Surge Energy Inc. Announces Third Quarter 2017 Results

07.11.2017 | CNW

CALGARY, Nov. 7, 2017 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") (TSX: SGY) announces its operating a
results for the quarter ended September 30, 2017.

Surge's low risk, development drilling and waterflood results at the Company's Sparky, Shaunavon and Valhalla core a
continue to exceed managements budgeted expectations. Production averaged 15,007 boepd in Q3 2017 - approximat
percent above budget – with only a small contribution from Surge's recently announced Sparky acquisition (plea
Surge's October 26, 2017 Press Release).

Surge has now revised upward production guidance four times in the last 17 months – two times organically, an
in relation to high quality, long life, Sparky core area acquisitions.

Detailed information regarding Surge's preliminary guidance for 2018 is set forth in the Company's Press Release date
26, 2017.

HIGHLIGHTS

Surge's Q3 2017 results include only 23 days of operational and financial contribution from its recently announced Spa
area acquisition.

The Company's Q3 2017 financial and operating highlights are summarized below:

- Surge's average production increased by 14 percent in Q3 2017 to 15,007 boepd, as compared to an average of boepd in Q3 2016;
- Production per share increased by 11 percent in Q3 2017, as compared to Q3 2016;
- Adjusted funds flow from operations was $23.0 million in Q3 ($0.10 per share), up 20 percent (up 17 percent on a basis) over Q3 2016 at $19.1 million ($0.09 per share);
- Unhedged adjusted funds flow from operations per share increased by six percent in Q3 2017, as compared to th at similar US$ WTI crude oil prices;
- Increased oil production 16 percent from 9,807 barrels per day in Q3 2016 to 11,380 barrels per day in Q3 2017;
- On September 8, 2017, Surge closed a $37.2 million acquisition of a low decline, high netback, waterflooded, cru producing asset in the Company's Sparky core area in central Alberta; this strategic acquisition also includes key land directly offsetting Surge's core, operated Sounding Lake and Eyehill assets, and provides Surge with up to 3 additional internally estimated low risk, development drilling locations;
- Subsequent to the end of Q3 2016, Surge completed a 3D seismic program and successfully drilled its first well a Company's core Sparky Betty Lake asset; the Company estimates that this play has potential for more than 80 m OOIP[1] (with an internally estimated recovery factor of 10 percent on primary, and up to 30 percent with waterflo more than 35 additional internally estimated drilling locations;
- Subsequent to the end of the quarter on October 26, 2017 Surge announced a $40 million bought deal, five-year, convertible debt financing with a syndicate of underwriters, with a coupon of 5.75 percent per annum, and a conv of $2.75 per Surge common share; proforma this strategic financing Surge expects to have approximately $75 mi current credit facility (prior to receiving any lending value attributed to the acquisition); and

- On October 26, 2017 Surge announced an upward revision to the Company's 2017 production exit rate target to 1
boepd from 15,150 boepd.

[1] Original Oil in Place (OOIP) is the equivalent to Discovered Petroleum Initially In Place (DPIIP) for the purposes of thi release.

FINANCIAL AND OPERATING SUMMARY

The Q3 2017 financial and operating highlights are summarized below:

