

SURGE ENERGY INC. ANNOUNCES THIRD QUARTER FINANCIAL & OPERATING RESULTS; AND AN OPERATIONS UPDATE ON STRONG DRILLING RESULTS IN SE SASKATCHEWAN / SPARKY CORE AREAS

CALGARY, AB, Nov. 2, 2022 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") (TSX: SGY) is pleased to announce the Company's financial and operating results for the quarter ended September 30, 2022, and an update on Surge's latest drilling results.



Q3 2022 FINANCIAL & OPERATING HIGHLIGHTS

Surge's Board and Management continue to be optimistic on the outlook for crude oil prices, based on a historically tight physical market, ongoing geopolitical issues, and the significant underinvestment in the energy industry over the past several years.

During the third quarter of 2022, Surge delivered cash flow from operating activities of \$69.2 million, an increase of 163 percent as compared to Q3/21 cash flow from operating activities of \$26.3 million. Additionally, the Company delivered adjusted funds flow¹ ("AFF") of \$80.3 million in Q3/22, an increase of 189 percent compared to Q3/21 AFF of \$27.8 million.

Despite WTI crude oil prices dropping by nearly C\$20 per barrel from Q2/22 to Q3/22, Surge's Q3/22 AFF was \$1.7 million higher as compared to Q2/22, increasing from \$78.6 million in Q2/22 to \$80.3 million. This quarter over quarter increase is due to the Company's better than anticipated drilling results and the expiry of most of Surge's previously mandated fixed price crude oil hedges.

In Q3/22, Surge also returned \$8.8 million to its shareholders in the form of cash dividends pursuant to the Company's base cash dividend of \$0.42 per share per annum (paid monthly). Annualized, the Company's base cash dividend represents less than 13 percent of Q3/22 cash flow from operating activities.

During the quarter, Surge reduced net debt by 6 percent, from \$280.1 million at June 30, 2022 to \$264.3 million at September 30, 2022.

Additional highlights from the Company's Q3 2022 financial and operating results include:

- Achieved average daily production of 21,380 boepd (86 percent liquids) during Q3/22, an increase of over 21 percent as compared to Q3/21 production of 17,642 boepd (84 percent liquids);
- Successfully drilled 26 gross (20.7 net) wells with activity focused in the Company's Sparky and SE Saskatchewan conventional light and medium gravity crude oil core areas; and
- Reduced net debt¹ by \$15.9 million as compared to June 30, 2022 while concurrently completing Surge's successful Q3/22 capital program for \$42.4 million.

FINANCIAL AND OPERATING HIGHLIGHTS

(\$000s except per share amounts)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
Financial highlights						
Oil sales	166,487	97,272	71 %	520,397	243,639	114 %
NGL sales	3,920	2,663	47 %	12,912	6,437	101 %
Natural gas sales	8,890	5,170	72 %	28,111	16,606	69 %
Total oil, natural gas, and NGL revenue	179,297	105,104	71 %	561,420	266,682	111 %
Cash flow from operating activities	69,170	26,263	163 %	197,150	50,067	294 %
Per share - basic (\$)	0.83	0.46	81 %	2.36	1.07	120 %
Per share diluted (\$)	0.80	0.45	79 %	2.29	1.05	119 %
Adjusted funds flow ^j	80,294	27,804	189 %	221,748	57,118	288 %
Per share - basic (\$) ^j	0.96	0.48	98 %	2.66	1.22	117 %
Per share diluted (\$)	0.93	0.47	97 %	2.58	1.20	116 %
Net income (loss) ⁱⁱⁱ	78,057	67,612	15 %	128,216	364,740	(65) %
Per share basic (\$)	0.93	1.18	(21) %	1.54	7.82	(80) %
Per share diluted (\$)	0.91	1.15	(21) %	1.49	7.63	(80) %
Expenditures on property, plant and equipment	42,358	33,932	25 %	122,216	81,330	50 %
Net acquisitions and dispositions	—	90,000	nm ⁱⁱ	(32)	(12,591)	nm
Net capital expenditures	42,358	123,932	(66) %	122,184	68,739	78 %
Net debt ⁱ , end of period	264,261	319,790	(17) %	264,261	319,790	(17) %
Operating highlights						
Production:						
Oil (bbls per day)	17,639	14,264	24 %	17,173	13,299	29 %

