

Surge Energy Inc. Announces 2018 Guidance

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CALGARY, Dec. 13, 2017 /CNW/ - [Surge Energy Inc.](#) ("Surge" or the "Company") (TSX: SGY) announces that its Board of Directors has formally approved Surge's 2018 capital expenditure and production guidance.

APPROVED GUIDANCE FOR 2018; CAPITAL EXPENDITURE BREAKDOWN

Pursuant to a Press Release dated October 26, 2017, Surge provided preliminary capital expenditure and production guidance for 2018.

In 2018 Surge now anticipates spending \$98.75 million of total capital, broken down as follows:

Capital Category	Amount
Drill & Complete, Tie-in	\$68.75 million
Waterflood	\$4 million
Facilities	\$9 million
Workovers	\$7 million
Land, Capitalized G&A, other	\$10 million
Total	\$98.75 million

	2018 Budget @ \$57.50 WTI	2018 Budget @ \$65.00 WTI
Adjusted Funds Flow Netbacks (\$/boe)	\$21.80	\$25.90
Adjusted Funds Flow (\$MM)	\$128.6	\$152.8
Per Share (Basic)	\$0.55	\$0.66
All-in Sustainability Ratio	95%	80%
Simple Payout Ratio	17%	14%
Q4 Annualized Net Debt to Adjusted Funds Flow	1.75x	1.3x
Pricing Assumptions		
WTI (\$US/bbl)	\$57.50 ¹	\$65.00
CAD/USD Exchange Rate	\$0.765	\$0.785
Natural Gas (AECO C/\$GJ)	\$1.85	\$1.85
WCS Differential (\$US/bbl)	-\$15.00 ²	-\$15.00 ²
MSW Differential (\$US/bbl)	-\$3.00	-\$3.00

Note 1: This WTI pricing forecast reflects strip pricing for crude oil in 2018 as at December 11th, 2018.

Note 2: The Company has budgeted a 25% increase in 2018 WCS differentials as compared to 2017, to account for the recent widening of near-term WCS differentials. Management anticipates that the WCS differential will narrow to historical levels in early 2018.

Surge has increased the Company's estimated 2018 capital expenditures slightly (from \$95 million previously announced) to \$98.75 million in anticipation of slightly higher service costs in 2018 as a result of rising crude oil prices.

Surge's 2018 guidance provides estimated debt adjusted production per share growth of 6.3 percent, and adjusted funds flow per share growth of 26 percent, over 2017 estimates respectively.

OPERATIONS UPDATE

Surge's low risk, development drilling and waterflood results at the Company's Valhalla, Sparky, and Shaunavon core areas continue to exceed management's budgeted expectations.

The Company has exceeded management's 2017 production exit rate target of 15,850 boepd.

Valhalla ‐ Exciting Results From Downspacing

Surge's latest Doig light oil well at Valhalla, drilled in Q4 2017, is one of the longest horizontal wells drilled by the Company to date with over 2,000 meters of high quality lateral section, and a measured depth of 4,375 meters. With 26 stages, this well also has one of the highest number of frac intervals that the Company has employed to date at Valhalla.

This 200 meter in-fill well has now been on production for approximately three weeks; it is exhibiting excellent pressure response - with modest depletion; and it is producing at more than 1,300 boe/d, which is more than two times above Surge's budgeted Valhalla Doig initial thirty day production rate of 650 boepd (over 80 percent light oil).

Surge management anticipates that this new Valhalla well will payout in approximately 11 weeks.

Surge estimates it now has more than 70 net additional locations for light oil in its inventory at Valhalla, comprised as follows:

- 40 gross (34 net) Doig locations;
- 10 gross (10 net) Montney locations;
- 21 gross (20.5 net) Doe Creek locations; and
- 14 gross (9.8 net) Charlie Lake locations.

The Company budgets the drilling of five net wells at Valhalla in 2018, providing an internally estimated drilling inventory of more than 12 years.

Sparky – New Discovery at Betty Lake

In late Q3 and early Q4 of 2017, Surge completed a 3D seismic program and successfully drilled its first well at the Company's core Sparky Betty Lake asset; the Company estimates that this 100 percent working interest play has potential for more than 80 million barrels of net OOIP¹ (with an internally estimated recovery factor of 10 percent on primary, and up to 30 percent with waterflood), and more than 35 additional internally estimated drilling locations.

Surge's first Betty Lake well is producing at approximately 140 percent of the Company's Sparky type curve.

Following Surge's most recent Sparky core area acquisition in Q3 of 2017, the Company now estimates that its two new pools at Sounding Lake and Sounding Lake East have potential for more than 55 million of net-internally estimated OOIP (with an internally estimated recovery factor of 10 percent on primary and up to 30 percent with waterflood); adding up to 38 net additional internally estimated, low risk, Sparky development drilling locations.

Surge has also now drilled two successful step out Sparky wells at Provost – significantly extending the Company's large OOIP pool to the southwest. Today, following field optimization, and after tying in the two new Provost development wells to Surge's nearby Lakeview battery, management estimates that the operating expenses at Lakeview have dropped from \$17.50 per boe at the time of acquisition in April of 2017, to less than \$11.50 per boe forecast for 2018. Surge estimates it now has more than 25 low risk additional development drilling locations at Lakeview, together with waterflood upside.

Surge currently has 318 gross (311 net) internally estimated drilling locations in inventory in its Sparky core area. The Company anticipates drilling 25 net wells in this core operated area in 2018, a pace which provides more than 12 years of drilling inventory.