	Three Months Ended			Nine Months Ended Septen		
	Sep 30, 2017	June 30, 2017	% Change	2017	2016	% Ch
Financial highlights						
Oil sales	50,563	54,216	(7)%	152,973	104,345	47 %
NGL sales	2,158	2,282	(5)%	6,680	3,391	97 %
Natural gas sales	3,704	4,275	(13)%	11,995	7,597	58 %
Total oil, natural gas, and NGL revenue	56,425	60,773	(7)%	171,648	115,333	49 %
Adjusted funds from operations[2]	22,985	27,018	(15)%	71,643	48,692	47 %
Per share basic ($)	0.10	0.12	(17)%	0.32	0.22	45 %
Capital expenditures - petroleum & gas properties[3]	26,652	15,064	77 %	75,757	50,447	50 %
Capital expenditures - acquisitions & dispositions[3]	36,650	35,716	nm(5)	72,097	(41,141)	nm
Total capital expenditures[3]	63,302	50,780	nm	147,854	9,306	nm
Net debt at end of period[4]	246,398	208,061	18 %	246,398	141,155	75 %
Operating highlights						
Production:						
Oil (bbls per day)	11,380	11,522	(1)%	11,071	9,529	16 %
NGLs (bbls per day)	627	678	(8)%	663	592	12 %
Natural gas (mcf per day)	17,997	17,547	3 %	17,618	16,693	6 %
Total (boe per day) (6:1)	15,007	15,125	(1)%	14,670	12,903	14 %
Average realized price (excluding hedges):						
Oil ($ per bbl)	48.29	51.71	(7)%	50.62	39.96	27 %
NGL ($ per bbl)	37.42	36.99	1 %	36.92	20.91	77 %
Natural gas ($ per mcf)	2.24	2.68	(16)%	2.49	1.66	50 %
Netback ($ per boe)						

Oil, natural gas and NGL sales	40.87	44.16	(7)%	42.86	32.62	31 %
Realized gain (loss) on commodity contracts	0.12	(0.75)	nm	(0.71)	1.74	nm
Royalties	(5.27)	(5.58)	(6)%	(5.49)	(3.73)	47 %
Operating expenses	(13.73)	(12.98)	6 %	(13.54)	(12.06)	12 %
Transportation expenses	(1.40)	(1.48)	(5)%	(1.48)	(1.60)	(8)%
Operating netback	20.59	23.37	(12)%	21.64	16.97	28 %
G&A expense	(1.94)	(1.95)	(1)%	(1.94)	(1.87)	4 %
Interest expense	(2.01)	(1.79)	12 %	(1.81)	(1.32)	37 %
Corporate netback	16.64	19.63	(15)%	17.89	13.78	30 %
Common shares outstanding, end of period	232,920	225,766	3 %	232,920	222,278	5 %
Weighted average basic shares outstanding	228,309	225,766	1 %	226,623	221,236	2 %
Stock option dilution	—	3,790	nm	6,357	—	nm
Weighted average diluted shares outstanding	228,309	229,556	(1)%	232,980	221,236	5 %

2 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.

3 Please see capital expenditures discussion in the MD&A.

4 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.

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

OPERATIONAL MOMENTUM CONTINUES - HIGHLIGHTS

Surge's low risk, development drilling and waterflood results at the Company's Sparky, Shaunavon and Valhalla core a continue to exceed management's budgeted expectations. Production averaged 15,007 boepd in Q3 2017 - approxima percent above budget – with only a small contribution from Surge's recent Sparky acquisition.

In Q3 2017 Surge executed an active drilling program with total capital expenditures of $26.7 million (including corporat which included the drilling of 13 wells (11.5 net) in the Company's three core operating areas – together with as capex for infrastructure, land and seismic. Surge achieved a 100 percent success rate for the Company's Q3 2017 drill

With crude oil prices dropping below US$45 WTI per barrel in July, from a disciplined capital allocation perspective Sur strategically moved to execute the Company's Q3 2017 drilling program utilizing one-rig (rather than the two-rig prograr budgeted). This provides Surge with greater flexibility in terms of the timing of spending capital throughout the second h

Operational highlights from Q3 2017 are summarized below:

Sparky – Conventional Resource Growth Engine:

- Surge's internally estimated net original oil in place ("OOIP") for its core, operated Eyehill asset have now increas than 40 percent to 145 million barrels of internally estimated OOIP net to the Company (greater than 190 million b internally estimated OOIP gross); Surge now has more than 70 net internally estimated drilling locations remainin inventory at Eyehill.

