Surge Energy

SURGE ENERGY INC. ANNOUNCES FINANCIAL & OPERATING RESULTS FOR Q2/23

CALGARY, AB, Aug. 2, 2023 /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 June 30, 2023.



MESSAGE TO SHAREHOLDERS

Crude oil prices softened over the course of the second quarter, with Western Texas Intermediate ("WTI") averaging nearly US$80 per bbl in April 2023, and approximately US$70 per bbl in June 2023. Despite this drop in WTI pricing, Surge realized significant benefits from a dramatic tightening of Western Canadian Select ("WCS") differentials, which averaged US$15.07 per bbl in Q2/23 – down 39 percent from US$24.79 WTI per bbl during Q1/23. Approximately half of Surge's oil production is medium gravity crude oil, which is correlated to WCS pricing and significantly mitigated the impact of softer WTI pricing in the quarter. On this basis, Surge increased cash flow from operating activities by 11 percent in Q2/23, as compared to Q1/23, up from the $54.5 million realized during the first quarter to $60.6 million in the second quarter of 2023. Furthermore, the Company increased its adjusted funds flow[1] by 2 percent, from $63.3 million in Q1/23 to $64.6 million in Q2/23.

The second quarter is traditionally a slow drilling activity quarter for Canadian oil and gas companies, as counties impose annual spring road bans for moving heavy trucks and drilling equipment. Accordingly, after a successful and active Q1/23 drilling program, Surge focused a significant portion of its Q2/23 capital expenditures on facility, pipeline and well maintenance work, as well as further land consolidation in SE Saskatchewan. Subsequent to road bans being lifted in early June, Surge resumed drilling activity in both the SE Saskatchewan and Sparky core areas.

During Q2/23, Surge safely executed 8 operated gas plant and oil battery turnarounds at Valhalla, Provost, Betty Lake, Lakeview and Steelman. In addition, the Company experienced 4 additional turnarounds at facilities operated by third parties (including the Sexsmith, Keyera, Steelreef and TCPL gas plant turnarounds). Although several of these turnarounds were budgeted for by the Company, the impact of the unscheduled turnarounds reduced production in the quarter by approximately 700 boepd. Surge remains on track to meet the Company's 2023 production exit rate target of 25,000 boe per day.

The Company spud 11.8 net (13 gross) wells, and rig released 8.8 net (10 gross) wells during Q2/23, with all of these wells expected to be completed and brought on stream in mid-Q3/23. Drilling activity during the second quarter, along with the end of spring turnaround season, has positioned Surge to maximize operational runtime during the second half of 2023.

During Q2/23, Surge brought on production two new exciting Sparky wells that were drilled at Cadogan, on lands recently acquired in Q4/22. These two wells are currently producing at a combined rate of over 390 boepd (95 percent oil). Surge has an internally estimated 32 net follow up Sparky drilling locations[2] on the acquired Cadogan lands.

Surge has also acquired more than 20 sections of land on the Company's new open hole, multi-lateral, oil play in the Sparky core area. These acquired lands are offsetting the Company's exciting 6 leg, open hole, Sparky discovery well that was drilled in late 2022. Subsequent to Q2/23, Surge recently completed drilling the Company's first 12 leg, open hole, Sparky step-out well on this play trend. The Company expects production results from this step-out well in the latter part of Q3/23.

Stable quarterly cash flow, combined with a seasonally light capital expenditure program during the quarter, contributed to Surge delivering a substantial net debt[1] reduction in the amount of $20.1 million in Q2/23. This net debt reduction was achieved while also distributing $11.8 million to shareholders in Q2/23 by way of Surge's cash dividend – which is paid monthly.

Today, more than 75 percent of Surge's crude oil production is strategically located in the Company's Sparky and SE Saskatchewan core areas – which have been recently independently evaluated as two of the top four crude oil plays in North America[3]. Surge has a deep, 13 year, drilling inventory of more than 1,000 net locations[2].