NGLs (bbls per day)	647	575	12 %	712	560	27 %
Natural gas (mcf per day)	18,561	16,815	10 %	18,573	15,582	19 %
Total (boe per day) (6:1)	21,380	17,642	21 %	20,981	16,456	27 %
Average realized price (excluding hedges):						
Oil (\$ per bbl)	102.59	74.12	38 %	111.00	67.11	65 %
NGL (\$ per bbl)	65.91	50.31	31 %	66.44	42.13	58 %
Natural gas (\$ per mcf)	5.21	3.34	56 %	5.54	3.90	42 %
Netback (\$ per boe)						
Petroleum and natural gas revenue	91.16	64.76	41 %	98.02	59.36	65 %
Realized gain (loss) on commodity and FX contracts	(7.01)	(14.30)	(51) %	(15.46)	(13.57)	14 %
Royalties	(17.27)	(9.55)	81 %	(17.48)	(7.80)	124 %
Net operating expenses ⁱ	(19.31)	(16.83)	15 %	(19.25)	(17.57)	10 %
Transportation expenses	(1.30)	(1.11)	17 %	(1.47)	(1.03)	43 %
Operating netback ⁱ	46.27	22.97	101 %	44.36	19.39	129 %
G&A expense	(2.14)	(2.06)	4 %	(2.17)	(2.08)	4 %
Interest expense	(3.30)	(3.78)	(13) %	(3.47)	(4.60)	(25) %
Adjusted funds flow ⁱ	40.83	17.13	138 %	38.72	12.71	205 %
Common shares outstanding, end of period	83,977	72,177	16 %	83,977	72,177	16 %
Weighted average basic shares outstanding	83,626	57,380	46 %	83,448	46,662	79 %
Stock based compensation dilution	2,414	1,243	94 %	2,559	1,127	127 %
Weighted average diluted shares outstanding	86,040	58,623	47 %	86,007	47,789	80 %

ⁱ This is a non-GAAP and other financial measure which is defined in the Non-GAAP and Other Financial Measures section of this document.

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

ⁱⁱⁱ The nine months ended September 30, 2021 includes a non-cash impairment reversal of \$323.6 million

OPERATIONS UPDATE: STRONG DRILLING SUCCESS IN SE SASKATCHEWAN AND SPARKY CORE AREAS

During Q3/22, Surge continued its SE Saskatchewan and Sparky drilling programs, drilling 26 gross (20.7 net) wells, with 17 gross (11.7 net) horizontal wells in SE Saskatchewan targeting the Frobisher and Midale Formations, and 9.0 gross (net) horizontal wells in the Sparky core area.

As previously released, in Q2/22 Surge was successful at a highly competitive Saskatchewan Crown Land Sale in the Steelman area, which added more than 40.0 (net) internally estimated, highly economic², light oil Frobisher drilling locations² to its inventory. As part of the Company's SE Saskatchewan Q3/22 drilling program, 3 gross (3.0 net) Frobisher horizontal wells were drilled on the newly acquired lands. All three of these wells are currently on production and are exceeding internal type curve expectations.

The average 30 day initial production rates from Surge's latest three Steelman Frobisher wells is over 550 boepd (90% light oil) per well, versus an internal type curve expectation of 250 boepd². Each of these three Steelman wells paid out in less than five weeks² (at US\$85 WTI³), demonstrating the top-tier economics associated with Surge's large eight year SE Saskatchewan drilling inventory³.

Surge's exciting new drilling results, along with other nearby industry activity, have substantially de-risked the Company's internal drilling inventory of up to 110 gross (80 net) locations in the Steelman area. Surge continues to be active at Steelman, with 6 gross (5.1 net) wells anticipated to be drilled during Q4/22.

In the Sparky core area, Surge drilled 7.0 (net) horizontal wells at the Company's operated Provost and Betty Lake properties. All of these Sparky wells are now on production, with a four well pad in Provost producing at a combined 30 day initial production rate of over 750 boepd.

In Q3/22, Surge's Sparky core area production exceeded 9,500 boepd (>95% liquids; 26° API average crude oil gravity) for the first time in the Company's history, up over 675% from 1,200 boepd seven years ago. Surge has a deep, 12 year Sparky drilling inventory³ of more than 425 internally estimated locations.

OUTLOOK: PREMIUM ASSET QUALITY DRIVES SUPERIOR RETURNS

Surge is an intermediate, publicly traded oil company, focused on enhancing shareholder returns through free cash flow generation. The Company's defined operating strategy is based on acquiring and developing high quality, conventional, light and medium gravity crude oil reservoirs, using proven technology to enhance ultimate oil recoveries.

Surge's Board and Management continue to be optimistic on the outlook for crude oil prices, based on a historically tight physical market, ongoing geopolitical issues, and the significant underinvestment in the global energy sector over the past several years.

Despite WTI crude oil prices dropping by nearly CAD\$20 per barrel from Q2/22 to Q3/22, Surge's Q3/22 AFF was \$1.7 million higher than in Q2/22, increasing from \$78.6 million in Q2/22 to \$80.3 million in Q3/22. This quarter over quarter increase is due to the Company's better than anticipated drilling results, along with the expiry of most of the Company's previously mandated fixed-price crude oil hedges.

