Surge Energy

SURGE ENERGY INC. ANNOUNCES THIRD QUARTER FINANCIAL & OPERATING RESULTS, AND AN OPERATIONS UPDATE ON THE LATEST DRILLING RESULTS IN SPARKY AND SE SASKATCHEWAN CORE AREAS

CALGARY, AB, Nov. 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 September 30, 2023, together with an update on Surge's latest drilling results.



Select financial and operating information is outlined below and should be read in conjunction with the Company's unaudited consolidated interim financial statements and management's discussion and analysis for the three and nine months ended September 30, 2023, available at www.sedarplus.ca and on Surge's website at www.surgeenergy.ca.

Q3 2023 FINANCIAL AND OPERATING HIGHLIGHTS

Surge's Board and Management continue to be optimistic regarding the outlook for crude oil prices based on a historically tight physical market, ongoing geopolitical issues, as well as the significant underinvestment in the energy industry over the past several years. During Q3/23, crude oil prices averaged approximately US$82 WTI per bbl, up from an average of approximately US$74 WTI per bbl in Q2/23.

During the third quarter of 2023, Surge delivered cash flow from operating activities of $71.3 million, an increase of 18 percent compared to Q2/23 cash flow from operating activities of $60.6 million. Additionally, the Company delivered adjusted funds flow[1] ("AFF") of $86.9 million in Q3/23, an increase of 35 percent compared to Q2/23 AFF of $64.6 million. Free cash flow1 (before dividends) of $40.0 million represented 46 percent of AFF generated during the quarter.

In Q3/23 Surge returned $11.9 million to its shareholders in the form of cash dividends pursuant to the Company's annual base cash dividend of $0.48 per share (paid monthly) – currently a 5.1% yield[2]. Surge's base cash dividend payments in Q3/23 represent 17 percent of cash flow from operating activities, and 14 percent of AFF, generated during the quarter.

During Q3/23, Surge also reduced net debt1 by a further $25.5 million, primarily as a result of the significant free cash flow generated during the quarter. Over the first three quarters of 2023 Surge has now methodically reduced the Company's net debt by $65.9 million.

Highlights from the Company's Q3 2023 financial and operating results include:

- Achieved average daily production of 24,108 boepd (86 percent liquids) during Q3/23, an increase of 13 percent over Q3/22 production of 21,380 boepd (86 percent liquids);
- Drilled 19 gross (16.3 net) wells, with activity focused on the Company's Sparky and SE Saskatchewan core areas;
- Reduced net debt by $25.5 million as compared to June 30, 2023, while concurrently completing Surge's successful Q3/23 capital program for $43.9 million, and returning $11.9 million of cash dividends to shareholders; and
- Subsequent to Q3/23, on October 19, 2023, Surge closed an oversubscribed $48.3 million bought deal financing (the "Offering") of 8.5 percent convertible debentures with a syndicate of underwriters. Net proceeds from the Offering will be used to fund the redemption of the Company's 6.75% convertible unsecured subordinated debentures due June 30, 2024, as well as for general corporate purposes.

