

Surge Energy Inc. Announces \$130 Million Term Debt Financing; New \$150 Million First Lien Credit Facility; Repayment of \$42 Million BDC Term Facility; and Provides Strategic Outlook to Shareholders

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CALGARY, Dec. 9, 2021 - [Surge Energy Inc.](#) ("Surge" or the "Company") (TSX: SGY) is pleased to announce that it has closed a new \$130 million 5-year term debt facility (the "Term Debt Facility") and a new normal course \$150 million first lien credit facility (the "First Lien Credit Facility") with a revised syndicate of five lenders (the "First Lien Credit Facility"). Concurrent with the closing of the Term Debt Facility and the First Lien Credit Facility, the Company has repaid its \$42 million, non-revolving BDC term loan (the "BDC Term Facility").

NEW 5-YEAR TERM DEBT FACILITY

On December 9, 2021 Surge closed a new 5-year, \$130 million senior secured second lien Term Debt Facility with an annual coupon of 8.85%. The lenders under the \$130 million Term Debt Facility have the option through 2022 to lend an additional \$20 million to Surge on the same terms and conditions.

The Term Debt Facility provides the Company with long term stable capital, to facilitate the continued development of its high quality, conventional, light and medium gravity crude oil asset base. Furthermore, the Term Debt Facility also represents a significant step forward toward the Company's goal of returning to a shareholder returns-based business model focused on a combination of 1) debt repayment; 2) sustainable dividends; 3) modest production per share growth; and 4) share buyback.

Surge has directed the majority of the \$130 million Term Debt Facility proceeds towards the repayment of existing first lien revolving bank debt, the repayment of the \$42 million owing under the BDC Term Facility, and the acquisition of certain infrastructure previously leased by the Company.

NEW FIRST LIEN CREDIT FACILITY

In conjunction with the Term Debt Facility, Surge has also closed a new first lien secured credit facility for a total of \$150 million with a syndicate of five supportive banks. The First Lien Credit Facility is a normal course, reserve based credit facility available on a revolving basis through November 30, 2022, with bi-annual borrowing base redeterminations and term maturity of November 30, 2023.

REPAYMENT OF BDC TERM FACILITY

The closing of the Term Debt Facility and First Lien Credit Facility has facilitated the repayment of the Company's non-revolving \$42 million BDC Term Facility, created by the Business Development Bank of Canada.

This strategic repayment allows the Company to exit the Business Credit Availability Program ("BCA Program") that governed the BDC Term Facility. Participation in the BCA Program placed certain restrictions on Surge's capital allocation options, including the payment of dividends.

The Company would like to thank the Business Development Bank of Canada for the capital provided under the BCA Program during a period of unprecedented commodity price volatility.

REVISED DEBT CAPITAL STRUCTURE AND LIQUIDITY

With the closing of the Term Debt Facility, the new First Lien Credit Facility, and the repayment of the BDC Term Facility, the Company's debt capital structure benefits from significantly improved term and enhanced stability.

The Company now forecasts that it will be drawn approximately \$100 million on the First Lien Credit Facility as at December 31, 2021, providing Surge with approximately \$50 million in undrawn credit capacity and significant available liquidity.

"Surge's attractive conforming first lien credit facility and new second lien credit facility are the culmination of the many steps taken by Management and the Board over the past 12 months to reposition Surge for the current business environment," said Paul Colborne, President and CEO. "We have now positioned Surge to thrive in the current environment, and provide the Company with significant financial flexibility going forward. Surge remains committed to our goal of returning to a dividend-paying shareholder returns based business model in 2022".

Surge will continue to focus on reducing debt leverage over the next six months and is targeting the reinstatement of its dividend model in mid-2022, subject to market conditions and the approval of Surge's Board of Directors.

STRATEGIC OUTLOOK: FINANCIAL DISCIPLINE AND SHAREHOLDER RETURNS MODEL

The Company has seen significant, structural changes regarding the availability of conventional debt capital for Canadian companies, due primarily to the Redwater decision of the Supreme Court of Canada, as well as the global COVID-19 pandemic.

Consequently, in late 2020 Surge Management strategically assessed and analyzed the Company's strong competitive advantages including, its long (15 year) reserve life index, low conventional corporate decline, high crude oil netbacks, production efficiencies, large 13 year drilling inventory, and substantial \$1.0 billion tax pool base.

