



SURGE ENERGY INC. ANNOUNCES SUCCESSFUL 1H/21 DRILLING PROGRAM; STRATEGIC \$106 MILLION ASSET SALE; POSITIVE CREDIT FACILITY RE-DETERMINATION

CALGARY, ALBERTA (March 4, 2021) Surge Energy Inc. (“Surge” or the “Company”) (TSX: SGY) is pleased to announce its successful 32 well 1H/21 drilling program, a strategic \$106 million asset sale (the “Sale”), and a positive re-determination of its first lien and second lien credit facilities.

SURGE ENERGY - VALUE CREATION AND DEBT REDUCTION

Very Positive Macro Environment for Canadian Crude Oil

2020 was an extremely difficult year for the Canadian oil and gas industry managing through the COVID crisis, and the Saudi-Russia oil price war, which sent oil prices plunging from a high of over US\$63 WTI per barrel in January, 2020 to a low of US\$11.57 WTI per barrel in April, 2020. Consequently, Surge Management spent much of 2020 working hard to both protect stakeholder’s capital, and to position Surge to be a top performer when crude oil prices recovered.

However, in just the last 4 months, oil prices have rallied by over 85%, from a low of US\$33.64 per barrel on November 3, 2020 to over US\$63 WTI per barrel today. Furthermore, WCS differentials have traded significantly below the long-term average of approximately US\$17 per barrel, to less than US\$12 per barrel today. Light oil differentials are also trading well below their long-term average of approximately US\$6 per barrel, to less than US\$2.75 per barrel today.

In conjunction with the improving macroeconomic environment, a number of large investment banks have recently announced significant upward revisions to their crude oil price forecasts, based on expectations for an extremely tight physical oil market in 2021 and 2022. The current (very tight) physical crude oil market, combined with sizable reductions in capital spending on large-scale oil projects, has created a structural daily supply deficit in the oil market, resulting in oil price projections of greater than US\$65 WTI per barrel by mid-year 2021.

Positioning Surge for the Turn in Oil Prices

Surge is well positioned to take advantage of the current, very positive, macro environment for crude oil, as follows:

- 1) In 1H/21 Surge is completing an exciting, 32 well drilling program in the Sparky and Valhalla (Montney) core areas; the Company anticipates adding more than 3,200 boepd (>90% medium/light oil) from the program for an all-in drill, complete, equip and tie-in (“DCET”) cost of \$39.0 million with this program;
- 2) **Concurrent with the addition of 3,200 boepd from the 1H/21 drilling program, Surge has executed a binding Purchase and Sale Agreement for the sale of 2,700 boepd for total gross proceeds of \$106 million (before customary adjustments); the Sale is set to close on or before March 31, 2021;**
- 3) Post-closing of the Sale, Surge has a high quality, low decline, medium and light oil asset base – with large original oil in place (“OOIP”)¹ reservoirs, high netbacks, and a large internally estimated drilling inventory of over 750 locations² (>14 year inventory);
- 4) As a result of crude oil prices spiking, differentials dropping, and the large production additions from the Company’s

¹ See the Oil and Gas Advisories section of this document for further details.

² See Drilling Inventory in Forward Looking Statements



exciting 1H/21 drilling program, Surge has significant positive financial ‘torque’ to its operating netback;

- 5) Over the last six years, Surge has amassed a dominant position in its core Sparky crude oil play, which is proving to be one of the most economic, conventional, medium/light oil growth plays in Canada; and
- 6) In late 2020, Surge injected over \$100 million of new capital into the Company’s capital structure and balance sheet, including the previously announced BDC financing (\$40 million second lien) and a \$51 million commitment from EDC into Surge’s existing first lien credit facility. Additionally, Surge has received over \$12 million to date under Alberta’s Site Rehabilitation Program (“SRP”), which is quickly reducing Surge’s decommissioning liability.

Management believes that Surge is uniquely positioned to take advantage of the recent, very positive macro changes to the oil industry in Canada. In 1H/21, Surge is forecasting the addition of over 3,200 boepd from the Company’s 32 well drilling program at a cost of \$39 million, while selling 2,700 boepd for gross proceeds of \$106 million pursuant to the Sale, all in the same quarter.

Accretive Asset Sale

Proceeds from the Sale will have a significant immediate, positive impact on the Company, reducing Surge’s bank indebtedness by over \$100 million, and generating annual interest expense savings of approximately \$10 million. On this basis, Surge anticipates receiving a “corporate” cash flow multiple of 5.3 times³ on the Sale.

Post-closing of the Sale, Surge retains a large, highly economic drilling inventory of more than 750 net internally estimated locations⁴. This provides the Company with a deep, low risk, development drilling inventory of over 14 years, at a pace of approximately 50 wells per year.

