Surge Energy

SURGE ENERGY INC. ANNOUNCES 2022 FOURTH QUARTER AND YEAR END FINANCIAL AND OPERATING RESULTS, AND 2022 YEAR END RESERVES

CALGARY, AB, March 8, 2023 /CNW/ - Surge Energy Inc. ("Surge", "SGY", or the "Company") (TSX: SGY) is pleased to announce its financial and operating results for the quarter and year ended December 31, 2022; its year end 2022 reserves as independently evaluated by Sproule Associates Limited ("Sproule"); and a new Total Proven Plus Probable ("TPP") net asset value[1] ("NAV") of $22.37 per share.



Surge's new year end 2022 Proved Developed Producing ("PDP") NAV1 per share increased 107 percent from $3.51 per share on December 31, 2021, to $7.28 per share as independently evaluated by Sproule.

The Company's 2022 financial and operating results contained herein include only 12 days of operating and financial contribution from Surge's strategic, core area, crude oil acquisition of 3,850 boepd (99 percent liquids) (the "Acquisition") from Enerplus Corp., which closed on December 19, 2022 for a net purchase price of $198 million (after interim adjustments).

SURGE ENERGY: RECORD PERFORMANCE IN 2022

During 2022 Surge delivered a total shareholder return ("TSR") of 112 percent (share capital appreciation plus dividend), exceeding the Capped Energy Index TSR by 110 percent[2].

The Company's following operating and financial results are set forth below:

- delivered record cash flow from operating activities in 2022 of $276.1 million, an increase of 175 percent as compared to 2021 cash flow from operating activities of $100.5 million;
- increased the Company's adjusted funds flow[3] ("AFF") by over 190 percent, from $100.4 million in 2021 to $293.6 million in 2022;
- achieved average daily production of 21,262 boepd (85 percent liquids) in 2022, a 21 percent increase as compared to production of 17,642 boepd (84 percent liquids) in 2021;
- increased the Company's cash flow from operating activities per share by 78 percent from $1.83 in 2021 to $3.26 in 2022;
- delivered an increase in operating netbacks[3] of nearly 100 percent, from $21.84 per boe in 2021 to $43.47 per boe in 2022;
- reinstituted Surge's annual base cash dividend, as announced on June 15, 2022 at $0.42 per share per year;
- completed the strategic Acquisition of core area, light and medium gravity crude oil production (3,850 boepd; 99 percent oil), with an internally estimated 12 percent decline1, for a net purchase price of $198 million which closed on December 19, 2022;
- announced an increase of 14 percent to Surge's annual base cash dividend, in conjunction with the closing of the Acquisition, from $0.42 per share per year to $0.48 per share per year – effective February 15, 2023;
- completed a highly successful, upsized, oversubscribed $80 million common share equity offering with a syndicate of 10 underwriters in conjunction with the Acquisition;
- reported a new Frobisher light oil pool extension discovery at Steelman, Saskatchewan, which added more than 40 highly economic[4] internally estimated locations to Surge's large light oil

drilling location inventory in its SE Saskatchewan core area; and
- continued to grow the Company's Sparky core area, increasing Surge's medium gravity (average 25°API) crude oil production to more than 10,500 boepd (85 percent liquids) today, up over 775 percent from 1,200 boepd eight years ago.

2022 FINANCIAL AND OPERATIONAL HIGHLIGHTS

Highlights from the Company's Q4/22 and year end 2022 financial report and operations include:

- a very successful 2022 drilling program of 83 gross (69.1 net) wells, with activity strategically focused to medium and light gravity crude oil in the Company's conventional Sparky and SE Saskatchewan core areas;
- continued the Company's focus on ESG efforts, highlighted by spending a total of $11.2 million on abandonment activities during the year. This resulted in Surge abandoning 139 gross wells during 2022, representing 2 wells abandoned for each new net well drilled in 2022. These operations were funded using a combination of cash flow from operating activities, as well as grants received through the Alberta Site Rehabilitation Program and the Saskatchewan Accelerated Site Closure Program;
- replaced and replenished over 200 percent of the wells drilled by the Company in 2022 through a combination of organic drilling inventory additions via strategic land acquisition programs, as well as the Acquisition;
- delivered Q4/22 cash flow from operating activities of $79.0 million and adjusted funds flow of $71.8 million, increases of over 57 percent and 66 percent, respectively, as compared to Q4/21; and
- increased Q4/22 cash flow from operating activities per share by 43 percent, from $0.63 per share in Q4/21 to $0.90 per share in Q4/22.