Accordingly, with this announcement today, over the last 12 months Surge Management has now executed over \$620 million in debt and equity financings, re-financings, asset sales, and two corporate acquisitions, to strategically adapt to changing market conditions, and to reposition the Company to be a top performer in 2022 and beyond. Excitingly for shareholders, Surge has been able to maintain a dominant operational growth position in the Company's medium gravity crude oil Sparky core area while also adding a significant new core area position in the light gravity crude oil growth plays in SE Saskatchewan.

Surge Management's stated goal is to position the Company as a well financed energy producer with a significant free cash flow yield that supports consistent shareholder returns through: 1) debt repayment; 2) sustainable dividends; 3) modest production growth; and 4) share buybacks.

As previously announced, Surge now forecasts a free cash flow yield of 30%¹ in 2022 at crude oil pricing of US\$70 WTI.

The Company is currently producing at or above management's projected 2021 production exit rate of 21,500 boepd (800,000 bbl liquids), with over 975 net (internally estimated) development drilling locations³ - providing the Company a 13 year development drilling inventory.

The Company will provide further details to shareholders on management's shareholder returns-based business model when announcing its Board approved 2022 capital budget, in January of 2022.

ADVISORS

National Bank Financial Inc. acted as exclusive financial advisor to Surge with respect to the Term Debt Facility. ATB Capital Markets and BMO Capital Markets have been appointed strategic advisors to Surge on the Term Debt Facility. McCarthy LLP is acting as legal advisor to Surge with respect to the Term Debt Facility.

FORWARD LOOKING STATEMENTS:

This press release contains forward-looking statements. The use of any of the words "anticipate", "continue", "estimate", "forecast", "expect", "intend", "may", "might", "plan", "possible", "potential", "predict", "project", "should", "will", "would", "could", or "can" or similar expressions are intended to identify forward-looking statements.

"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 with respect to Surge's declared focus and primary goals, including its goal of returning to a shareholder returns-based business; Surge's plans regarding the continued development of its assets; Surge's beliefs regarding the stability of its revised debt structure; Surge's forecast regarding the amount expected to be drawn under its First Lien Credit Facility as at December 31, 2020 and its available liquidity; Surge's reserve life index, corporate decline, drilling inventory and tax pool base; management's view to Surge's positioning to perform in 2022 and beyond; and management's projections regarding Surge's 2021 production.

The forward-looking statements are based on certain key expectations and assumptions made by Surge, including expectations and assumptions the performance of existing wells and success obtained in drilling new wells; anticipated expenses, 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 market conditions; exchange rates; licensing requirements; the impact of completed facilities on operating costs; the availability of capital, labour and services; and the creditworthiness of industry partners.

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 condition of the global economy, including the impact of public health (including the impact of COVID-19) and other geopolitical risks; 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 assumptions 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; and 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 2020 Form 10-K dated March 9, 2021 and in Surge's MD&A for the period ended December 31, 2020, 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 results or otherwise, unless so required by applicable securities laws.

Oil and Gas Advisories

The term "boe" means barrel of oil equivalent on the basis of 1 boe to 6,000 cubic feet of natural gas. Boe may be misinterpreted, 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 equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. "Boe/d" and "boepd" mean barrel of oil equivalent per day. Bbl means barrel of oil and "bopd" means barrels of oil per day. NGL means natural gas liquids.

This press release contains certain oil and gas metrics and defined terms which do not have standardized meanings or methods of calculation and therefore such measures may not be comparable to similar metrics/terms presented by other companies and may differ by definition and application. All oil and gas metrics/terms used in this document are defined below:

Original Oil in Place ("OOIP") means Discovered Petroleum Initially In Place ("DPIIP"). DPIIP is derived by Surge's internal Qualified Reserve Evaluators ("QRE") and prepared in accordance with National Instrument 51-101 and the Canadian Oil and Gas Evaluations Handbook ("COGEH"). DPIIP, as defined in COGEH, is that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production. The recoverable portion of DPIIP includes production, reserves and Resources Other Than Reserves (ROTR). OOIP/DPIIP and potential recovery rate estimates are based on current recovery technologies. There is significant uncertainty as to the ultimate recoverability and commercial viability of any of the resources associated with OOIP/DPIIP, and as such a recovery project cannot be defined for a volume of OOIP/DPIIP at this time. "Estimated" means an estimate that is derived by Surge's internal QRE's and prepared in accordance with National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities. All internal estimates contained in this new release have been effective as of Jan 1, 2021.