As a result of Management’s strategic, proactive, capital allocation decisions in 2020 and early 2021, Surge provides investors with exposure to significant growth in cash flow, AND a deep value opportunity to invest in a low risk, conventional, medium/light gravity, public crude oil company. Further, Surge’s Sparky play is turning out to be one of the top medium/light oil growth plays in all of Canada, and is completely unique within Surge’s Canadian peer group.

National Bank Financial Inc. is acting as financial advisor to Surge with respect to the Sale. McCarthy Tétrault LLP is acting as legal advisor to Surge with respect to the Sale. BMO Capital Markets and Scotiabank have also been appointed strategic advisors to Surge in connection with the Sale.

Positive Credit Facility Re-Determination

In combination with the Sale, the Company is pleased to announce that it has reached an agreement in principle with its respective lender syndicates to re-determine its first and second lien credit facilities.

At the closing of the Sale, Surge anticipates the first lien credit facilities will be re-determined at \$215 million, with the Company’s next bank review scheduled on or before November 30, 2021. In addition, the previous obligation to conduct an asset sale solicitation process in 2021 is eliminated. This re-determination is forecast to provide the Company with over \$25 million of available liquidity⁵ upon the closing of the Sale, and to significantly reduce Surge’s annual interest expense.

³ For the purposes of this press release, “cash flow multiple” is calculated as total gross proceeds from the Sale of \$106 million divided by estimated forward 12-month cash flow generated by the disposed assets, less corporate interest savings resulting from the Sale, primarily as a result of reduced outstanding bank indebtedness

⁴ See Drilling Inventory in Forward Looking Statements.

⁵ Calculated as \$215 million Credit Facilities less \$189 million in forecast post-closing bank indebtedness as at April 1, 2021.



The Company appreciates the support and partnership of its lenders through the COVID crisis.

Outlook; Guidance 2021/2022

In just the last 4 months, oil prices have rallied over 85%, from a low of US\$33.64 per barrel on November 3, 2020 to over US\$63 WTI per barrel today. Furthermore, WCS differentials are trading well below their long-term average of approximately US\$17 per barrel at less than US\$12 per barrel today. Light oil differentials are also trading below their long-term average of approximately US\$6 per barrel to less than US\$2.75 per barrel today.

In 1H/21, the Company is completing a low risk \$39 million development drilling capital program, adding estimated production of more than 3,200 boepd (>90% medium/light oil) from 32 gross (32.0 net) wells. In addition, prior to the end of Q1/21 Surge anticipates receiving gross proceeds of \$106 million from the Sale of 2,700 boepd.

On a go forward basis, Surge is planning a disciplined capital allocation strategy with an emphasis on free cash flow generation in 2H/21. The Company is currently budgeting for a 2H/21 maintenance drilling program, allocating the incremental free cash flow to continued reduction of bank indebtedness.

Surge will be reforecasting 2021, and providing 2022 guidance, after the closing of the Sale on March 31, 2021.

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: Management’s expectations and plans with respect to the development of its assets and the timing thereof; Surge’s declared focus and primary goals; Surge’s planned drilling program for 2H/21 and the potential for revisions thereto; Surge’s drilling inventory and locations; management’s expectations regarding commodity prices; the Sale and the terms, timing and anticipated proceeds and benefits therefrom; the anticipated metrics associated with the Sale, including the cash flow multiple; the expected impact of the Sale on Surge’s bank indebtedness and liquidity; management’s expectations regarding 2021 production and management’s expectations regarding DCET costs; the expectation that the Sale will further enhance the Company’s financial flexibility; and the anticipated terms and benefits of the re-determination of Surge’s credit facilities and the timing thereof.

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, 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; the availability and costs 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 trade, 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 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; 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 AIF dated March 9, 2020 and in Surge's MD&A for the period ended December 31, 2019, 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.

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 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" mean barrel of oil equivalent per day. Bbl means barrel of oil and "bopd" means barrels of oil per day. NGLs means natural gas liquids.

This press release contains certain oil and gas metrics and defined terms which do not have standardized meanings or standard methods of calculation and therefore such measures may not be comparable to similar metrics/terms presented by other issuers 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 resource associated with OOIP/DPIIP, and as such a recovery project cannot be defined for a volume of OOIP/DPIIP at this time. "Internally 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 prepared 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 internal 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 resources.



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 if drilled 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, seasonal 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 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, resources or production.

Assuming a Mar 31, 2021 reference date, the Company will have over >750 gross (>750 net) drilling locations identified herein, of these >400 gross (>400 net) are unbooked locations. Of the 316 net booked locations identified herein, 251 net are Proved locations and 65 net are Probable locations based on Sproule's 2020YE reserves. Assuming an average number of wells drilled per year of 50, Surge's >750 locations provide 14 years of drilling.

Surge's internally used type curves were constructed using a representative, factual and balanced analog data set, as of January 1, 2021. 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 capital, 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 the Companion Policy 51 – 101CP.

FURTHER INFORMATION:

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