2022 YEAR END RESERVES HIGHLIGHTS

With Surge's December 31, 2022 Sproule reserve report, the Company delivered the following results, using Sproule's 2022YE price deck that averages approximately US$83 WTI per barrel crude oil over the first five years:

- Surge's PDP NAV per basic share increased 107 percent in 2022 from $3.51 per share on December 31, 2021, to $7.28 per share on December 31, 2022;
- a TPP NAV of $22.37 per basic share, and a Total Proved ("TP") NAV of $13.73 per basic share;
- a PDP Finding & Development ("F&D")1 cost of $22.08/boe, including changes in future development costs ("FDC"), resulting in a 2.54x PDP Recycle Ratio1 on a 2022 average operating netback (before realized losses on financial contracts) of $56.12/boe;
- a PDP Finding, Development & Acquisition ("FD&A")1 cost of $21.95/boe, resulting in a 2.56x Recycle Ratio on a 2022 operating netback (before realized losses on financial contracts) of $56.12/boe;
- organically replaced 99 percent of production on PDP, and 103 percent of production on TPP;
- replaced 223 percent of production on PDP, and 323 percent of production on TPP, including acquisitions and dispositions;
- FDC on a TP basis increased to $846 million ($670 million at year-end 2021) and on a TPP basis, increased to $1,075 million ($832 million at year-end 2021). The increase in FDC is attributable to inflationary pressures consistent with industry averages, and acquisitions and dispositions; and
- strong reserve life index1 of 9.3 years on TP reserves, and 13.4 years on TPP reserves.

FINANCIAL AND OPERATING HIGHLIGHTS

FINANCIAL AND OPERATING HIGHLIGHTS	Three Months Ended December 31,			Years Ended December 31,		
($000s except per share amounts)	**2022**	**2021**	**% Change**	**2022**	**2021**	**% Change**
Financial highlights						
Oil sales	152,465	131,019	16 %	672,862	374,658	80 %
NGL sales	3,871	3,846	1 %	16,783	10,283	63 %
Natural gas sales	9,472	8,516	11 %	37,583	25,122	50 %
Total oil, natural gas, and NGL revenue	165,808	143,381	16 %	727,228	410,063	77 %
Cash flow from operating activities	78,975	50,417	57 %	276,125	100,484	175 %
Per share - basic ($)	0.90	0.63	43 %	3.26	1.83	78 %
Per share diluted ($)	0.88	0.63	40 %	3.17	1.79	77 %
Adjusted funds flow[a]	71,807	43,320	66 %	293,555	100,438	192 %
Per share - basic ($)[a]	0.82	0.55	49 %	3.47	1.83	90 %
Per share diluted ($)	0.80	0.54	48 %	3.37	1.79	88 %
Net income[b]	103,502	42,868	141 %	231,718	407,608	(43) %
Per share basic ($)	1.17	0.54	117 %	2.74	7.42	(63) %
Per share diluted ($)	1.15	0.53	117 %	2.66	7.28	(63) %
Expenditures on property, plant and equipment	47,728	22,456	113 %	169,944	103,786	64 %
Net acquisitions and dispositions	200,302	78,004	157 %	200,270	65,413	206 %
Net capital expenditures	248,030	100,460	147 %	370,214	169,199	119 %
Net debt[a], end of period	352,213	331,434	6 %	352,213	331,434	6 %
Operating highlights						
Production:						
Oil (bbls per day)	18,127	17,192	5 %	17,413	14,280	22 %
NGLs (bbls per day)	695	720	(3) %	708	600	18 %
Natural gas (mcf per day)	19,647	19,503	1 %	18,844	16,571	14 %
Total (boe per day) (6:1)	22,097	21,163	4 %	21,262	17,642	21 %
Average realized price (excluding hedges):						
Oil ($ per bbl)	91.43	82.84	10 %	105.87	71.88	47 %
NGL ($ per bbl)	60.51	58.10	4 %	64.96	46.95	38 %
Natural gas ($ per mcf)	5.24	4.75	10 %	5.46	4.15	32 %
Netback ($ per boe)						
Petroleum and natural gas revenue	81.56	73.65	11 %	93.71	63.68	47 %
Realized loss on commodity and FX contracts	(4.71)	(15.95)	(70) %	(12.65)	(14.29)	(11) %
Royalties	(13.50)	(12.03)	12 %	(16.44)	(9.08)	81 %
Net operating expenses[a]	(20.98)	(16.91)	24 %	(19.70)	(17.37)	13 %
Transportation expenses	(1.40)	(1.27)	10 %	(1.45)	(1.10)	32 %
Operating netback[a]	40.97	27.49	49 %	43.47	21.84	99 %
G&A expense	(2.06)	(2.00)	3 %	(2.14)	(2.06)	4 %
Interest expense	(3.59)	(3.24)	11 %	(3.50)	(4.19)	(16) %
Adjusted funds flow[a]	35.32	22.25	59 %	37.83	15.59	143 %
Common shares outstanding, end of period	96,477	83,357	16 %	96,477	83,357	16 %
Weighted average basic shares outstanding	88,094	79,469	11 %	84,619	54,931	54 %
Stock based compensation dilution	2,097	1,108	89 %	2,404	1,061	127 %
Weighted average diluted shares outstanding	90,191	80,577	12 %	87,023	55,992	55 %

