



SURGE ENERGY INC. ANNOUNCES 2021 FOURTH QUARTER AND YEAR-END FINANCIAL AND OPERATING RESULTS, AND 2021 YEAR-END RESERVES

CALGARY, ALBERTA (March 9, 2022) Surge Energy Inc. (“Surge” or the “Company”) (TSX: SGY) is pleased to announce its financial and operating results for the quarter and year ended December 31, 2021, its year end 2021 reserves as independently evaluated by Sproule Associates Limited (“Sproule”), and a new net asset value (“NAV”) of \$16.94 per share for Total Proven Plus Probable reserves.

The financial and operating results contained herein do not include a full quarter of contribution from Surge’s strategic \$58.8 million light oil acquisition of Fire Sky Energy Inc. (“Fire Sky”), which closed on November 1, 2021.

2021: POSITIONING FOR THE TURN IN OIL PRICES

In 2020, Surge Management was intensely focused on preserving stakeholders’ capital during the COVID pandemic, increasingly negative climate change sentiment, the Saudi/Russia oil price war, and the resulting drop in oil prices from more than US\$63 WTI per barrel in January of 2020 to US\$11.57 WTI per barrel in April of 2020.

In 2021, Surge shifted focus and prioritized positioning the Company to be a top performer in its Canadian public oil company peer group as crude oil prices began to recover. Consequently, over the last 15 months Surge’s Management and Board moved to strategically high grade and diversify the Company’s top tier¹ conventional crude oil asset base, reposition the Company’s balance sheet, and proactively address the significant reduction in reserve based lending debt capital available to the Canadian oil and gas industry. In this regard, during 2021 Surge:

- Sold \$106 million of mature assets at a multiple of 5.3 times cash flow from operating activities (i.e. inclusive of corporate interest expense savings) at then strip pricing;
- Closed a successful, oversubscribed \$23 million flow-through share offering;
- Acquired two private companies with high operating netback², light oil assets focused in SE Saskatchewan (Astra Oil Corp. and Fire Sky) at a combined 2.6 times cash flow from operating activities multiple at then strip pricing;
- Completed a strategic \$130 million, 5-year term debt financing; replacing a portion of conventional six month revolving bank debt with stable long term debt capital;
- Positioned the Company with dominant operational positions in two of the top¹ medium and light gravity, conventional crude oil plays in Canada (Surge’s Sparky and SE Saskatchewan core areas); and
- Completely repositioned Surge’s balance sheet, with a forecast 2022 exit net debt² to cash flow from operating activities ratio of 0.55 times³; with forecasted annual free cash flow² of more than \$170 million in 2022 at US\$85 WTI⁴ oil prices.

During the fourth quarter of 2021, Surge delivered adjusted funds flow⁵ of \$43.3 million (on an average oil price of US \$77

¹ Per Raymond James Research, dated January 25, 2022.

² This is a non-GAAP and other financial measure which is defined in the Non-GAAP and Other Financial Measures section of this document.

³ Cash flow from operating activities assumes a nil change in non-cash working capital; 2022 exit net debt is prior to any contemplated allocation of 2022 free cash flow to shareholder returns through dividends or share buybacks.

⁴ Additional pricing assumptions: (WCS: US\$13.00, EDM/Cromer US\$3.50 differentials), Fx of \$0.79 and AECO of \$3.25 per mcf.

⁵ This is a non-GAAP and other financial measure which is defined in the Non-GAAP and Other Financial Measures section of this document.



WTI during the period), an increase of over 410% as compared to Q4/20 adjusted funds flow of \$8.5 million.

Surge reported a realized loss on financial contracts of \$31.0 million in Q4/21, primarily due to lender mandated fixed price oil hedging requirements instituted in late 2020. The Company generated adjusted funds flow before realized gains or losses on financial contracts of \$74.4 million in Q4/21, an increase of 405% over adjusted funds flow before realized gains or losses on financial contracts of \$14.7 million in Q4/20. The lender mandated fixed price oil hedges entered into in late 2020 expired on December 31, 2021.

Surge continues to execute the Company's ongoing risk management program, including strategic hedge positions over the next several quarters for crude oil, natural gas, interest rates and power costs, as described in Surge's MD&A for the period ended December 31, 2021 which can be accessed under the Company's profile on SEDAR at www.sedar.com.

