# SURGE ENERGY INC. ANNOUNCES SALE OF NON-CORE ASSETS; REVISED 2025 CAPITAL AND OPERATING BUDGET

CALGARY, AB, Dec. 19, 2024 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") (TSX: SGY) is pleased to announce that on December 19, 2024 (the "Closing"), the Company disposed of its gas weighted non-core assets in the Valhalla area of Alberta (the "Non-Core Assets") for cash proceeds of \$9.5 million (the "Transaction"). Additionally, the purchaser has assumed all future abandonment and reclamation obligations ("ARO") pertaining to the Non-Core Assets.



#### **KEY HIGHLIGHTS**

- INCREASED CORE AREA FOCUS -Surge's Sparky and SE Saskatchewan core areas have been independently evaluated as two of the top four crude oil plays in North America, based on per well payout economics<sup>1</sup>. Following the sale of the Non-Core Assets, Surge's conventional Sparky and SE Saskatchewan crude oil assets will now represent 90 percent of the Company's new 22,500 boe per day 2025 production guidance, and more than 95 percent of the Company's cash flow from operating activities.
- IMPROVED OPERATING NETBACKS AND INCREASED LIQUIDS WEIGHTING —Concurrent with the Closing of the Transaction, the Company anticipates that its operating netback<sup>2</sup> per boe will improve by approximately 4 percent. Net operating expenses<sup>2</sup> for 2025 are now forecast to decrease to\$19.05-\$19.55 per boe, following the Transaction.
- Additionally, Surge's forecast 2025 liquids weighting increases from 87 percent to 91 percent, following the Transaction.
- NO IMPACT TO FREE CASH FLOW Due to the significant gas weighting (55 percent natural gas), and accompanying low operating netback (\$4.70 per boe in Q3/24) associated with the Non-Core Assets, the Company does not anticipate any change to its previously forecast 2025 corporate free cash flow<sup>2</sup> of \$85 million<sup>3</sup>.

#### NON-CORE ASSET DISPOSITION

Surge disposed of the Non-Core Assets on the Closing for cash consideration of\$9.5 million. Additionally, the purchaser has assumed all ARO pertaining to the Non-Core Assets. Estimated 2025 production from the Non-Core Assets was forecast to be approximately 1,250 boe/d, with a gas weighting of 55 percent.

Over the past four years, Surge has been highly focused on developing its core Sparky and SE Saskatchewan crude oil assets. As such, the Non-Core Assets have been undercapitalized within the Company's high-quality, conventional crude oil asset portfolio.

Proceeds from the Transaction bring forward approximately 10 years of future undiscounted free cash flow that the Non-Core Assets would have generated. At current strip crude oil prices, Surge anticipates allocating the net proceeds from the Transaction to additional share buy backs, and further reductions of net debt.

Based on better than expected drilling results in 2H 2024, Surge's current production rate following the Closing of the Transaction exceeds 22,500 boepd (91% liquids).

# **REVISED 2025 CAPITAL AND OPERATING BUDGET GUIDANCE**

Following the sale of the Non-Core Assets, the Company has revised its 2025 capital and operating budget guidance as follows:

<sup>&</sup>lt;sup>1</sup> 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.

<sup>&</sup>lt;sup>2</sup> This is a non-GAAP and other financial measure which is defined under Non-GAAP and Other Financial Measures.

<sup>&</sup>lt;sup>3</sup> Pricing assumptions: US\$70 WTI, US\$13.50 WCS differential, US\$3.50 EDM differential, \$0.725 CAD/USD FX and \$2.50 AECO.

GUIDANCE	Original 2025 Guidance from	New 2025 Guidance
	November 6, 2024	@ US \$70 WTI <sup>1</sup>
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Average 2025 production	23,750 boepd (87% liquids)	22,500 boepd (91% liquids)
2025(e) Exploration and development expenditures	\$170 million	\$170 million
2025(e) Adjusted funds flow <sup>2</sup>	\$277 million	\$275 million
Per share	\$2.73 per share	\$2.71 per share
2025(e) Cash flow from operating activities <sup>3</sup>	\$255 million	\$255 million
Per share	\$2.51 per share	\$2.51 per share
2025(e) Free cash flow <sup>2</sup>	\$85 million	\$85 million
Per share	\$0.84 per share	\$0.84 per share
2025(e) Base dividend	\$53 million	\$53 million
Per share	\$0.52 per share	\$0.52 per share
2025(e) Royalties as a % of petroleum and natural gas revenue	19.0 %	19.25 %
2025(e) Net operating expenses <sup>2</sup>	\$19.50 - \$19.95 per boe	\$19.05 - \$19.55 per boe
2025(e) Transportation expenses	\$1.50 - \$1.75 per boe	\$1.40 - \$1.60 per boe
2025(e) General & administrative expenses	\$2.25 - \$2.45 per boe	\$2.45 - \$2.65 per boe
2025(e) Interest expenses	\$2.50 - \$2.75 per boe	\$2.50 - \$2.75 per boe
\$1.3 billion in tax pools (providing an estimated 4-year tax horizon)		

- 1 Pricing assumptions: US\$70 WTI, US\$13.50 WCS differential, US\$3.50 EDM differential, \$0.725 CAD/USD FX and \$2.50 AECO.
- 2 This is a non-GAAP and other financial measure which is defined under Non-GAAP and Other Financial Measures.
- 3 Assumes nil change in non-cash working capital.

#### **ADVISORS**

National Bank Financial Inc. acted as exclusive financial advisor to Surge with respect to the Transaction.

## ABOUT SURGE ENERGY INC.

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

#### 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 expectation that will comprise 90 percent of the Company's new 22,500 boe per day 2025 production guidance and more than 95 percent of the Company's cash flow from operating activities; Surge's expectation that its operating netback per boe will improve by approximately 4 percent following the sale of the Non-Core Assets; Surge's forecast that its net operating expenses for 2025 will decrease to \$19.05-\$19.55 per boe and that its liquids weighting for 2025 will increase from 87 percent to 91 percent; Surge's plans to allocate the net proceeds of the Transaction; Surge's anticipated 2024 production exit rate; and Surge's revised 2025 capital and operating budget guidance.

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; Surge's pricing assumptions of US\$70 WTI, US\$13.50 WCS differential, US\$3.50 EDM differential, \$0.725 CAD/USD FX and \$2.50 AECO; anticipated operating, transportation and general and administrative costs and expenses; the application of regulatory and royalty regimes; prevailing 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; 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 (including the Russian invasion of Ukraine and continued conflict in the Middle East); 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; inability of Surge to fund its future capital requirements and business plan; 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; risks related to decommissioning liabilities including as a result of changes to laws or regulations, reserves estimates, costs and technology; failure to obtain the continued support of the lenders under Surge's current credit facilities; potential decrease in the available lending limits under Surge's credit facilities as a result of the syndicate's interpretation of the Company's reserves, commodity prices and decommissioning obligations; or the inability to obtain consent of lenders to increase or maintain the credit facilities. Certain risks are set out in more detail in Surge's annual information form dated March 6, 2024 and in Surge's interim management discussion and analysis for the period endedSeptember 30, 2024, 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.

## **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", "free cash flow", "free cash flow per share", "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.

## 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 (loss) per share.

#### Free Cash Flow and Free Cash Flow Per Share

Free cash flow is a non-GAAP financial measure. Free cash 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. Management uses free cash flow to determine the amount of funds available to the Company for future capital allocation decisions.

Free cash flow per share is a non-GAAP ratio, calculated using the same weighted average basic and diluted shares used in calculating income (loss) per share.

# 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.

# Operating Netback and Operating Netback 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.

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

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