- Production from Surge's Sparky core area has now increased by 3,500 boepd (123 percent) over the last 18 mon 2,850 boepd to over 6,350 boepd today.
- Drilling and waterflood results at Eyehill have exceeded expectations – providing both excellent internal ra ("IRR's"), and very strong, long-term, high profit to investment ratios ("PIR's").
- In Q3 2017 Surge successfully drilled two development wells at Eyehill on lands newly acquired pursuant to the C April 12, 2017 Sparky core area acquisition.
- Operating costs at Surge's 29? API pool at Eyehill are less than $4.95 per boe, and current netbacks are over $34
- In early Q4 2017 Surge converted two additional Eyehill Sparky wells to injection – effectively doubling the area under injection; four additional injectors are planned for 2018.
- In the last six months, Surge has added over 90 internally estimated, low risk, development drilling locations in th Sparky core area through Crown sales, strategic acquisitions, and swap transactions.
- Surge completed a 3D seismic program over its nine section block of land (100 percent working interest) at Betty Sparky core area.
- Subsequent to Q3 2017, the Company successfully drilled and completed an exciting Sparky well at Betty Lake - internally estimates more than 80 million barrels of net OOIP at Betty Lake (with expected recovery factors of 10 p primary, and up to 30 percent with waterflood) - providing more than 35 additional internally estimated locations. T been completed, and will be brought onstream in November, 2017.
- In Q3 2017, Surge also successfully drilled and completed a mile long "step-out" well at the Company's core, ope Provost asset – extending Surge's large, 45 million net internally estimated OOIP pool to the southwest; S estimates expected recovery factors at Provost of 10 percent on primary, and up to to 30 percent with waterflood. producing above Surge's internal Sparky type-curve.
- Subsequent to the end of Q3 2017, Surge completed a swap transaction, acquiring 1.5 sections of highly prospec Provost - adding up to 12 additional internally estimated Sparky locations.
- Surge also acquired highly prospective Crown land at its core operated Eyehill and Lakeview assets (7.5 net sect Q3 2017 – adding 22 internally estimated drilling locations.
- The Company now has more than 250 low risk, internally estimated, development drilling locations in its Sparky c – providing an inventory of more than 10 years.

Shaunavon – Waterflood Results Exceeding Expectations:

- Surge drilled 7 gross (5.5 net) successful development wells at Shaunavon in Q3 2017.
- Included in these wells is an exciting Upper Shaunavon "step-out" well more than six kilometers to the north of th development. This is a significant pool extension on Surge's contiguous 59 section land base. Currently the well i at attractive rates three months after being completed, and has confirmed numerous follow-up locations. The IP 3 well was over 200 bopd – which meets Surge's internal type curve.
- Surge drilled its first Lower Shaunavon well in three years – utilizing new monobore and cemented liner te This well is producing at approximately 150 percent of management's internal type curve expectations, and well a directly offsetting Lower Shaunavon producing wells.
- The Company's extensive Upper Shaunavon waterflood in the west central portion of the Surge's large, 250 millio internally estimated OOIP, operated, crude oil pool continues to exceed expectations (with expected recovery fac percent on waterflood).
- The nine producing Upper Shaunavon oil wells, which are being supported by five injectors, are averaging over 8 after approximately 22 months of production. At current strip pricing, the average of these nine producers would r 'pay-out' in approximately seven months.
- In Q3 2017 Surge converted four more Upper Shaunavon wells to injection, three of which are located at the larg Shaunavon pool extension that Surge discovered two years ago on the southern portion of the Company's land b
- Current netbacks at Shaunavon are over $40 per boe.

- Surge has 200 net internally estimated drilling locations at Shaunavon, comprised of 130 Upper Shaunavon, and Shaunavon locations – providing a drilling inventory of more than 10 years.
- Shaunavon wells provides both excellent IRR's, and high long term PIR's, for both primary drilling and waterflood

Valhalla – Development Drilling Success Continues

- At Valhalla, in Q3 2017 Surge drilled a successful 100 percent working interest well at the Company's operated, l This well is meeting management's type curve expectations.
- In order to ensure the availability of fraccing services in the fall of 2017, Surge plans to drill one additional (100 pe working interest) well this fall at Valhalla with plans to frac in late Q4 2017 – this well had originally been b drilling in Q1 2018.
- Surge's high quality, 140 million internally estimated OOIP, Doig sandstone reservoir at Valhalla (with expected r factors of 10 to 15 percent on primary), has been independently analyzed by a number of firms as having some o rates of return for crude oil drilling in Canada; Valhalla wells also provide strong PIR's.
- The Company's exciting multi zone, light oil assets at Valhalla have over 75 internally estimated locations, providi inventory of more than 10 years (including Doig; Montney; Doe Creek; and Charlie Lake).