During the third quarter of 2022, Surge returned to its shareholders cash dividends totaling over \$8.8 million, pursuant to the Company's base cash dividend of \$0.42 per share per annum (paid monthly). Annualized, the Company's base cash dividend represents less than 13 percent of Q3/22 cash flow from operating activities.

With cash flow strategically allocated between high rate of return capital projects and the achievement of the Company's previously announced net debt targets, Management currently forecasts that the Company will achieve its previously announced Phase 2 return of capital net debt target in late Q2/23, based on US\$80 WTI crude oil flat pricing.

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: Surge's expectations regarding crude oil prices; its defined operating strategy; and its forecast for achievement of its Phase 2 return to capital net debt target.

The forward-looking statements are based on certain key expectations and assumptions made by Surge, including expectations and assumptions around 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, 2022 and in Surge's MD&A for the period ended December 31, 2021, 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.

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 COGEH 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 any or 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 Jan 1, 2022 reference date, the Company will have over >1,050 gross (>975 net) drilling locations identified herein; of these >550 gross (>500 net) are unbooked locations. Of the 456 net booked locations identified herein, 362 net are Proved locations and 95 net are Probable locations based on Sproule's 2021 YE reserves. Assuming an average number of wells drilled per year of 75, Surge's >1,050 locations provide 13 years of drilling.

Assuming a Jan 1, 2022 reference date, the Company will have over >425 gross (>425 net) Sparky Core drilling locations identified herein; of these >280 gross (>280 net) are unbooked locations. Of the 147 net booked locations identified herein, 107 net are Proved locations and 40 net are Probable locations based on Sproule's 2021 YE reserves. Assuming an average number of wells drilled per year of 35, Surge's >400 locations provide >12 years of drilling.

Surge's internally used type curves were constructed using a representative, factual and balanced analog data set, as of January 1, 2022. All locations were risked appropriately, and EURs 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.

Assuming an Oct 15, 2022 reference date, the Company will have over >300 gross (>250 net) SE Sask drilling locations identified herein; of these 149 gross (129 net) are unbooked locations. Of the 131 net booked locations as of Jan 1, 2022, 103 net are Proved locations and 28 net are Probable locations based on Sproule's 2021YE reserves. Assuming an average number of wells drilled per year of 30.0 net, Surge's >250 net locations provide >8 years of drilling.

Surge's average internal Frobisher type curve (Steelman land sale) economics have a payout of < 3 months @US\$85/bbl WTI (C\$104 LSB) and are supported by >125 internally evaluated Frobisher locations by Surge's Qualified Reserve Evaluators, with average metrics of: ~\$1.4 MM per well capital, ~260 boe/d IP30 per well and ~82 mboe (73 mbbl Oil + NGL's) Estimated Ultimate Recoverable reserves per well).

Non-GAAP and Other Financial Measures

This press release includes references to non-GAAP and other financial measures used by the Company to evaluate its financial performance, financial position or cash flow. These specified financial measures include non-GAAP financial measures and non-GAAP ratios, are not defined by IFRS and therefore are referred to as non-GAAP and other financial measures. Certain secondary financial measures in this press release – namely "adjusted funds flow", "adjusted funds flow per share", "free cash flow", "net debt", "net operating expenses", "operating netback", and "adjusted funds flow per boe" are not prescribed by GAAP. These non-GAAP and other 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 it may be 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 and other financial 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 but may differ by definition and application. All non-GAAP and other financial measures used in this document are defined below.

Adjusted Funds Flow & Adjusted Funds Flow Per Share

Adjusted funds flow is a non-GAAP financial measure. The Company adjusts cash flow from operating activities in calculating adjusted funds flow for changes in non-cash working capital, decommissioning expenditures, and cash settled transaction and other costs. Management believes the timing of collection, payment or incurrence of these items involves a high degree of discretion and as such may not be useful for evaluating Surge's cash flows.

Changes in non-cash working capital are a result of the timing of cash flows related to accounts receivable and accounts payable, which management believes reduces comparability between periods. Management views decommissioning expenditures predominately as a discretionary allocation of capital, with flexibility to determine the size and timing of decommissioning programs to achieve greater capital efficiencies and as such, costs may vary between periods. Transaction and other costs represent expenditures associated with property acquisitions and dispositions, debt restructuring and employee severance costs, which management believes do not reflect the ongoing cash flows of the business, and as such reduces comparability. Each of these expenditures, due to their nature, are not considered principal business activities and vary between periods, which management believes reduces comparability.

Adjusted funds flow per share is a non-GAAP ratio calculated using the same weighted average basic and diluted shares used in calculating income per share.