Shaunavon – Upper and Lower Shaunavon Results Confirm Upside

Surge's exciting Upper Shaunavon "step-out" well, more than six kilometers to the north of the Company's current development, continues to perform as a type curve well. This is a significant pool extension on Surge's large contiguous 59 section land base. The well has confirmed numerous Upper Shaunavon follow-up locations.

The Company's recent Lower Shaunavon well, drilled in Q3 2017 with the latest mono-bore and cemented liner technology, is performing above type curve. Surge has more than 70 internally estimated Lower Shaunavon locations.

Surge has also successfully converted four more Upper Shaunavon wells to injection, three of which are located at the large Upper Shaunavon pool extension that Surge discovered two years ago on the southern portion of the Company's land block.

Surge currently has 246 gross (233 net) internally estimated drilling locations in inventory in its Shaunavon core area. The Company plans to bring 17 Upper and Lower Shaunavon wells on production in 2018 at this core operated asset, providing over 13 years of drilling inventory at the current pace.

FINANCIAL UPDATE & INCREASED CREDIT FACILITY

In late November, Surge's revolving credit facility was expanded to a new level of \$305 million, which represents a seven percent increase from the previous facility. Including the proceeds of Surge's previously announced convertible debenture financing, Surge now has approximately \$100 million of credit availability on its bank line.

Surge has also recently increased its currency hedges for 2018. The Company now has approximately 22 percent of its projected 2018 budget revenues hedged at rate of 0.7765 CAD/USD.

OUTLOOK & CONTINUED PER SHARE GROWTH IN 2018

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.

Over the last 18 months, Surge has now increased production per share by more than 23 percent, increased its dividend by more than 26 percent, and upwardly revised production estimates four times & two times organically, and two times pursuant to accretive Sparky core area acquisitions.

In conjunction with putting forth Surge's 2018 guidance, management has also completed an internally generated Five Year Business Model in which the Company can organically grow production per share at five to six percent per year, increase Surge's dividend through growth in free cash flow, and reduce debt to less than one times adjusted funds flow & all at current guidance pricing. This five year growth model requires the drilling of less than 46 percent of the Company's current internal inventory.

Surge will continue to grow its production base and location inventory in the Company's three core areas - at Sparky, Shaunavon, and Valhalla & through, organic, low risk, development drilling, combined with strategic, high quality, core area acquisitions.

RESIGNATION OF DIRECTOR

Surge also announces that Mr. Colin Davies has tendered his resignation as a Director of the Company, effective December 12, 2017, due to the commitment required of Mr. Davies in connection with his recent appointment as Chief Executive Officer of an active private, Alberta based, oil company. The Board thanks Mr. Davies for his participation and contribution as a Director and as Chair of the Company's Reserves Committee and wishes him well in his new endeavors.

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 planned 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; management's 2018 capital expenditure and production guidance, including respecting funds flow; funds flow netbacks and annualized net debt to funds flow and management's pricing and service cost assumptions for 2018; Surge's dividend; recovery factors; sustainability, growth opportunities and strategies, estimated reserves and resources; production per share growth; growth in free cash flow; debt levels; and drilling inventories and locations.

The 2018 capital expenditure and production guidance and certain other measures 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. Future-oriented financial information and financial outlooks 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 future-oriented financial information and financial outlook 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 December 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/Oil and Gas Metric

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. "Internally estimated" means an estimate that is derived by Surge's internal APEGA certified Engineers, and Geologists and prepared in accordance with National

Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities.

Drilling Inventory

This press release discloses drilling locations that are booked locations as well as unbooked locations. Proved locations and probable locations, which are sometimes collectively referred to as "booked locations", are derived from the independent engineering evaluation of the oil, natural gas liquids and natural gas reserves attributable to the Company prepared by Sproule Associates Limited effective December 31, 2016 and dated February 17, 2017 (the "Sproule Report") 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 649 gross (618.3 net) drilling locations identified herein 474 gross (452.7 net) are unbooked locations. Of the 175 gross (165.6 net) booked locations identified herein 130 gross (123.1 net) are proved locations and 45 gross (42.5 net) are probable locations as of the Sproule Report. 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, "annualized net debt to adjusted funds flow", "adjusted funds flow", "adjusted funds flow netback", "sustainability", "simple payout ratio" and "free cash flow" 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 defines net debt as outstanding bank debt plus or minus working capital, excluding the fair value of financial contracts and other current obligations. Management uses "annualized net debt to adjusted funds flow" to analyze leverage and capital structure. Annualized net debt to adjusted funds flow is calculated as the period end net debt divided by annualized Q4 adjusted funds flow. Management believes "adjusted funds flow" and "adjusted funds flow netback" are 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. "Sustainability" is a comparison of a company's cash outflows (capital investment and dividends) to its cash inflows (adjusted funds flow) and is used by the Company to assess the appropriateness of its dividend levels and the long-term ability to fund its development plans. "Sustainability ratio" is calculated using the development capital plus dividends paid divided by adjusted funds flow. Simple payout ratio is calculated on a percentage basis as dividends declared divided by adjusted funds flow. Simple payout ratio is used by management to monitor the dividend policy and the amount of adjusted funds flow retained by the Company for capital reinvestment. Free cash flow is defined as funds from operations less capital expenditures. 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

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~~1-Original Oil in Place (OOIP) is the equivalent to Discovered Petroleum Initially In Place (DPIIP) for the purposes of this press release.~~

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