Surge Energy

SURGE ENERGY INC. ANNOUNCES FINANCIAL & OPERATING RESULTS FOR THE QUARTER ENDED JUNE 30, 2024

CALGARY, AB, July 30, 2024 /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, 2024, as well as an update on Surge's latest operational achievements.



MESSAGE TO SHAREHOLDERS

Surge has a high quality, conventional light and medium gravity crude oil asset and opportunity base, with more than 85 percent of the Company's production strategically focused in two of the top four crude oil plays in Canada (as independently evaluated)[1].

Crude oil prices in Q2/24 averaged US$80.57 per bbl West Texas Intermediate ("WTI"), and combined with the US/CAD exchange rate, averaged C$110.38 WTI pricing per barrel in the quarter.

In Q2/24, the Company's adjusted funds flow ("AFF")[2] increased by more than 32 percent to $82.8 million, up from $62.5 million in Q1/24. After Q2/24 expenditures on property, plant, and equipment of $36.1 million, Surge generated free AFF[2] of $46.7 million in Q2/24, representing more than 56 percent of Q2/24 AFF.

Cash flow from operating activities increased by 10 percent as compared to Q1/24, up to $73.6 million in the second quarter of 2024 from the $66.8 million realized during the first quarter of 2024.

Strong cash flow from operating activities, combined with proceeds from the Company's previously announced non-core asset sales, contributed to Surge realizing a substantial $61.2 million reduction in net debt[2] during Q2/24.

The Company also distributed $12.1 million to shareholders in Q2/24 by way of Surge's base cash dividend, representing just 14.6 percent of AFF generated in the quarter.

Additionally, the Company was able to further enhance shareholder returns by repurchasing approximately $1.0 million of Surge common shares during the last two weeks of June under the Company's recently approved Normal Course Issuer Bid ("NCIB").

With the $61.2 million reduction in net debt in Q2/24, Surge met the Company's previously stated $250 million net debt target and reached Phase 2 of its Return of Capital Framework. With the commencement of Phase 2, and after giving effect to the recent 8 percent increase in the base dividend from $0.48 to $0.52 per share per year (paid monthly), the Company now forecasts having $48 million of excess free cash flow ("FCF")[2] to allocate annually, based on US$75 WTI pricing per barrel oil pricing[3].

Surge's Board and Management are strategically allocating this $48 million of excess FCF to share buybacks pursuant to the Company's NCIB, and to further reductions of Surge's net debt.

During Q2/24, Surge also announced a significant, new Sparky oil discovery at Hope Valley, and identified the potential for up to 100 multi-lateral drilling locations[4] on the large, 32.5 net section contiguous land base that the Company now owns on the play. Furthermore, Surge's technical interpretation of its recent 46 square kilometer 3-D seismic program has allowed the Company to de-risk future drilling locations in Hope Valley. The Company has now drilled and brought on production three multi-lateral oil wells at Hope Valley.

The latest Hope Valley well brought on production (the first well drilled utilizing the Company's new 3-D seismic data), has exceeded Management's type curve expectations, with an IP90 production rate of 236 bopd[4].