FINANCIAL AND OPERATING HIGHLIGHTS

FINANCIAL AND OPERATING HIGHLIGHTS	Three Months Ended September 30,			Nine Months Ended September 30,		
($000s except per share amounts)	**2023**	**2022**	**% Change**	**2023**	**2022**	**% Change**
Financial highlights						
Oil sales	177,440	166,487	7 %	479,634	520,397	(8) %
NGL sales	3,173	3,920	(19) %	9,433	12,912	(27) %
Natural gas sales	3,862	8,890	(57) %	12,855	28,111	(54) %
Total oil, natural gas, and NGL revenue	184,475	179,297	3 %	501,922	561,420	(11) %
Cash flow from operating activities	71,315	69,170	3 %	186,429	197,150	(5) %
Per share - basic ($)	0.72	0.83	(13) %	1.90	2.36	(19) %
Per share diluted ($)	0.71	0.80	(11) %	1.85	2.29	(19) %
Adjusted funds flow[a]	86,874	80,294	8 %	214,845	221,748	(3) %
Per share - basic ($)[a]	0.87	0.96	(9) %	2.19	2.66	(18) %
Per share diluted ($)	0.86	0.93	(8) %	2.13	2.58	(17) %
Net income	16,583	78,057	(79) %	45,427	128,216	(65) %
Per share basic ($)	0.17	0.93	(82) %	0.46	1.54	(70) %
Per share diluted ($)	0.16	0.91	(82) %	0.45	1.49	(70) %
Expenditures on property, plant and equipment	43,945	42,358	4 %	120,267	122,216	(2) %
Net acquisitions and dispositions	231	—	nm[b]	(2,143)	(32)	nm
Net capital expenditures	44,176	42,358	4 %	118,124	122,184	(3) %
Net debt[a], end of period	286,295	264,261	8 %	286,295	264,261	8 %
Operating highlights						
Production:						
Oil (bbls per day)	20,188	17,639	14 %	20,330	17,173	18 %
NGLs (bbls per day)	659	647	2 %	669	712	(6) %
Natural gas (mcf per day)	19,564	18,561	5 %	19,396	18,573	4 %
Total (boe per day) (6:1)	24,108	21,380	13 %	24,232	20,981	15 %
Average realized price (excluding hedges):						
Oil ($ per bbl)	95.53	102.59	(7) %	86.42	111.00	(22) %
NGL ($ per bbl)	52.34	65.91	(21) %	51.63	66.44	(22) %
Natural gas ($ per mcf)	2.15	5.21	(59) %	2.43	5.54	(56) %
Netback ($ per boe)						
Petroleum and natural gas revenue	83.17	91.16	(9) %	75.87	98.02	(23) %
Realized loss on commodity and FX contracts	(0.69)	(7.01)	(90) %	(0.83)	(15.46)	(95) %
Royalties	(15.05)	(17.27)	(13) %	(13.34)	(17.48)	(24) %
Net operating expenses[a]	(20.82)	(19.31)	8 %	(21.56)	(19.25)	12 %
Transportation expenses	(1.31)	(1.30)	1 %	(1.56)	(1.47)	6 %
Operating netback[a]	45.30	46.27	(2) %	38.58	44.36	(13) %
G&A expense	(2.13)	(2.14)	— %	(2.13)	(2.17)	(2) %
Interest expense	(4.01)	(3.30)	22 %	(3.96)	(3.47)	14 %
Adjusted funds flow[a]	39.16	40.83	(4) %	32.49	38.72	(16) %
Common shares outstanding, end of period	100,314	83,977	19 %	100,314	83,977	19 %
Weighted average basic shares outstanding	99,384	83,626	19 %	98,277	83,448	18 %
Stock based compensation dilution	1,589	2,414	(34) %	2,459	2,559	(4) %
Weighted average diluted shares outstanding	100,973	86,040	17 %	100,736	86,007	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".

OPERATIONS UPDATE: CONTINUED DRILLING SUCCESS IN SPARKY ANDSE SASKATCHEWAN CORE AREAS

SPARKY (MANNVILLE)

During Q3/23, Surge continued its core area Sparky development program, drilling a total of 6 gross (6.0 net) wells in the area.

For the first time in the Company's history, Surge's Sparky core area Mannville production averaged 11,000 boepd (>85% liquids; 23° API average crude oil gravity) during the quarter. The Company has continued to systematically grow its Sparky core area production from 0 boepd in 2010 to more than 11,500 boepd currently *(see chart below)*, and Surge has assembled an internally estimated 12 year development drilling inventory[3] of more than 450 locations.

Surge's internal estimates now indicate that the Company owns and controls more than 1 billion barrels of net original oil in place ("OOIP")[4] in its Sparky Mannville core area play trend.

In addition to consistent production growth, over the last three years Surge has drilled 17 multi-lateral wells in the Sparky and other Mannville formations. These multi-lateral wells are currently producing a combined 920 boepd, representing 8 percent of Surge's current Sparky core area production.

During Q3/23, the Company drilled and brought on production two multi-lateral wells at Betty Lake and Hope Valley, producing at a combined 30 day initial production rate of 315 bopd. The multi-lateral well at Hope Valley is the Company's first 12 leg multi-lateral open hole well, and Management is encouraged by the initial rates from this strategic step out well, as the well continues to clean up. Based off the success of the first two multi-lateral wells at Hope Valley, Surge is currently shooting a 46 square kilometer 3-D seismic program. Following a technical interpretation of the 3-D seismic program, the Company anticipates drilling follow-up multi-lateral development locations at Hope Valley in 2024.

Four additional multi-lateral Sparky wells are in Surge's drilling plan for Q4/23 and early Q1/24. The Company has now identified over 125 multi-lateral locations within its Sparky (Mannville) core area3.

SE SASKATCHEWAN

During Q3/23, Surge continued its core area SE Saskatchewan development program, drilling a total of 13 gross (10.3 net) wells in the area.