Based on Surge's new independent December 31, 2021 Sproule reserves report, the Company has a Total Proved Plus Probable NAV⁶ of \$16.94 per basic share, and a Total Proved NAV of \$9.81 per basic share - on Sproule's 2021 year-end price deck that averages approximately US\$70 WTI per barrel over the first five years. Given the significant and rapid increase in both spot and strip crude oil prices since December 31, 2021, the NAV calculations contained in this press release may not be reflective of current crude oil prices.

The NAV estimates in this press release are based upon Sproule's independent evaluation of the Company's year end 2021 reserves, and contain no value for undeveloped land or seismic. Further, Surge has booked only 456 net P+P locations in its Sproule NAV estimates, out of a total of 975 net locations in the Company's large (internally estimated) 13 year conventional drilling inventory.⁷

2021 FINANCIAL AND OPERATIONAL HIGHLIGHTS

Highlights from the Company's Q4/21 and Year-End 2021 Financial Report and operations include:

- Achieved average daily production of 21,163 boepd (85% liquids) during the fourth quarter of 2021, an increase of 22% as compared to Q4/20 production of 17,356 boepd (84% liquids);
- Delivered fourth quarter cash flow from operating activities of \$50.4 million and adjusted funds flow of \$43.3 million (on an average oil price of US \$77 WTI during the period), increases of over 350% and 410% as compared to Q4/20;
- Closed a strategic \$130 million 5-year term debt financing on December 9, 2021, significantly reducing the Company's reliance on more volatile, short-term debt;
- Reduced net debt by \$49.6 million;
- Successfully drilled 48 (48.0 net) wells in 2021, with activity strategically focused in the Company's Sparky and SE Saskatchewan high quality, conventional, medium and light gravity crude oil core areas;
- Continued the Company's focus on ESG efforts, highlighted by completing a total of \$12.6 million on abandonment

⁶ NAV is the Company's Net Asset Value as of 2021YE (on a Before Tax basis), evaluated by an independent auditor (Sproule) and in accordance with COGE Handbook, minus debt, then divided by the company's basic share count as of Dec 31, 2021. Surge's NAV does not include any value for Land or Seismic.

⁷ See Drilling Inventory section



activities, which resulted in Surge abandoning more than five wells for each new well drilled in 2021. This was funded using a combination of cash flow from operating activities, as well as grants received through the Alberta Site Rehabilitation Program and the Saskatchewan Accelerated Site Closure Program; and

- Achieved several ESG milestones, including:
 - Published the Company’s inaugural ESG report in December 2021; and
 - Abandoned over 270 wells in 2021; and
 - Completed a 45km gas gathering pipeline in SE Saskatchewan, allowing Surge to reduce Scope 1 emissions within Surge’s SE Saskatchewan operations by approximately 56% (this included a 95% reduction for specific facilities in Minard, Steelman, and Viewfield); and
 - Completed a gas conservation project in SW Saskatchewan, conserving 70% of Scope 1 emissions in the area.

2021 YEAR END RESERVES HIGHLIGHTS

With Surge’s December 31, 2021 Sproule reserve report, the Company delivered:

- A Total Proved Plus Probable NAV of \$16.94 per basic share, and a Total Proved NAV of \$9.81 per basic share on Sproule’s 2021YE price deck that averages US\$70 WTI crude oil over the first five years;
- PDP Finding & Development (“F&D”) cost of \$9.63/boe, including changes in FDC;
- A 3.8x PDP Recycle Ratio on a 2021 average operating netback before realized losses on financial contracts of \$36.13/boe;
- PDP Finding, Development & Acquisition (“FD&A”) cost of \$15.41/boe, resulting in a 2.3x Recycle Ratio on a 2021 operating netback before realized losses on financial contracts of \$36.13/boe; and
- An organic Reserves Replacement of 154% on PDP (+9,898 mboe), 168% on TP (+10,824 mboe), and 172% on TPP (+11,053 mboe).