The following table reconciles cash flow from operating activities to adjusted funds flow and adjusted funds flow per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(\$000s except per share amounts)	2022	2021	2022	2021
Cash flow from operating activities	69,170	26,263	197,150	50,067
Change in non-cash working capital	7,164	(2,866)	18,423	(2,485)
Decommissioning expenditures	3,532	2,105	5,528	4,649
Cash settled transaction and other costs	428	2,303	647	4,888
Adjusted funds flow	\$ 80,294	\$ 27,804	\$ 221,748	\$ 57,118
Per share - basic	\$ 0.96	\$ 0.48	\$ 2.66	\$ 1.22

Free Cash Flow

Free cash flow is a non-GAAP financial measure, calculated as cash flow from operating activities less expenditures on property, plant, equipment and dividends paid. Management uses free cash flow to determine the amount of funds available to the Company for future capital allocation decisions.

Net Debt

Net debt is a non-GAAP financial measure, calculated as bank debt, term debt, plus the liability component of the convertible debentures plus current assets, less current liabilities, however, excluding the fair value of financial contracts, decommissioning obligations, and lease and other obligations. There is no comparable measure in accordance with IFRS for net debt. This metric is used by management to analyze the level of debt in the Company including the impact of working capital, which varies with the timing of settlement of these balances.

	As at Sep 30, 2022	As at Jun 31, 2022	As at Sep 30, 2021
(\$000s)			
Accounts receivable	62,984	80,589	58,968
Prepaid expenses and deposits	3,055	4,227	4,044
Accounts payable and accrued liabilities	(82,298)	(102,172)	(73,009)
Dividends payable	(2,939)	(2,918)	—
Bank debt	(9,758)	(22,254)	(189,371)
Term debt	(159,108)	(162,180)	(47,203)
Convertible debentures	(76,197)	(75,423)	(73,219)

Net Debt	(264,261)	(280,131)	(319,790)
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Net Operating Expenses

Net operating expenses is a non-GAAP financial measure, determined by deducting processing income, primarily generated by processing third party volumes at processing facilities where the Company has an ownership interest. It is common in the industry to earn third party processing revenue on facilities where the entity has a working interest in the infrastructure asset. Under IFRS this source of funds is required to be reported as revenue. However, the Company's principal business is not that of a midstream entity whose activities are dedicated to earning processing and other infrastructure payments. Where the Company has excess capacity at one of its facilities, it will look to process third party volumes as a means to reduce the cost of operating/owning the facility. As such, third party processing revenue is netted against operating costs when analyzed by management.

Operating Netback & Adjusted Funds Flow per boe

Operating netback is a non-GAAP financial measure, calculated as petroleum and natural gas revenue and processing and other income, less royalties, realized gain (loss) on commodity and FX contracts, operating expenses, and transportation expenses. Operating netback per boe is calculated as operating netback divided by total barrels of oil equivalent produced during a specific period of time. There is no comparable measure in accordance with IFRS. This metric is used by management to evaluate the Company's ability to generate cash margin on a unit of production basis.

Operating netback & adjusted funds flow are calculated on a per unit basis as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(\$000s)	2022	2021	2022	2021
Petroleum and natural gas revenue	179,297	105,104	561,420	266,682
Processing and other income	1,941	978	5,316	3,239
Royalties	(33,964)	(15,501)	(100,099)	(35,051)
Realized gain (loss) on commodity and FX contracts	(13,790)	(23,209)	(88,565)	(60,942)
Operating expenses	(39,920)	(28,288)	(115,563)	(82,156)
Transportation expenses	(2,554)	(1,798)	(8,426)	(4,630)
Operating netback	91,010	37,286	254,083	87,142
G&A expense	(4,218)	(3,346)	(12,436)	(9,344)
Interest expense	(6,498)	(6,135)	(19,899)	(20,679)
Adjusted funds flow	80,294	27,804	221,748	57,118
Barrels of oil equivalent (boe)	1,966,876	1,623,036	5,727,563	4,492,511
Operating netback (\$ per boe)	\$ 46.27	\$ 22.97	\$ 44.36	\$ 19.39
Adjusted funds flow (\$ per boe)	\$ 40.83	\$ 17.13	\$ 38.72	\$ 12.71

For more information about Surge, please visit our website at www.surgeenergy.ca

Neither the TSX nor its Regulation Services Provider (as that term is defined in the policies of the TSX) accepts responsibility of the accuracy of this release.

¹ This is a non-GAAP and other financial measure which is defined in the Non-GAAP and Other Financial Measures section of this document.

² See the Drilling Inventory section of this document.

³ Average WTI from Sept 9 to Oct 21 (when these wells produced for their first 30 days) was US\$85/bbl (C\$108/bbl LSB).



SOURCE Surge Energy Inc.

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