Management attributes the Company's continued quarterly operational outperformance to be a direct result of strategic allocating growth capital to Surge's high quality, large OOIP, light and medium gravity, conventional crude oil reservoirs risk development drilling, and successful waterflood implementation.

OUTLOOK – SUSTAINABLE GROWTH, LONG TERM VALUE, AND INCOME

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

In the last 17 months, Surge has now upwardly revised the Company's production per share estimates four times. As a Surge's successful ongoing drilling and waterflood activities in the Company's three primary operating areas, together w recent core Sparky area asset acquisitions, Surge will now be delivering production per share growth of more than 24 p Q2 2016 to the end of Q4 2017.

All three of Surge's core operated assets generate excellent IRR's, and high, long term PIR's - for both drilling and wate activities.

In addition, Surge has increased the Company's dividend per share by 26.7 percent since the start of 2017, while mai conservative simple payout ratio.

Accordingly, as a result of management's strategic capital allocation decisions, rigorous cost cutting initiatives, and exc ongoing operational results, we believe that Surge is well positioned to continue delivering solid per share growth, while wells that deliver both high IRR's and PIR's, and paying the Company's dividend, on a go-forward basis.

Detailed information regarding Surge's preliminary guidance for 2018 is set forth in the Company's Press Release date 26, 2017.

FORWARD LOOKING STATEMENTS:

This press release contains forward-looking statements. The use of any of the words "anticipate", "continue", "estimate "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. T statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to materially from those anticipated in such forward-looking statements.

More particularly, this press release contains statements concerning: the Company's recent acquisitions in the Sparky a impact and anticipated benefits of the acquisitions on the Company and its results and development plans; the fits of th acquired assets with the Company's existing assets; the expected closing date of the convertible debenture financing; t terms of the convertible debenture financing; the use of proceeds from the convertible debenture financing; manageme expectations with respect to the development of its asset base; production volumes; drilling activities, inventories and lo Surge's capital expenditure program, including drilling and development plans and enhanced recovery projects and the results to be expected thereof; expectations with respect to the Company's ability to operate and succeed in the current price environment; the Company's declared focus and primary goals; 2017 exit production and production per share gro Surge's dividend; simple payout ratio; operating and corporate netbacks; management's estimates and expectations re capital expenditures and operating costs, growth opportunities and strategies, estimated reserves and estimated reserv resources; the Company's preliminary 2018 guidance; the availability of Surge's bank line to fund provide the Company sufficient liquidity and financial flexibility; and anticipated commodity prices; and management's expectations regarding

The guidance for 2017 set forth in this press release may be considered to be future-oriented financial information or a outlook for the purposes of applicable Canadian securities laws. Financial outlook and future-oriented financial informat contained in this press release are based on assumptions about future events based on management's assessment of information currently available. The future-oriented financial information and financial outlooks contained in this press re been approved by management as of the date of this press release. Readers are cautioned that any such financial outl future-oriented financial information contained herein should not be used for purposes other than those for which it is di herein.

The forward-looking statements are based on certain key expectations and assumptions made by Surge, including exp and assumptions concerning the performance of existing wells and success obtained in drilling new wells, anticipated e cash flow and capital expenditures, the application of regulatory and royalty regimes, prevailing commodity prices and e conditions, development and completion activities, the performance of new wells, the successful implementation of wat programs, the availability of and performance of facilities and pipelines, the geological characteristics of Surge's proper successful application of drilling, completion and seismic technology, the determination of decommissioning liabilities, p weather conditions, exchange rates, licensing requirements, the impact of completed facilities on operating costs and th availability, costs of capital, labour and services and the creditworthiness of industry partners and the impact of transac 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 assura they will prove to be correct. Since forward-looking statements address future events and conditions, by their very natu involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a n factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., op risks in development, exploration and production; delays or changes in plans with respect to exploration or developmen capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to produ and expenses, and health, safety and environmental risks), commodity price and exchange rate fluctuations and constr availability of services, adverse weather or break-up conditions, uncertainties resulting from potential delays or changes with respect to exploration or development projects or capital expenditures or failure to obtain the continued support of under Surge's bank line. Certain of these risks are set out in more detail in Surge's Annual Information Form dated Mar and in Surge's MD&A for the period ended June 30, 2017, both of which have been filed on SEDAR and can be access www.sedar.com.