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

[b)] The three and twelve months ended December 31, 2021 includes non-cash impairment reversals of $9.8 million and $333.5 million, respectively.

2022 YEAR-END RESERVES

The Company's reserves were independently evaluated by Sproule in accordance with National Instrument 51-101 –*Standards of Disclosure for Oil and Gas Activities* ("NI 51-101") effective December 31, 2022. Surge's Annual Information Form (the "AIF") for the year ended December 31, 2022 contains Surge's reserves data and other oil and natural gas information as mandated by NI 51-101.

The following tables summarize Surge's working interest oil, natural gas liquids and natural gas reserves and the net present values ("NPV") of future net revenue for these reserves (before taxes) using forecast prices and costs as evaluated in the Sproule reserves report. The evaluation is based on Sproule's forecast pricing and exchange rates at December 31, 2022 which is available on their website www.sproule.com. All references to reserves in this release are to gross Company reserves, meaning Surge's working interest reserves before deductions of royalties and before consideration of the Company's royalty interests. The amounts in the tables may not add due to rounding.

RESERVES SUMMARY AND NET PRESENT VALUE

				Before Tax NPV of Future Net Revenue[d] Discounted at		
Gross Reserves[a]	**Crude Oil and NGLs (Mbbl)**[b]	**Natural Gas (MMcf)**[c]	**Oil Equivalent Total Reserves (Mboe)**	**5% ($MM)**	**10% ($MM)**	**15% ($MM)**
Proved:						
Proved Producing	39,070	33,053	44,579	1,179	1,054	947
Proved Non-Producing	1,509	1,013	1,678	48	40	35
Proved Undeveloped	32,518	35,762	38,478	776	581	446
Total Proved	**73,097**	**69,828**	**84,735**	**2,003**	**1,676**	**1,429**
Probable	32,702	31,400	37,935	1,126	835	651
Total Proved Plus Probable	**105,799**	**101,229**	**122,670**	**3,130**	**2,511**	**2,080**

a) Amounts may not add due to rounding.
b) Includes light, medium, heavy and natural gas liquids.
c) Includes non-associated and natural gas, solution gas and coal bed methane.
d) Total ADR (Abandonment, Decommissioning, Reclamation) is included in the reserves report, as it is best practice stated in the COGE Handbook.