In SE Saskatchewan, Surge continues to drill some of the highest rate, light oil Frobisher wells of any operator in the Province. The following chart illustrates the Company's peer leading 184 bopd initial 90 day production rates ("IP90") from 42 wells targeting the Frobisher formation over the last 18 months:

On average, Surge's Frobisher wells pay out in 12 weeks (at US$80 WTI[5] per bbl pricing), demonstrating the top-tier economics associated with the Company's SE Saskatchewan drilling inventory3. In Q4/23, Surge plans to drill 12 gross (10.5 net) wells in SE Saskatchewan, all targeting the Frobisher formation.

In just over two years, Surge has grown its SE Saskatchewan core area to more than 400 million bbls of net internally estimated OOIP[6], while growing production to more than 8,000 boepd (90 percent light oil) of high netback, light crude oil. Surge has now assembled an internally estimated 7 year drilling inventory of more than 275 net drilling locations in the Frobisher and Midale formations3.

OUTLOOK: PREMIUM ASSET QUALITY DRIVES SUPERIOR RETURNS

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

Surge has now assembled dominant operational positions in two of the top four crude oil plays in Canada in its Sparky (>11,000 boepd; 85% medium gravity oil) and SE Saskatchewan (~8,000 boepd; 90% light oil) core areas, as independently evaluated by a leading brokerage firm[7].

In Q4/23, Surge will continue to execute its active drilling program in both the Sparky and SE Saskatchewan core areas. Surge remains on track to meet the Company's 2023 production exit rate target of 25,000 boe per day.

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

- Ownership of more than 3.0 billion of net (internally estimated) OOIP [8]; with a 7.7 percent recovery factor[9];

- Ownership of more than 120 million boe of proved plus probable reserves[10]; long P+P reserve life index of >13 years[4];
- Estimated 25,000 boepd 2023 exit production (87 percent liquids);
- 23 percent annual corporate decline[11];
- $335 million of annualized cash flow[12];
- $42 per boe operating netbacks (at US$80 WTI pricing[12]);
- $48 million annual cash dividend ($0.48 per share annual dividend, paid monthly);
- More than 1,000 (net) internally estimated drilling locations providing a 13-year drilling inventory [3];
- $1.4 billion in tax pools (approximate 4 year tax horizon at US$80 WTI pricing); and
- Total Proved plus Probable net asset value ("NAV") of $22.37 per share and Total Proved NAV of $13.72 per share[4].

With cash flow strategically allocated between high rate of return capital expenditures, 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 Q1/24 or early Q2/24, based on current 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; Surge's planned drilling program; Surge's drilling inventory; estimated 2023 exit production; 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 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.sedarplus.ca.

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.

Reserves data set forth in this press release is based upon an evaluation of the Company's reserves prepared by Sproule as set forth in the Sproule Report. The reserves referenced in this press release are gross reserves. The estimates of reserves contained in the Sproule Report and referenced in this press release are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater than or less than the estimates contained in the Sproule Report and referenced in this press release. The estimates of reserves for individual properties may not reflect the same confidence level as estimates of reserves for all properties, due to the effects of aggregation. Readers should refer to the Surge's AIF for the year ended December 31, 2022, which is available on SEDAR+ at www.sedar.com or on Surge's website at www.surgeenergy.ca, for a complete description of the Sproule Report (including reserves by the specific product types) and the material assumptions, limitations and risk factors pertaining thereto.

As of January 1, 2023, Surge's internally estimated OOIP of the Sparky Core area is 1.1 billion barrels of oil, with a total estimate of 127 million barrels of oil produced.

Reserve Life Index is calculated as Surge's total share of Total Proved plus Probable reserves (122,670 mboe) as set forth in the Sproule Report divided by Surge's estimated production of 25,000 boe/d.

Surge's 2022 year-end Proved Developed Producing reserves have a decline of 25.8 percent and a Proved plus Probable Developed Producing decline of 23.6 percent. Declines are based off March-to-March monthly data to flush out impacts of December drilling.

Surge's Net Asset Value is calculated as reserve value discounted at 10% on a before tax basis (Total Proved plus Probable: $2,511 MM; Total Proved: $1,676 MM) (each as set forth in the Sproule Report), less Surge's net debt at December 31, 2022 of $352.2 million, and divided by 96.5 million basic shares outstanding as at December 31, 2022.

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 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 488.5 net booked locations identified herein, 366.1 net are Proved locations and 122.4 net are Probable locations based on Sproule's 2022 year-end reserves. Assuming an average number of wells drilled per year of 80, Surge's >1,050 net locations provide 13 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 estimated ultimate recoverable ("EUR") reserves 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.