FINANCIAL AND OPERATING HIGHLIGHTS

FINANCIAL AND OPERATING HIGHLIGHTS	Three Months Ended June 30,			Six Months Ended June 30,		
($000s except per share and per boe)	**2024**	**2023**	**% Change**	**2024**	**2023**	**% Change**
Financial highlights						
Oil sales	168,034	149,530	12 %	318,750	302,194	5 %
NGL sales	3,572	2,642	35 %	7,507	6,260	20 %
Natural gas sales	1,567	3,305	(53) %	5,083	8,993	(43) %
Total oil, natural gas, and NGL revenue	173,173	155,477	11 %	331,340	317,447	4 %
Cash flow from operating activities	73,604	60,608	21 %	140,389	115,114	22 %
Per share - basic ($)	0.73	0.62	18 %	1.40	1.18	19 %
Per share diluted ($)	0.73	0.60	22 %	1.40	1.15	22 %
Adjusted funds flow[a]	82,805	64,640	28 %	145,292	127,971	14 %
Per share - basic ($)[a]	0.82	0.66	24 %	1.44	1.31	10 %
Per share diluted ($)	0.82	0.64	28 %	1.44	1.27	13 %
Net income (loss)[c]	(64,693)	14,055	(560) %	(68,323)	28,844	(337) %
Per share basic ($)	(0.64)	0.14	(557) %	(0.68)	0.30	(327) %
Per share diluted ($)	(0.64)	0.14	(557) %	(0.68)	0.29	(334) %
Expenditures on property, plant and equipment	36,065	30,589	18 %	85,465	76,322	12 %
Net acquisitions and dispositions	(33,493)	(1,696)	nm[b]	(33,501)	(2,374)	nm
Net capital expenditures	2,572	28,893	(91) %	51,964	73,948	(30) %
Net debt[a], end of period	234,707	311,833	(25) %	234,707	311,833	(25) %
Operating highlights						
Production:						
Oil (bbls per day)	19,628	19,758	(1) %	20,124	20,403	(1) %
NGLs (bbls per day)	856	629	36 %	858	674	27 %
Natural gas (mcf per day)	18,805	18,458	2 %	19,672	19,310	2 %
Total (boe per day) (6:1)	23,618	23,463	1 %	24,261	24,295	— %
Average realized price (excluding hedges):						
Oil ($ per bbl)	94.07	83.17	13 %	87.03	81.83	6 %
NGL ($ per bbl)	45.85	46.16	(1) %	48.06	51.31	(6) %
Natural gas ($ per mcf)	0.92	1.97	(53) %	1.42	2.57	(45) %
Netback ($ per boe)						
Petroleum and natural gas revenue	80.57	72.82	11 %	75.04	72.19	4 %
Realized loss on commodity and FX contracts	(1.47)	(0.93)	58 %	(0.68)	(0.91)	(25) %
Royalties	(12.80)	(12.11)	6 %	(13.06)	(12.48)	5 %
Net operating expenses[a]	(20.31)	(21.58)	(6) %	(21.08)	(21.93)	(4) %
Transportation expenses	(1.22)	(1.59)	(23) %	(1.20)	(1.69)	(29) %
Operating netback[a]	44.77	36.61	22 %	39.02	35.18	11 %
G&A expense	(2.40)	(2.24)	7 %	(2.33)	(2.14)	9 %
Interest expense	(3.86)	(4.09)	(6) %	(3.79)	(3.94)	(4) %
Adjusted funds flow[a]	38.51	30.28	27 %	32.90	29.10	13 %
Common shares outstanding, end of period	100,460	98,334	2 %	100,460	98,334	2 %
Weighted average basic shares outstanding	100,582	98,334	2 %	100,556	97,714	3 %
Stock based compensation dilution	—	2,853	(100) %	—	2,706	(100) %
Weighted average diluted shares outstanding	100,582	101,187	(1) %	100,556	100,420	— %

[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".

[c] The three and six months ended June 30, 2024 include a non-cash impairment charge of $96.5 million related to the Company's non-core properties.

Q2/24 HIGHLIGHTS

During the second quarter of 2024, Surge:

- Increased AFF by more than 32 percent from $62.5 million in Q1/24 to $82.8 million in Q2/24;
- Increased cash flow from operating activities by 10 percent to $73.6 million, as compared to $66.8 million in Q1/24;
- Reduced net debt by $61.2 million while also spending $36.1 million on property, plant, and equipment, and distributing $12.1 million in cash dividends to shareholders;
- Repurchased more than 143,000 shares in the last two weeks of Q2/24 for approximately $1.0 million following the recent approval and implementation of the Company's NCIB;
- Increased the Company's First Lien Credit Facility by 40 percent, from $150 million to $210 million;
- Drawn only $33 million, or 16 percent, on the Company's $210 million First Lien Credit Facility as at June 30, 2024;
- Strategically acquired a 50 percent working interest and operatorship of the 6-8 gas plant in Surge's core Betty Lake (Sparky) area for $3.5 million;
- Reduced net operating expenses by 7 percent, down to $20.31/boe in Q2/24 from $21.81/boe in Q1/24;
- Spud 11 gross (11.0 net) wells and rig released 9 gross (9.0 net) wells, with all wells expected to be completed and brought on stream in mid-Q3/24; and
- Safely completed three oil battery turnarounds, positioning Surge to maximize operational runtime during the second half of 2024.

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

Surge began the Company's post-breakup 2024 drilling program in May, 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 2024 production exit rate target of 24,000 boepd.

Surge's post-breakup 2024 drilling program consists of a total of 51 gross (50.0 net) wells, with 32 gross (32.0 net) wells planned in the Sparky core area and 19 gross (18.0 net) in the SE Saskatchewan core area. Two drilling rigs will be utilized in the Sparky core area, one of which will be drilling 8 gross (8.0 net) multi-lateral wells. Six of these multi-lateral wells will be drilled on Surge's large, new Sparky crude oil discovery at Hope Valley.

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 Q1/24 drilling program, Surge focused a significant portion of its Q2/24 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 late May/early June, Surge resumed drilling activity in both the SE Saskatchewan and Sparky core areas, with three rigs currently running.

During Q2/24, Surge safely executed three operated oil battery turnarounds in the Sparky andSE Saskatchewan core areas. In addition, the Company experienced several unplanned turnarounds, outages, and restrictions at facilities operated by third parties, the impact of the unscheduled turnarounds reduced production in the quarter by approximately 400 boepd.