FUTURE DEVELOPMENT CAPITAL ("FDC")

	Total Proved ($MM)	**Total Proved Plus Probable ($MM)**
2023	126	153
2024	220	239
2025	200	232
2026	153	223
2027	103	163
Remaining	44	67
Total (Undiscounted)	846	1,077
Total (Discounted at 10%)	667	829

F&D AND FD&A COSTS

	2022	3-Year Average
F&D Costs, including total change in FDC[a]		
Proved Developed Producing	**$22.08**	$20.24
Total Proved	**$45.58**	$24.80
Total Proved + Probable	**$42.59**	$30.99
FD&A Costs, including total change in FDC[b]		
Proved Developed Producing	**$21.95**	$22.79
Total Proved	**$28.25**	$26.40
Total Proved + Probable	**$24.50**	$28.69

a) 2022 FDC costs calculated using capital of $170 million plus changes in FDC of $102 million (TP) and $169 million (TPP)
b) 2022 FDC costs calculated using capital of $370 million plus changes in FDC of $176 million (TP) and $243 million (TPP)

NET ASSET VALUE

	PDP	TP	TPP
Reserve Value NPV10 BT ($mm)	1,055	1,676	2,511
Net Debt ($mm)	(352)	(352)	(352)
Total Net Assets ($mm)	703	1,324	2,159
Basic Shares Outstanding (mm)	96.5	96.5	96.5
Estimated NAV per Basic Share ($/share)	7.28	13.72	22.37

SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS

As at December 31, 2022

			Canadian Light		Western Canada		Natural Gas			
	WTI		Sweet Crude		Select (WCS) Crude		AECO-C			
Sproule	Cushing, Oklahoma		40° API		20.5 API		Spot		Exchange Rate	
Forecast[(a)]	($US/bbl)		($Cdn/bbl)		($Cdn/bbl)		($Cdn/mmbtu)		($US/$Cdn)	
Year	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Forecast										
2023	**$86.00**	$70.00	**$110.67**	$82.40	**$88.00**	$71.56	**$4.33**	$3.36	**0.750**	0.8
2024	**$84.00**	$68.00	**$101.25**	$79.80	**$89.38**	$68.74	**$4.34**	$3.02	**0.800**	0.8
2025	**$80.00**	$69.36	**$96.18**	$81.39	**$84.06**	$70.12	**$4.00**	$3.08	**0.800**	0.8
2026	**$81.60**	$70.75	**$98.10**	$83.02	**$85.74**	$71.52	**$4.08**	$3.14	**0.800**	0.8
2027	**$83.23**	$72.16	**$100.06**	$84.68	**$87.46**	$72.95	**$4.16**	$3.21	**0.800**	0.8
2028	**$84.90**	$73.61	**$102.06**	$86.38	**$89.21**	$74.41	**$4.24**	$3.27	**0.800**	0.8
2029	**$86.59**	$75.08	**$104.10**	$88.10	**$90.99**	$75.90	**$4.33**	$3.34	**0.800**	0.8
2030	**$88.33**	$76.58	**$106.18**	$89.87	**$92.81**	$77.42	**$4.42**	$3.40	**0.800**	0.8
2031	**$90.09**	$78.11	**$108.31**	$91.66	**$94.67**	$78.96	**$4.50**	$3.47	**0.800**	0.8
2032	**$91.89**	$79.67	**$110.47**	$93.50	**$96.56**	$80.54	**$4.59**	$3.54	**0.800**	0.8

a) Prices escalate at two percent after 2033, with the exception of foreign exchange which stays flat.

OPERATIONS UPDATE

In 2022 Surge successfully drilled a total of 83 gross (69.1 net) wells, spending a total of $169.9 million including expenditures on property, facilities, and equipment. The Company focused drilling operations primarily on its medium and light gravity crude oil assets in Sparky core area and SE Saskatchewan. Through the Acquisition, as well as organic land additions, Surge replaced over 200 percent of the wells drilled by the Company in 2022, growing its internal corporate drilling inventory to more than 1,150 gross (1,050 net) locations, representing a 13 year drilling inventory[4].