FINANCIAL AND OPERATING HIGHLIGHTS

FINANCIAL AND OPERATING HIGHLIGHTS	**Three Months Ended June 30,**			**Six Months Ended June 30,**		
($000s except per share amounts)	**2023**	**2022**	**% Change**	**2023**	**2022**	**% Change**
Financial highlights						
Oil sales	149,530	196,470	(24) %	302,194	353,910	(15) %
NGL sales	2,642	4,939	(47) %	6,260	8,992	(30) %
Natural gas sales	3,305	11,590	(71) %	8,993	19,221	(53) %

Total oil, natural gas, and NGL revenue	155,477	212,999	(27) %	317,447	382,123	(17) %
Cash flow from operating activities	60,608	75,798	(20) %	115,114	127,980	(10) %
Per share - basic ($)	0.62	0.91	(32) %	1.18	1.54	(23) %
Per share diluted ($)	0.60	0.88	(32) %	1.15	1.49	(23) %
Adjusted funds flow[a]	64,640	78,561	(18) %	127,971	141,454	(10) %
Per share - basic ($)[a]	0.66	0.94	(30) %	1.31	1.70	(23) %
Per share diluted ($)	0.64	0.91	(30) %	1.27	1.64	(23) %
Net income	14,055	72,027	(80) %	28,844	50,159	(42) %
Per share basic ($)	0.14	0.86	(84) %	0.30	0.60	(50) %
Per share diluted ($)	0.14	0.83	(83) %	0.29	0.58	(50) %
Expenditures on property, plant and equipment	30,589	36,890	(17) %	76,322	79,858	(4) %
Net acquisitions and dispositions	(1,696)	(32)	nm[b]	(2,374)	(32)	nm
Net capital expenditures	28,893	36,858	(22) %	73,948	79,826	(7) %
Net debt[a], end of period	311,833	280,131	11 %	311,833	280,131	11 %
Operating highlights						
Production:						
Oil (bbls per day)	19,758	17,110	15 %	20,403	16,936	20 %
NGLs (bbls per day)	629	799	(21) %	674	745	(10) %
Natural gas (mcf per day)	18,458	18,565	(1) %	19,310	18,579	4 %
Total (boe per day) (6:1)	23,463	21,003	12 %	24,295	20,778	17 %
Average realized price (excluding hedges):						
Oil ($ per bbl)	83.17	126.19	(34) %	81.83	115.45	(29) %
NGL ($ per bbl)	46.16	67.95	(32) %	51.31	66.67	(23) %
Natural gas ($ per mcf)	1.97	6.86	(71) %	2.57	5.72	(55) %
Netback ($ per boe)						
Petroleum and natural gas revenue	72.82	111.44	(35) %	72.19	101.61	(29) %
Realized loss on commodity and FX contracts	(0.93)	(24.05)	(96) %	(0.91)	(19.88)	(95) %
Royalties	(12.11)	(19.74)	(39) %	(12.48)	(17.59)	(29) %
Net operating expenses[a]	(21.58)	(19.16)	13 %	(21.93)	(19.22)	14 %
Transportation expenses	(1.59)	(1.62)	(2) %	(1.69)	(1.56)	8 %
Operating netback[a]	36.61	46.87	(22) %	35.18	43.36	(19) %
G&A expense	(2.24)	(2.19)	2 %	(2.14)	(2.19)	(2) %
Interest expense	(4.09)	(3.58)	14 %	(3.94)	(3.56)	11 %
Adjusted funds flow[a]	30.28	41.10	(26) %	29.10	37.61	(23) %
Common shares outstanding, end of period	98,334	83,357	18 %	98,334	83,357	18 %
Weighted average basic shares outstanding	98,334	83,357	18 %	97,714	83,357	17 %
Stock based compensation dilution	2,853	2,917	(2) %	2,706	2,666	2 %
Weighted average diluted shares outstanding	101,187	86,274	17 %	100,420	86,023	17 %

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

Q2/23 Highlights:

- Achieved average production of 23,463 boe per day (87 percent liquids), a 12 percent increase over Q2/22 production of 21,003 boe per day (85 percent liquids);
- Increased cash flow from operating activities by 11 percent in Q2/23 as compared to Q1/23, up from $54.5 million to $60.6 million, despite lower WTI pricing during the period;
- Increased adjusted funds flow by 2 percent as compared to Q1/23, from $63.3 million in Q1/23 to $64.6 million in Q2/23;
- Reduced net debt during the second quarter of 2023 by approximately $20.1 million, while spending $30.6 million on property, plant and equipment, and distributing $11.8 million in cash dividends to shareholders in Q2/23;
- The Company spud 11.8 net (13 gross) wells, and rig released 8.8 net (10 gross) wells during the quarter, with all wells expected to be completed and brought on stream in mid-Q3/23; and
- Safely completed 8 operated gas plant and oil battery turnarounds, positioning Surge to maximize

operational runtime during the second half of 2023.

OUTLOOK FOR SGY: POSITIONED TO OUTPERFORM

Surge began the Company's 2H/23 drilling program on June 1, 2023, with two rigs drilling in the Sparky core area, and one rig in the SE Saskatchewan core area. Surge remains on track to meet the Company's 2023 production exit rate target of 25,000 boe per day.