OUTLOOK: THE PATH TO VALUE MAXIMIZATION

Surge's strong cash flow from operating activities, excellent production efficiencies, and 24 percent corporate production decline, together with an annual capital budget of $190 million, combine to generate a forecasted$100 million of FCF[2] based on the Company's 2024 budget pricing estimate of US$75 WTI pricing per barrel[3]. On this basis, FCF represents 34 percent of the Company's estimated cash flow from operating activities for 2024.

Surge is well positioned to continue delivering attractive shareholder returns in 2024 and beyond, based on the following key corporate fundamentals (at US$75 WTI pricing)[3]:

- Estimated 2024 exit production of 24,000 boepd (87 percent liquids);
- Estimated 24 percent annual corporate production decline;
- Estimated 2024 cash flow from operating activities of $290 million;
- Estimated 2024 FCF of $100 million;
- $52 million annual base dividend ($0.52 per share annual cash dividend, paid monthly);

- More than 900 (net) internally estimated drilling locations providing a 12 year drilling inventory; and
- $1.4 billion in tax pools (providing an estimated 4 year tax horizon).

Given the early achievement of Surge's Phase 2 net debt target, the Company now forecasts having $48 million of excess FCF annually to allocate after paying its current base dividend of $0.52 per share per annum to shareholders, at US$75 WTI pricing. The Company has allocated the full $48 million of this excess FCF to share buybacks and continued net debt reduction.

As Surge reaches its Phase 3 "terminal" net debt target of $170 million, the Company's Management and Board will consider adding an annual production per share growth target (3 to 5 percent per year), as well as assess the efficacy of additional share buybacks and/or special dividends to further enhance shareholder returns.

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", "potential" 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; the Company's forecast that it will have $48 million of excess FCF (after the payment of the dividend) to allocate annually; the estimated use of the Company's excess FCF to fund share buybacks and continued net debt reduction; management's expectations and beliefs regarding the impact of crude oil prices and WCS differentials on its guidance in respect of cash flow from operating activities and forecasted FCF; Surge's expectations regarding crude oil prices and WCS differentials; management's belief that the Company is positioned to maximize operational runtime during the second half of 2024; Surge's identification of potential drilling locations, including in Hope Valley; the Company's ability to de-risk future drilling locations in Hope Valley; Surge's ability to continue to deliver attractive shareholder returns in 2024 and beyond; Surge's estimates regarding its 2024 exit production, annual corporate production decline, 2024 cash flow from operating activities, 2024 FCF, amount of its annual base dividend, drilling locations and the duration of its inventory, its tax pools and the estimated tax horizon pools are expected to provide; declaration of the Company's monthly dividend and the timing and amount thereof; Surge's ability to reach its Phase 3 "terminal" net debt target and management's subsequent consideration of an annual production per share growth target; management's assessment of share buybacks and/or special dividends to further enhance shareholder returns; the anticipated timing of the completion of new wells and the onset of production therefrom; the Company's drilling plans for the remainder of 2024; the Company's ability to complete share buybacks including under the Company's NCIB; 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; current WTI pricing per barrel oil pricing; 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 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 risks are set out in more detail in Surge's AIF dated March 6, 2024 and in Surge's MD&A for the period ended December 31, 2023, 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 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.

"Internally estimated" means an estimate that is derived by Surge's internal Qualified Reserve Evaluators ("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, 2024.

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 QRE's) 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 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.

The previously announced non-core asset dispositions will result in the removal of 145 gross (142.6 net) drilling locations, 68 gross (65.6 net) of which were booked; the associated Proved locations were 60 gross (57.6 net).

Assuming a January 1, 2024 reference date (and net of the May 29, 2024 non-core dispositions, announced May 30, 2024), the Company will have over >1,000 gross (>900 net) drilling locations identified herein; of these, >530 gross (>490 net) are unbooked locations. Of the 424 net booked locations identified herein, 339 net are Proved locations and 85 net are Probable locations based on Sproule's 2023 year-end reserves and excluding the sold non-core properties. Assuming an average number of net wells drilled per year of 75, Surge's >900 net locations provide 12 years of drilling.

Surge's internally used type curves were constructed using a representative, factual and balanced analog data set, as of January 1, 2023. All locations were risked appropriately, and EURs were measured against Discovered Petroleum Initially In Place ("DPIIP") 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 QRE's. All type curves fully comply with Part 5.8 of the Companion Policy 51 – 101CP.

Assuming a May 29, 2024 reference date, the Company will have over >85 gross (>85 net) Hope Valley area drilling locations identified herein; of these, >75 gross (>75 net) are unbooked locations. Of the 9 net booked locations identified herein, 6 net are Proved locations and 3 net are Probable locations based on Sproule's 2023 year-end reserves.