Surge's internal average Sparky type curve profile of 107 bbl/d (IP30), 84 bbl/d (IP90) and 120 mboe (108 mbbl Oil + 3 mbbl NGL's) EUR reserves per well, with assumed ~$1.5 MM per well capital, has a payout of 9 months @US$80/bbl WTI (C$88/bbl

WCS).

Surge's internal average Frobisher type curve profile of 240 boe/d (IP30), 185 boe/d (IP90) and 89 mboe (69 mbbl Oil + 10 mbbl NGL's) EUR reserves per well, with assumed $1.36 MM per well capital, has a payout of ~12 weeks @US$80/bbl WTI (C$105/bbl LSB).

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 2022 year-end 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 2022 year-end 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 2022 year-end reserves.

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", "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 cashed 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:

Free Cash Flow

Free cash flow is a non-GAAP financial measure, calculated as cash flow from operating activities, before changes in non-cash working capital, 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 timing of settlement of these balances.

($000s)	**As at Sep 30, 2023**	**As at June 30, 2023**	**As at Sep 30, 2022**
Accounts receivable	74,624	50,839	62,984
Prepaid expenses and deposits	3,050	5,814	3,055
Accounts payable and accrued liabilities	(83,978)	(76,038)	(82,298)
Dividends payable	(4,013)	(3,933)	(2,939)
Bank debt	(11,900)	(15,675)	(9,758)
Term debt	(230,624)	(239,716)	(159,108)
Convertible debentures	(33,454)	(33,124)	(76,197)
Net Debt	(286,295)	(311,833)	(264,261)

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 in the MD&A.

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 September 30,		**Nine Months Ended September 30,**	
($000s)	**2023**	**2022**	**2023**	**2022**
Operating expenses	47,988	39,920	148,654	115,563
Less: processing income	(1,812)	(1,941)	(6,046)	(5,316)
Net operating expenses	46,176	37,979	142,608	110,247
Net operating expenses ($ per boe)	$20.82	$19.31	$21.56	$19.25

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 September 30,		**Nine Months Ended September 30,**	
($000s)	**2023**	**2022**	**2023**	**2022**
Petroleum and natural gas revenue	184,475	179,297	501,922	561,420
Processing and other income	1,812	1,941	6,046	5,316
Royalties	(33,384)	(33,964)	(88,278)	(100,099)
Realized loss on commodity and FX contracts	(1,535)	(13,790)	(5,515)	(88,565)
Operating expenses	(47,988)	(39,920)	(148,654)	(115,563)

Transportation expenses	(2,902)	(2,554)	(10,344)	(8,426)
Operating netback	100,478	91,010	255,177	254,083
G&A expense	(4,716)	(4,218)	(14,117)	(12,436)
Interest expense	(8,888)	(6,498)	(26,215)	(19,899)
Adjusted funds flow	86,874	80,294	214,845	221,748
Barrels of oil equivalent (boe)	2,217,941	1,966,876	6,615,403	5,727,563
Operating netback ($ per boe)	$45.30	$46.27	$38.58	$44.36
Adjusted funds flow ($ per boe)	$39.16	$40.83	$32.49	$38.72

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 under Non-GAAP and Other Financial Measures.

[2] Calculated based on a $0.48 per share annual dividend divided by a Surge share price of $9.50 per share.

[3] See Drilling Inventory.

[4] See Oil and Gas Advisories.

[5] Average WTI from September 9 to October 21 (when these wells produced for their first 30 days) was US$85/bbl (C$108/bbl LSB).

[6] Internally estimated by Surge's Qualified Reserve Evaluators.

[7] Source: Peters & Co. Limited (January 9, 2023 North American Oil and Natural Gas Plays).

[8] See Oil and Gas Advisories.

[9] Internally estimated (>3 Billion net bbls) with a Working Interest Cum to Date of 230 million bbls as of January 1, 2023.

[10] All reserves are working interest reserves based upon an independent engineering report (the "Sproule Report") with a preparation date of February 15, 2023 and effective December 31, 2022 prepared by and containing the evaluation by Sproule Associates Limited ("Sproule") of the oil, NGLs and natural gas reserves attributable to Surge's properties. See Oil and Gas Advisories section.

[11] Surge's internally estimated decline. See Oil and Gas Advisories section.

[12] 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.

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https://surgeenergy.mediaroom.com/2023-11-02-SURGE-ENERGY-INC-ANNOUNCES-THIRD-QUARTER-FINANCIAL-OPERATING-RESULTS,-AND-AN-OPERATIONS-UPDATE-ON-THE-LATEST-DRILLING-RESULTS-IN-SPARKY-AND-SE-SASKATCHEWAN-CORE-AREAS