Management believes market conditions for Canadian crude oil prices in the second half of the year are favourable based on the following:

1. The incremental crude oil supply cuts by Saudi Arabia (1.0 million bbls per day) and Russia (0.5 million bbls per day), started on July 1, 2023. Energy analysts are now projecting a crude oil supply shortage deficit as high as 1.8 million bbls per day in 2H/23[4];
2. Global crude oil demand hit an all-time record level of 102.8 million barrels in July, 2023[4];
3. Canadian WCS differentials dropped dramatically from an average of US$24.79 WTI per bbl in Q1/23 to an average of US$15.07 WTI per bbl for the second quarter 2023[5]; and
4. The price of crude oil has been steadily rising, from a low of US$67.12 WTI per bbl in June of 2023 to over US$82 WTI per bbl recently.

Independent research from a large Canadian based brokerage firm recently highlighted Surge as one of the best positioned public oil companies in Canada to benefit from the positive market conditions for crude oil prices as set forth above[6].

Sensitivities outlining Surge's strong, positive cash flow "torque" to oil prices and WCS differentials are set forth below[7]:

Variable	Impact on 2023e Guidance Cash Flow from Operating Activities
US$1 change in WTI	$8.7MM
$0.01 change in FX	$7.8MM
1% change in Royalty Rate	$7.5MM
US$1 change in WCS	$5.1MM
$0.50 change in Opex	$4.5MM
US$1 change in MSW	$3.4MM
C$0.25 change in AECO	$1.5MM

Surge remains well positioned to continue delivering shareholder returns in 2023 and beyond, based upon the following key corporate fundamentals:

- Ownership of more than 3.0 billion of net (internally estimated) OOIP [8]; 7.7 percent recovery factor to date;
- Ownership of more than 120 million boe of P+P reserves (Sproule); long P+P RLI of >13 years [8];
- 25,000 boepd production exit 2023 (87 percent liquids);
- Annual corporate decline: 23 percent[9];
- Operating netbacks (at US$80 WTI pricing[10]): $42 per boe;
- Guidance annual cash flow from operations: $335 million (at US$80 WTI pricing)[7,10];
- Annual dividend: $47 million; $0.48 per share annual dividend (paid in cash/monthly);
- More than 1,000 (net) drilling locations[2]; providing a 13 year drilling inventory;
- Tax pools: $1.4 billion; approximate 4 year tax horizon at US$80 WTI pricing; and
- An independent December 31, 2022 Sproule NAV: $22.37 per share (P+P); TP NAV: $13.72 per share[8].

Surge has a dominant operational position in two of the top four crude oil plays in Canada in the Company's Sparky (11,000 boepd; 85% medium gravity oil and liquids) and SE Saskatchewan (8,000 boepd; 95% light oil and liquids) core areas; as independently evaluated by a leading independent brokerage firm[3]. Surge Management believes that the Company's premium crude oil asset and opportunity base is directly responsible for driving Surge's operating and financial results.

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 focus and defined operating strategy; management's expectations regarding its 2023 production exit rate target; the anticipated timing of the completion of new wells and the onset of production therefrom; management's belief that the Company is positioned to maximize operational runtime during the second half of 2023; drilling inventory and locations; its estimated tax pools; Surge's expectations regarding crude oil prices and WCS differentials; the Company's drilling plans for the remainder of 2023; management's belief that the Company is well positioned to benefit from positive market conditions for crude

oil prices; management's expectations and beliefs regarding the impact of crude oil prices and WCS differentials on its guidance cash flow from operating activities; and Surge's belief that it is well positioned to continue to deliver shareholder returns.

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 8, 2023 and in Surge's MD&A for the period ended December 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.

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 January 1, 2023.

Surge's Net Asset Value is calculated as reserve value discounted at 10% on a BTax basis (TPP$2,511 MM, TP: $1,676 MM), less Surge's net debt at December 31, 2022 of $352.2 million and is divided by 96.5 million basic shares.

Surge's 2022YE PDP reserves has a decline of 25.8 percent and a P+PDP decline of 23.6 percent. Declines are based off March-to-March monthly data to flush out impacts of December drilling.

Reserve Life Index is calculated as total Company share reserves (122.7 MMboe) 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 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 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 January 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, 366.1 net are Proved locations and 122.4 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 January 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 January 1, 2023 reference date, the Company will have over >325 gross (>275 net)SE Saskatchewan 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 subset of SE Saskatchewan inventory, and a January 1, 2023 reference date, the Company will have over >190 gross (>160 net) SE Saskatchewan 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, 2023. 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.