Surge's internal Hope Valley type curve profile of 172 bopd (IP30), 168 bopd (IP90) and 175 mbbl (175 mboe) EUR reserves per well, with assumed $2.8 MM per well capital, has a payout of ~10 months at US$80/bbl WTI pricing (C$105/bbl LSB) and a ~190% IRR.

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 and 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", "free adjusted funds flow", "adjusted funds flow per share", "adjusted funds flow per boe", "net debt", "FCF", "excess FCF", "net operating expenses", "net operating expenses per boe", "operating netback", and "operating netback 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, and as applicable, reconciliations to the most directly comparable GAAP measure for the period ended June 30, 2024, have been provided to demonstrate the calculation of these measures:

Adjusted Funds Flow, Free Adjusted Funds Flow & Adjusted Funds Flow Per Share

Adjusted funds flow and free adjusted funds flow are non-GAAP financial measures. 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.

Free adjusted funds flow is calculated as cash flow from operating activities adjusted for changes in non-cash working capital, decommissioning expenditures, and cash settled transaction and other costs, less expenditures on property, plant and equipment.

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,**	
($000s except per share)	**2024**	**2023**	**2024**	**2023**
Cash flow from operating activities	73,604	60,608	140,389	115,114
Change in non-cash working capital	6,816	2,522	(2,137)	7,967
Decommissioning expenditures	1,696	1,361	5,624	4,610
Cash settled transaction and other costs	689	149	1,416	280
Adjusted funds flow	82,805	64,640	145,292	127,971
Per share - basic ($)	0.82	0.66	1.44	1.31

Free Cash Flow & Excess Free Cash Flow

FCF and excess FCF are non-GAAP financial measures. FCF is calculated as cash flow from operating activities, before changes in non-cash working capital, less expenditures on property, plant and equipment. Excess FCF is calculated as cash flow from operating activities, before changes in non-cash working capital, less expenditures on property, plant and equipment, and dividends paid. Management uses FCF and excess FCF to determine the amount of funds available to the Company for future capital allocation decisions.

Net Debt

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

($000s)	As at June 30, 2024	As at March 31, 2024	As at June 30, 2023
Accounts receivable	56,960	62,676	50,839
Prepaid expenses and deposits	5,803	5,525	5,814
Accounts payable and accrued liabilities	(90,791)	(98,715)	(76,038)
Dividends payable	(4,018)	(4,023)	(3,933)
Bank debt	(33,010)	(52,501)	(15,675)
Term debt	(131,044)	(170,675)	(239,716)
Convertible debentures	(38,607)	(38,211)	(33,124)
Net Debt	(234,707)	(295,924)	(311,833)

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,	
($000s)	2024	2023	2024	2023
Operating expenses	45,896	47,774	97,833	100,666
Less: processing income	(2,254)	(1,700)	(4,758)	(4,234)
Net operating expenses	43,642	46,074	93,075	96,432
Net operating expenses ($ per boe)	20.31	21.58	21.08	21.93

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)	2024	2023	2024	2023
Petroleum and natural gas revenue	173,173	155,477	331,340	317,447
Processing and other income	2,254	1,700	4,758	4,234
Royalties	(27,501)	(25,852)	(57,645)	(54,894)
Realized loss on commodity and FX contracts	(3,149)	(1,985)	(3,012)	(3,980)
Operating expenses	(45,896)	(47,774)	(97,833)	(100,666)
Transportation expenses	(2,630)	(3,395)	(5,293)	(7,442)
Operating netback	96,251	78,171	172,315	154,699
G&A expense	(5,157)	(4,791)	(10,283)	(9,401)
Interest expense	(8,289)	(8,740)	(16,740)	(17,327)
Adjusted funds flow	82,805	64,640	145,292	127,971
Barrels of oil equivalent (boe)	2,149,307	2,135,101	4,415,528	4,397,462

Operating netback ($ per boe)	44.77	36.61	39.02	35.18
Adjusted funds flow ($ per boe)	38.51	30.28	32.90	29.10

For more information about Surge, please visit our website atwww.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 As per Peters Oil & Gas Plays Update from January 16, 2024: North American Oil and Natural Gas Plays – Half Cycle Payout Period. Note: Sparky is represented as "Conventional Heavy Oil Hz" by Peters.

2 This is a non-GAAP and other financial measure which is defined in Non-GAAP and Other Financial Measures.

3 Pricing assumptions: US$75 WTI pricing, US$16 WCS differential, US$3.50 EDM differential, $0.725 CAD/USD FX and $2.95 AECO.

4 See Drilling Inventory.

SOURCE Surge Energy Inc.

For further information: FOR FURTHER INFORMATION, PLEASE CONTACT: 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/2024-07-30-SURGE-ENERGY-INC-ANNOUNCES-FINANCIAL-OPERATING-RESULTS-FOR-THE-QUARTER-ENDED-JUNE-30,-2024