Drilling Inventory

This press release discloses drilling locations in two categories: (i) booked locations; and (ii) unbooked locations. Booked locations are proved locations and probable locations derived from an external evaluation using standard practices as prescribed in the Canadian Oil and Gas Evaluations Handbook and account for drilling locations that have associated proved and/or probable reserves, as applicable.

Unbooked locations are internal estimates based on prospective acreage and assumptions 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 production. Unbooked locations have been identified by Surge's internal certified Engineers and Geologists (who are also Qualified Reserve Evaluators) as an estimation of our multi-year drilling activities based on evaluation of applicable geologic, seismic, engineering, production and reserves information. There is no certainty that the Company will drill all unbooked drilling locations and there is no certainty that such locations will result in additional oil and gas reserves, resources or production. The drilling locations on which the Company actually drills wells will ultimately depend upon the availability of capital, regulatory approvals, sanctions, restrictions, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors. While certain of the unbooked drilling locations have been de-risked by drilling existing wells in relative close proximity to such unbooked drilling locations, the majority of other unbooked drilling locations are farther away from existing wells where management has less information about the characteristics of the reservoir and therefore there is more uncertainty whether or not wells will be drilled in such locations and if drilled there is more uncertainty that such wells will result in additional oil and gas reserves or production.

Net of Surge March 25, 2021 disposition, the pro forma Company (Surge + Astra + Fire Sky) will have over >1,050 gross (net) drilling locations identified herein, of these >450 gross (>400 net) are unbooked locations. Of the 562 net booked locations identified herein, 415 net are Proved locations and 147 net are Probable locations based on Sproule's 2020YE reserve estimates. An average number of net wells drilled per year of 75, Surge's >975 net locations provide 13 years of drilling.

Surge's internally developed type curves (for Surge, Astra and Fire Sky) were constructed using a representative, factually balanced analog data set, as of Jan 1, 2021 for Surge type curves, April 15, 2021 for Astra type curves and July 1, 2021 for Fire Sky type curves. All locations were risked appropriately, and EUR's were measured against OOIP estimates to ensure a reasonable recovery factor was being achieved based on the respective spacing assumption. Other assumptions, such as operating expenses, wellhead offsets, land encumbrances, working interests and NGL yields were all reviewed, updated and accounted for on a well by well basis by Surge's Qualified Reserve Evaluators. All type curves fully comply with Part 5.8 of Companion Policy 51 - 101CP.

Non-GAAP Financial Measures

Certain secondary financial measures in this press release - namely, "free cash flow" are not prescribed by GAAP. The non-GAAP financial measures are included because management uses the information to analyze business performance, cash flow generated from the business, leverage and liquidity, resulting from the Company's principal business activities and is useful to investors on the same basis. None of these measures are used to enhance the Company's reported financial performance or position. The non-GAAP measures do not have a standardized meaning prescribed by IFRS and therefore are unlikely to be comparable to similar measures presented by other issuers. They are common in the reports of other companies and may differ by definition and application. All non-GAAP financial measures used in this document are defined below:

Free Cash Flow and Free Cash Flow per Share

Free cash flow is calculated as cash flow from operating activities less exploration and development capital expenditures. Management uses free cash flow to determine the amount of funds available to the Company for future capital allocation.

Free cash flow per share is calculated using the same weighted average basic and diluted shares used in calculating income per share.

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.

¹ Calculated as \$225 million in 2022 forecast cash flow from operating activities, less \$120 million in exploration and development capital, for \$105MM or \$1.26 per share of free cash flow. \$1.26 per share divided by a \$4.25 SGY share price results in a 30% free cash flow yield. See the Non-GAAP Financial Measures section of this document for further information.

² US\$70 WTI per barrel, -US\$13.00 per barrel WCS differential, -US\$4 per barrel MSW differential, \$3.50 per GJ AECO, \$.78 USD/CAD FX.

³ See the Drilling Inventory section of this document for further information

SOURCE [Surge Energy Inc.](#)

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