As previously announced, in Q2/22 Surge was successful at a highly competitive Saskatchewan Crown Land Sale in the Steelman area, which added more than 40 net internally estimated[4], light oil Frobisher drilling locations to the Company's inventory. As part of the Company's 2H/22 drilling program in SE Saskatchewan, 6 gross (6 net) horizontal Frobisher wells were drilled on the newly acquired lands. All 6 of these wells are currently on production and are exceeding internal type curve expectations with average 30 day initial production rates of more than 450 boepd (86% light oil) per well, versus an internal type curve expectation of 250 boepd per well. Each of the 6 wells had a pay out of less than 11 weeks (at an average WTI price of US$85/bbl from August to December 2022) demonstrating the strong economics associated with Surge's large development drilling inventory[4] in SE Saskatchewan.

At the Company's Sparky core area, current production is now exceeding 10,500 boepd (>85 percent liquids; 25° API average oil quality) for the first time in the Company's history, up over 775 percent from 1,200 boepd eight years ago. Surge has a 12 year Sparky drilling inventory of more than 480 internally estimated locations[4], as well as further waterflood upside.

In addition to adding the low, 12 percent decline, waterflooded assets through the Acquisition, Surge has continued to strategically pursue waterfloods in both its Sparky and SE Saskatchewan core areas, as well as at Sawn Lake. In 2022 Surge converted 8 wells to water injection in the Sparky core area, 1 well to injection at its Midale oil pool at Steelman, Saskatchewan, and 3 wells to injection in the Company's Slave Point pool at Sawn Lake in northern Alberta. The continued pursuit of waterflood with the conversion of wells to water injection in the Company's core areas helps lower declines, improves recovery factors, and adds to the sustainability of Surge's dividend plus modest growth business model.

Surge has continued the Company's operational momentum into early 2023, with two drilling rigs active in its Sparky and SE

Saskatchewan core areas. Surge plans to drill 67 net wells in 2023, comprised of 37 net Sparky wells, and 30 net SE Saskatchewan wells.

On this basis, the Company commenced Surge's winter drilling program in December of 2022, and has now completed the drilling of 10 net Sparky locations and 8 net wells in SE Saskatchewan. All wells from both the Q1/23 Sparky and SE Saskatchewan drilling programs are anticipated to be completed and on production prior to March 31, 2023.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

Surge's 2021 Sustainability Report was published Q4 2022 and can be found on the company's website. Surge's 2022 Sustainability Report is expected to be published in Q3 2023.

Surge continues to focus on its operational footprint, particularly with respect to emissions related to our production operations. Further to Surge's $11.2 million 2022 ARO program, Surge continued to deploy capital focused on the reduction and conservation of associated emissions. Surge's emission reduction budget of $2 million included tie in of two multiwell batteries, vent reduction projects, flare repair, as well as the installation of vapor recovery units. These projects have served to reduce Surge's corporate Scope 1 emissions by approximately 10 percent. Surge Management and Board are proud to showcase these achievements as demonstrations of projects that are both environmentally responsible and also economically beneficial to Surge stakeholders.

Surge also continued our commitment to abandonment and reclamation work. During 2022, Surge expanded its focus beyond downhole abandonments and undertook extensive pipeline abandonments. Surge engaged a host of different vendors for this project, which supported the communities we operate in throughout the year. In total, during 2022, Surge abandoned over 290 km of pipeline, completed 139 downhole abandonments, and spent $11.2 million in its overall abandonment and reclamation activities.

Furthermore, the Company was awarded the United Way's "Award of Excellence" in the under 250 employee category. This award recognizes outstanding and innovative United Way campaigns that make Calgary a resilient and caring community. Surge is committed to continue our award-winning programs and partnerships that benefit our local communities.

Surge is a leader and trusted steward in the responsible development of Canadian resources. Through sustainable asset development and continuous engagement with stakeholders, the Company is dedicated to creating value for current and future generations.