FINANCIAL AND OPERATING HIGHLIGHTS

FINANCIAL AND OPERATING HIGHLIGHTS <i>(\$000s except per share amounts)</i>	Three Months Ended December 31,			Years Ended December 31,		
	2021	2020	% Change	2021	2020	% Change
Financial highlights						
Oil sales	131,019	55,565	136 %	374,658	199,208	88 %
NGL sales	3,846	1,745	120 %	10,283	4,613	123 %
Natural gas sales	8,516	2,597	228 %	25,122	7,228	248 %
Total oil, natural gas, and NGL revenue	143,381	59,907	139 %	410,063	211,049	94 %
Cash flow from operating activities	50,417	11,000	358 %	100,484	72,190	39 %
Per share - basic (\$)	0.63	0.28	129 %	1.83	1.83	0 %
Per share diluted (\$)	0.63	0.28	129 %	1.79	1.83	(2)%
Adjusted funds flow ¹	43,320	8,467	412 %	100,438	59,872	68 %
Per share - basic (\$) ¹	0.55	0.21	157 %	1.83	1.51	21 %
Per share diluted (\$)	0.54	0.21	154 %	1.79	1.51	18 %
Net income (loss) ³	42,868	(57,727)	nm ²	407,608	(747,297)	nm
Per share basic (\$)	0.54	(1.44)	nm	7.42	(18.90)	nm
Per share diluted (\$)	0.53	(1.44)	nm	7.28	(18.90)	nm
Expenditures on property, plant and equipment	22,456	14,276	57 %	103,786	52,773	97 %
Net acquisitions and dispositions	78,004	-	nm	65,413	(6,038)	nm
Net capital expenditures	100,460	14,276	604 %	169,199	46,735	262 %
Net debt ¹ , end of period	331,434	381,023	(13)%	331,434	381,023	(13)%
Operating highlights						
Production:						
Oil (bbls per day)	17,192	13,788	25 %	14,280	14,558	(2)%
NGLs (bbls per day)	720	726	(1)%	600	600	(0)%
Natural gas (mcf per day)	19,503	17,050	14 %	16,571	16,906	(2)%
Total (boe per day) (6:1)	21,163	17,356	22 %	17,642	17,976	(2)%
Average realized price (excluding hedges):						
Oil (\$ per bbl)	82.84	43.80	89 %	71.88	37.39	92 %
NGL (\$ per bbl)	58.10	26.14	122 %	46.95	21.00	124 %
Natural gas (\$ per mcf)	4.75	1.66	187 %	4.15	1.17	256 %
Netback (\$ per boe)						
Petroleum and natural gas revenue	73.65	37.52	96 %	63.68	32.08	99 %
Realized gain (loss) on commodity and FX contracts	(15.95)	(3.91)	308 %	(14.29)	3.05	(568)%
Royalties	(12.03)	(4.07)	196 %	(9.08)	(3.72)	144 %
Net operating expenses ¹	(16.91)	(15.99)	6 %	(17.37)	(14.72)	18 %
Transportation expenses	(1.27)	(1.18)	8 %	(1.10)	(1.48)	(26)%
Operating netback ¹	27.49	12.37	122 %	21.84	15.21	44 %
G&A expense	(2.00)	(1.86)	8 %	(2.06)	(1.90)	8 %
Interest expense	(3.24)	(5.21)	(38)%	(4.19)	(4.20)	(0)%
Adjusted funds flow ¹	22.25	5.30	320 %	15.59	9.11	71 %
Common shares outstanding, end of period	83,357	39,975	109 %	83,357	39,975	109 %
Weighted average basic shares outstanding	79,469	39,975	99 %	54,931	39,536	39 %
Stock option dilution	1,108	-	nm	1,061	-	nm
Weighted average diluted shares outstanding	80,577	39,975	102 %	55,992	39,536	42 %

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

³ For the year ended December 31, 2021, the Company recorded net income of \$407.6 million, including a non-cash impairment reversal of \$333.5 million, primarily due to an increase in forward oil and gas commodity prices used in the independent reserve evaluators price forecast.

2021 YEAR-END RESERVES



The Company's reserves were independently evaluated by Sproule in accordance with National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101") effective December 31, 2021. Surge's Annual Information Form (the "AIF") for the year ended December 31, 2021 contains Surge's reserves data and other oil and natural gas information as mandated by NI 51-101.

The following tables summarize Surge's working interest oil, natural gas liquids and natural gas reserves and the net present values ("NPV") of future net revenue for these reserves (before taxes) using forecast prices and costs as evaluated in the Sproule Report. The evaluation is based on Sproule's forecast pricing and exchange rates at December 31, 2021 which is available on their website www.sproule.com. All references to reserves in this release are to gross Company reserves, meaning Surge's working interest reserves before deductions of royalties and before consideration of the Company's royalty interests. The amounts in the tables may not add due to rounding.

