(1.61)	11 %
Corporate netback	19.63	19.91	(1)%	19.63	17.34	13 %
Common shares outstanding, end of period						
Common shares outstanding, end of period	225,766	221,047	2 %	225,766	225,766	— %
Weighted average basic shares outstanding	225,766	221,047	2 %	225,766	225,764	— %
Stock option dilution	3,790	—	nm	3,790	3,427	11 %
Weighted average diluted shares outstanding	229,556	221,047	4 %	229,556	229,191	0 %

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 discussion throughout this press release.

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".

TWELVE MONTH LOOKBACK – LOW COST PRODUCTION ADDITIONS

As oil prices reached a low of US\$26.75 WTI per barrel in February of 2016, the Surge management team continued to strategically position the Company for growth when oil prices recovered. Steps taken by management in early 2016 include: the disposition of a non-core asset at Sunset, deferred drilling and other discretionary capital spending to keep debt low, aggressive balance sheet management, rigorous cost cutting initiatives, delineation of Surge's high quality, large OOIP, crude oil assets, and the strategic implementation and optimization of waterfloods across the Company's asset base.

As oil prices began to recover above US \$45 WTI per barrel in May/June of 2016, management moved to add a solid production per share growth component back into Surge's business model. Consequently, over the last four financial quarters Surge has delivered an increase in production of 24 percent (22 percent per share) from 12,182 boepd in Q2/16, to 15,125 boepd in Q2/17.

Surge has now revised upward the Company's production guidance three times in the last 12 months – two times organically, and once relating to the Company's recent strategic Sparky core area acquisition.

During the past four quarters, Surge has replaced production declines and grown by adding approximately 6,000 boepd to the Company's production base (greater than 90 percent light and medium crude oil) for total, all-in capital expenditures (including acquisitions) of \$144.3 million. We believe these very low production efficiencies for light and medium gravity crude oil, will turn out to be some of the best in the Company's peer group in Canada over this period:

	Capex	Boepd
Organic Drilling Capital	\$85.1 million	(Barrels needed to replace declines)
		3,046 ¹
		1,897 ² (Growth Wedge)
	\$85.1 million	4,943
Organic Drilling Capital Efficiencies		\$17,208 per flowing boe
Land, Seismic, G&A	\$8.3 million	
All-in Organic Capital	\$93.4 million	4,943
All-in Organic Capital Efficiencies		\$18,892 per flowing boe
Valhalla Montney Acquisition	\$14.9 million	300
Sparky Acquisition	\$36.0 million	745
Total Capital Including Acquisitions	\$144.3 million	5,988
All-in Capital Efficiencies, including Acquisitions		\$24,098 per flowing boe

1 Represents an estimated 25 percent decline.

Represents production additions, after replacing declines.

The Company's consistent production per share growth over the past year has also led to significant increases in Surge's unhedged funds from operations per share, which grew by 51 percent from Q2/16 to Q2/17.

OPERATIONS UPDATE

During its spring break-up quarter, in Q2/17 Surge conducted a much reduced drilling program, with total capital expenditures of \$15.1 million (including corporate G&A). The Q2/17 program included the drilling of 5 wells (4.32 net), together with 2.5 net completions, associated capex for infrastructure, land and seismic. The Company experienced a 100 percent success rate for the Q2/17 drilling program.

In late June, the Company began its 2H/17 drilling program where Surge plans to drill and complete a total of 22 wells in its three core areas, including eight Sparky area wells, 13 Shaunavon wells, and one Valhalla Doig well. The Company strategically moved to execute its drilling program utilizing one-rig, as opposed to a two-rig program initially proposed, providing Surge with additional flexibility on the timing of capital spending throughout the balance of 2H/17.

As discussed above, Surge exceeded management's budgeted production expectations for Q2/17 by more than five percent during spring break-up. Production in Q2/17 averaged 15,125 boepd (81 percent oil and liquids), compared to the Company's internal budget of 14,275 boepd, and analyst consensus on the street of 14,350 boepd.

Management attributes the Company's continued quarterly operational outperformance to be a direct result of applying growth capital to Surge's high quality, operated, large OOIP, light and medium gravity crude oil, sandstone reservoirs.

OUTLOOK & CONTINUED QUARTERLY GROWTH

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

In the last 12 months, Surge has increased production per share by more than 22 percent, increased its dividend by 26.7 percent, and upwardly revised production estimates three times. Surge continues to focus on sustainability, balance sheet management, and cost controls to deliver returns to Surge shareholders.

As a result of the Company's consistent production per share growth, in Q2/17 Surge increased unhedged adjusted funds from operations per share by 19 percent over Q1/17 - a significant increase considering the average crude oil price dropped in the same time period by seven percent from an average of US\$51.92 WTI per barrel in Q1/17 to US\$48.28 WTI per barrel in Q2/17. This achievement is a direct result of Surge management's continued focus on making disciplined capital allocation decisions, delivering top tier operational results, and the implementation of tight cost controls across the Company.

Surge continues to grow its production base and location inventory in its three core areas of Sparky, Shaunavon, and Valhalla through low risk development drilling results, and strategic high quality, core area acquisitions.

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; Surge's capital expenditure program, including drilling and development plans; 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; Surge's dividend; payout ratio; Surge's hedging program and the benefits thereof; management's estimates and expectations regarding capital expenditures the availability of Surge's bank line to fund provide the Company with sufficient liquidity and financial flexibility; the impact of cost savings initiatives; 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. 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 June 30, 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" and "funds from operations" 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 adjusted 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. 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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