OUTLOOK: POSITIONED FOR SUCCESS IN 2023 AND BEYOND

Management is excited regarding Surge's exposure to the potential for rising crude oil prices in 2023.

Surge is now a 25,000 boepd (87 percent liquids) intermediate, light and medium gravity crude oil producer, with over 1,050 net internally estimated development drilling locations, providing a estimated 13 year drilling inventory.

In 2022, Surge's AFF increased by 192 percent to $293.6 million from $100.4 million in 2021, and average production increased 21 percent from 17,642 boepd in 2021 to 21,242 boepd in 2022. Further, Surge's 2022 AFF and average production results include only 12 days of operational and financial contribution from the Company's highly accretive Acquisition, which closed on December 19, 2022.

With more than 3.0 billion barrels of net (internally estimated) original oil in place ("OOIP")1, a low 7.7 percent recovery factor at year end 2022, and a dominant operational position in two of the most economic[5] light and medium gravity crude oil plays in Canada, Surge believes that the Company is poised to deliver strong results both operationally and financially in 2023 and beyond. In addition, with $1.44 billion in estimated tax pools, supporting more than $160 million in forecast free cash flow[3] before dividends in 2023, Surge is well positioned to deliver to its shareholders a combination of:

- continued net debt repayment (increasing Surge's NAV per share);
- a sustainable, base monthly dividend;
- share buybacks;
- a modest production per share growth wedge; and
- potential for variable or special dividends.

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 declared focus and primary goals; Surge's reserve life index, drilling inventory and locations, decline rates and reserves; Surge's ongoing waterflood program; ; the timing of bringing recently drilled wells onto production; the timing of publication of Surge's 2022 Sustainability Report; the Company's commitment to abandonment and reclamation work; the Company's dedication to creating value for current and future generations; Surge's belief that it is poised to deliver strong results operationally and financially; the Company's expectation that it will be positioned to deliver to its stakeholders a combination of: continued net debt repayment (increasing Surge's NAV per share), a sustainable, base monthly dividend; share buybacks; a modest production growth wedge; and potential for variable or special dividends.

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 8, 2023 and in Surge's MD&A for the period endedDecember 31, 2022, 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 news release have been prepared effective as of Jan 1, 2021.

Net Asset Value is calculated as reserve value discounted at 10% on a BTax basis, less Surge's net debt atDecember 31, 2022 of $352.2 million and is divided by 96.5 million basic shares.

Sproule's 2022YE reserves for the ERF Acquisition has a PDP decline of 12 percent and a P+PDP decline of 9.6 percent.

PDP F&D (Finding & Development) is calculated on the Capital spent for 2022 development of all properties (other than those Acquired or Disposed of in 2022), divided by the sum of all reserve additions other than those from Acquisitions & Dispositions.

Recycle Ratio is equal to F&D divided by netback.

Finding, Development and Acquisition (FD&A) is the sum of the Capital spent for 2022 development including Acquisition & Divestiture properties, plus 2022 total Acquisition & Disposition capital, plus the delta on Future Development Costs (from 2021YE vs 2022YE), divided by the sum of all reserve additions including those from Acquisitions & Dispositions.

Reserve Life Index is calculated as total Company share reserves divided by Surge's estimated 2023 production (25,000 boe/d).

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 Jan 1, 2023 reference date, the Company will have over >1,150 gross (>1,050 net) drilling locations identified herein; of these >625 gross (>575 net) are unbooked locations. Of the 489 net booked locations identified herein, 366 net are Proved locations and 122 net are Probable locations based on Sproule's 2022YE reserves. Assuming an average number of wells drilled per year of 80, Surge's >1,050 net locations provide 13 years of drilling.

Assuming a Jan 1, 2023 reference date, the Company will have over >480 gross (>480 net)Sparky Core area drilling locations identified herein; of these >300 gross (>300 net) are unbooked locations. Of the 182 net booked locations identified herein, 126 net are Proved locations and 56 net are Probable locations based on Sproule's 2022YE reserves. Assuming an average number of wells drilled per year of 40, Surge's >480 net locations provide >12 years of drilling.