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", "net debt", "net operating expenses", "net operating expenses per boe", "operating netback", "operating netback per boe", 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 June 30,		**Six Months Ended June 30,**	
($000s except per share amounts)	**2023**	**2022**	**2023**	**2022**
Cash flow from operating activities	60,608	75,798	115,114	127,980
Change in non-cash working capital	2,522	2,198	7,967	11,259

Decommissioning expenditures	1,361	501	4,610	1,996
Cash settled transaction and other costs	149	64	280	219
Adjusted funds flow	64,640	78,561	127,971	141,454
Per share - basic	$0.66	$0.94	$1.31	$1.70

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 June 30, 2023**	**As at Mar 31, 2023**	**As at June 30, 2022**
Accounts receivable	50,839	64,642	80,589
Prepaid expenses and deposits	5,814	4,340	4,227
Accounts payable and accrued liabilities	(76,038)	(89,094)	(102,172)
Dividends payable	(3,933)	(3,933)	(2,918)
Bank debt	(15,675)	(27,345)	(22,254)
Term debt	(239,716)	(247,724)	(162,180)
Convertible debentures	(33,124)	(32,803)	(75,423)
Net Debt	(311,833)	(331,917)	(280,131)

Net Operating Expenses & Net Operating Expenses per boe

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. Net operating expenses per boe is a non-GAAP ratio, calculated as net operating expenses divided by total barrels of oil equivalent produced during a specific period of time.

	Three Months Ended June 30,		**Six Months Ended June 30,**	
($000s)	**2023**	**2022**	**2023**	**2022**
Operating expenses	47,774	38,189	100,666	75,643
Less: processing income	(1,700)	(1,569)	(4,234)	(3,375)
Net operating expenses	46,074	36,620	96,432	72,268
Net operating expenses ($ per boe)	$21.58	$19.16	$21.93	$19.22

Operating Netback, Operating Netback per boe & 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 a non-GAAP ratio, 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.

Adjusted funds flow per boe is a non-GAAP ratio, calculated as adjusted funds flow divided by total barrels of oil equivalent produced during a specific period of time.

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
($000s)	**2023**	**2022**	**2023**	**2022**
Petroleum and natural gas revenue	155,477	212,999	317,447	382,123
Processing and other income	1,700	1,569	4,234	3,375
Royalties	(25,852)	(37,734)	(54,894)	(66,135)
Realized loss on commodity and FX contracts	(1,985)	(45,966)	(3,980)	(74,775)
Operating expenses	(47,774)	(38,189)	(100,666)	(75,643)
Transportation expenses	(3,395)	(3,095)	(7,442)	(5,872)
Operating netback	78,171	89,584	154,699	163,073
G&A expense	(4,791)	(4,186)	(9,401)	(8,218)

Interest expense	(8,740)	(6,837)	(17,327)	(13,401)
Adjusted funds flow	64,640	78,561	127,971	141,454
Barrels of oil equivalent (boe)	2,135,101	1,911,258	4,397,462	3,760,687
Operating netback ($ per boe)	$36.61	$46.87	$35.18	$43.36
Adjusted funds flow ($ per boe)	$30.28	$41.10	$29.10	$37.61

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.

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[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 Drilling Inventory section of the Forward Looking Statements.

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

[4] Reuters "Goldman upgrades oil demand outlook as market tempers growth pessimism" – July 30, 2023.

[5] Based on WCS forward strip pricing on July 20, 2023.

[6] As per National Bank Financial's "NBF Energy Sales Release" on May 23, 2023: 2024 Implied share price (US$90 WTI & US$60 WTI).

[7] Sensitivities are based on the Company's 2023 guidance, which is based on an annualized 25,000 boepd production level.

[8] See Oil and Gas Advisories section in the Forward Looking Statements.

[9] Surge's internally estimated decline. See Oil and Gas Advisories section in the Forward Looking Statements.

[10] Based on the following pricing assumptions: US$80.00WTI/bbl; CAD$110.34WTI/bbl; EDM CAD$104.83/bbl; WCS CAD$83.45/bbl; AECO $2.95/mcf

SOURCE Surge Energy Inc.

For further information: Paul Colborne, President & CEO, (403) 930-1507, pcolborne@surgeenergy.ca; Jared Ducs, Chief Financial Officer, (403) 930-1046, jducs@surgeenergy.ca

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https://surgeenergy.mediaroom.com/2023-08-02-SURGE-ENERGY-INC-ANNOUNCES-FINANCIAL-OPERATING-RESULTS-FOR-Q2-23