The forward-looking statements contained in this press release are made as of the date hereof and Surge undertakes n to update publicly or revise any forward-looking statements or information, whether as a result of new information, futur 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, par used in isolation. A boe conversion ratio of 1 boe for 6,000 cubic feet of natural gas is based on an energy equivalency method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Boe/d and bo barrel of oil equivalent per day. Original Oil in Place (OOIP) is the equivalent to Discovered Petroleum Initially In Place the purposes of this press release. DPIIP is defined as quantity of hydrocarbons that are estimated to be in place withir accumulation. There is no certainty that it will be commercially viable to produce any portion of the resources. A recove cannot be defined for this volume of DPIIP at this time, and as such it cannot be further sub-categorized. "Internally est similar terms means an estimate that is derived by Surge's internal APEGA certified Engineers, and Geologists and pre accordance with National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities. All internal estimates c this new release have been prepared effective as of September 8, 2017. IRR means Internal Rate of Return and is the rate required for the net Present Value to equal zero. PIR means Profit to Investment Ratio and is equal to the present future cashflow divided by the investment capital (a value lower than 1.0 would indicate that the projects Present Value the initial investment).

Drilling Inventory

This press release discloses drilling locations that are booked locations as well as unbooked locations. Proved location probable locations, which are sometimes collectively referred to as "booked locations", are derived from the independe engineering evaluation of the oil, natural gas liquids and natural gas reserves attributable to the Company prepared by Associates Limited effective December 31, 2016 and dated February 17, 2017 (the "Sproule Report") and account for locations that have associated proved or probable reserves, as applicable. Unbooked locations are internal estimates b Company's prospective acreage and an assumption as to the number of wells that can be drilled per section based on practice and internal review. Unbooked locations do not have attributed reserves or resources. Of the more than [525] locations identified herein [349] are unbooked locations. Of the [176] booked locations identified herein [130] are prove and [46] are probable locations as of the Sproule Report. Unbooked locations have specifically been identified by mana an estimation of our multi-year drilling activities based on evaluation of applicable geologic, seismic, engineering, produ reserves data on prospective acreage and geologic formations. The drilling locations on which we actually drill wells wi depend upon the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, act results and other factors.

Non-IFRS Measures

This press release contains the terms "adjusted funds flow", "adjusted funds flow from operations", "net debt", "operati "corporate netback" and "payout ratio" which do not have a standardized meaning prescribed by International Financial Standards ("IFRS") and therefore may not be comparable with the calculation of similar measures by other companies. Management uses "adjusted funds flow from operations" (cash flow from operating activities before changes in non-cas capital, decommissioning expenditures, transaction costs and cash settled stock-based compensation) to analyze oper performance and leverage. Management believes that adjusted funds flow from operations is a useful supplemental me provides an indication of the results generated by the Company's principal business activities before the consideration activities are financed or how the results are taxed. Management defines net debt as outstanding bank debt plus or mi capital, excluding the fair value of financial contracts and other current obligations. Operating netback denotes total sa royalty expenses, and operating and transportation costs calculated on a per boe basis. Corporate netback denotes op netback less general and administrative, interest and financing expense, exploration expense plus interest income on a basis. Surge considers corporate netback as an important measure to evaluate its overall corporate performance. Pay calculated on a percentage basis as dividends declared divided by adjusted funds flow from operations. Payout ratio is management to monitor the dividend policy and the amount of adjusted funds flow from operations retained by the Com capital reinvestment. Additional information relating to these non-IFRS measures can be found in the Company's most 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 respon the adequacy or accuracy of this release.

SOURCE Surge Energy Inc.

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