Assuming a Jan 1, 2023 reference date, the Company will have over >325 gross (>275 net) SE Sask drilling locations identified herein; of these >140 gross (>120 net) are unbooked locations. Of the 154 net booked locations identified herein, 105 net are Proved locations and 49 net are Probable locations based on Sproule's 2022YE reserves. Assuming an average number of wells drilled per year of 40, Surge's >275 net locations provide ~7 years of drilling.

Assuming a subset of SE Sask inventory, and aJan 1, 2023 reference date, the Company will have over >190 gross (>160 net) SE Sask Frobisher drilling locations identified herein; of these >80 gross (>75 net) are unbooked locations. Of the 89 net booked locations identified herein, 56 net are Proved locations and 33 net are Probable locations based on Sproule's 2022YE reserves.

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 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 Qualifies Reserve Evaluators. All type curves fully comply with Part 5.8 of the Companion Policy 51 – 101CP.

Surge's average internal Frobisher type curve (Steelman land sale) economics have a payout of ~3.5 months @US$75/bbl WTI (C$95 LSB) and are supported by >125 internally evaluatedFrobisher locations by Surge's Qualified Reserve Evaluators, with average metrics of: ~$1.4 MM per well capital, ~240 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", "adjusted funds flow per boe", "free cash flow", "net debt", "net operating expenses", and "operating netback" 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, and as applicable, reconciliations to the most directly comparable GAAP measure for the year ended December 31, 2022, have been provided to demonstrate the calculation of these measures:

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 December 31,		**Years Ended December 31,**	
($000s except per share amounts)	**2022**	**2021**	**2022**	**2021**
Cash flow from operating activities	78,975	50,417	276,125	100,484
Change in non-cash working capital	(14,152)	(15,659)	4,271	(18,144)
Decommissioning expenditures	2,367	2,089	7,895	6,738
Cash settled transaction and other costs	4,617	6,473	5,264	11,360
Adjusted funds flow	$ 71,807	$ 43,320	$ 293,555	$ 100,438
Per share - basic	$ 0.82	$ 0.55	$ 3.47	$ 1.83

Free Cash Flow

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

	Years ended December 31,	
($000s)	**2022**	**2021**
Less: expenditures on property, plant and equipment	(169,944)	(103,786)
Free Cash Flow	106,181	(3,302)

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.

($000s)	**As at Dec 31, 2022**	**As at Dec 31, 2021**
Accounts receivable	60,623	55,738
Prepaid expenses and deposits	3,032	3,152
Accounts payable and accrued liabilities	(93,373)	(84,330)
Dividends payable	(3,375)	—
Bank debt	(30,597)	(98,066)
Net Bank Debt	(63,690)	(123,506)
Term debt	(256,032)	(133,993)
Convertible debentures	(32,491)	(73,935)
Net Debt	(352,213)	(331,434)

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.

	Years ended December 31,	
($000s)	**2022**	**2021**
Operating expenses	160,133	116,413
Less: processing income	(7,242)	(4,575)
Net operating expenses	152,891	111,838

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:

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.

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[1] See Oil and Gas Advisories section of the Forward Looking Statements.

[2] As reported by FactSet Research Systems Inc; comparing the TSR of SGY at 112 percent versus XEG at 53 percent from January 1, 2022 through December 31, 2022.

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

[4] See Drilling Inventory section of the Forward Looking Statements.

[5] As per Peters Oil & Gas Plays Update from Jan 9, 2023: North American Oil and Natural Gas Plays – Half Cycle Payout Period. Note: Sparky is represented as "Conventional Heavy Oil Hz" by Peters.



SOURCE Surge Energy Inc.

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https://surgeenergy.mediaroom.com/2023-03-08-SURGE-ENERGY-INC-ANNOUNCES-2022-FOURTH-QUARTER-AND-YEAR-END-FINANCIAL-AND-OPERATING-RESULTS,-AND-2022-YEAR-END-RESERVES