RESERVES SUMMARY AND NET PRESENT VALUE

Gross Reserves ^(a)	Crude Oil and NGLs (Mbbbl) ^(b)	Natural Gas (MMcf) ^(c)	Oil Equivalent Total Reserves (Mboe)	Before Tax NPV of Future Net Revenue ^(d) Discounted at		
				5% (\$MM)	10% (\$MM)	15% (\$MM)
Proved:						
Proved Producing	29,790	31,689	35,071	674 ^(e)	623	569
Proved Non-Producing	1,714	2,009	2,048	50	41	35
Proved Undeveloped	30,234	34,846	36,042	630	485	383
Total Proved	61,737	68,544	73,161	1,354	1,149	986
Probable	27,356	29,281	32,236	793	595	467
Total Proved Plus Probable	89,093	97,825	105,397	2,147	1,744	1,453

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

FUTURE DEVELOPMENT CAPITAL ("FDC")

	Total Proved Developed Producing (\$MM)	Total Proved (\$MM)	Total Proved Plus Probable (\$MM)
2022	6	111	122
2023	5	154	158
2024	4	165	170
2025	4	137	191
2026	3	63	129
Remaining	19	40	62
Total (Undiscounted)	41	670	832



Total (Discounted at 10%) 26 530 637

ORGANIC F&D AND FD&A

	PDP	TP	TPP	Recycle Ratios		
				PDP	TP	TPP
Organic F&D	\$9.63/boe	\$7.38/boe	\$5.73/boe	3.75	4.89	6.31
FD&A	\$15.41/boe	\$16.29/boe	\$15.34/boe	2.34	2.22	2.36

OPERATIONS UPDATE

In 2021, Surge drilled a total of 48.0 net wells with a 100% success rate, spending a total of \$103.8 million for expenditures on property, plant, and equipment. The Company focused drilling operations primarily to its core Sparky and SE Saskatchewan medium and light gravity oil plays.

In addition, Surge has continued the Company’s operational momentum into early 2022, with three drilling rigs active in its Sparky and SE Saskatchewan core areas. Surge plans to drill 65.0 net wells in 2022, comprised of 36.0 net Sparky wells, 27.5 net SE Saskatchewan wells, and 1.5 net wells at Valhalla and Greater Sawn.

The Company commenced its winter drilling program in December of 2021, and has now completed the drilling of 14.0 net Sparky locations, including five Sparky multi-leg laterals, and 11 gross (9.5 net) wells in southeast Saskatchewan. The first 3 gross (2.5 net) wells from the SE Saskatchewan light oil program have been brought on production, with initial gross 30-day production rates averaging over 325 barrels of oil per day⁸ each. All wells from both the Sparky and SE Saskatchewan programs are anticipated to be completed and on production prior to March 31, 2022.

In early February 2022, the Company contained a small fire at one of its SE Saskatchewan oil batteries. Thanks to the efforts of Surge’s Emergency Response Committee and local service providers, the Company is pleased to report no injuries or significant environmental impacts occurred in relation to the fire. Production from the affected areas resumed in late February. The Company estimates that the incident will have a minor impact on average annual production of approximately 125 boepd for 2022.

With Q1/22 drilling results to date exceeding internal type curve expectations, the Company continues to forecast average production for 2022 at 21,500 boepd.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

Surge published its inaugural ESG report in December 2021, which is available on the Company’s website. Additionally, the Company achieved several other important ESG milestones in 2021, including deploying \$6.7 million of cash flow from operating activities and \$5.9 million of SRP grants to abandon over 270 wells in 2021. This represents approximately 25% of the Company’s previously inactive, unabandoned wells and has resulted in Surge abandoning over 460% more wells than it drilled in the year, with the Company abandoning approximately 5.6 net wells for every net well drilled in the year.

Further, the Company completed a 45km gas gathering pipeline in SE Saskatchewan, allowing Surge to reduce Scope 1

⁸ The three gross SE Saskatchewan wells brought on production in late February 2022 have gross IP30 rates of 405 bbl/d, 325 bbl/d & 257 bbl/d.



emissions within the Company's SE Saskatchewan operations by approximately 56% (this included a 95% reduction for specific facilities in Minard, Steelman, and Viewfield). Surge also completed a gas conservation project in SW Saskatchewan, conserving 70% of Scope 1 emissions in the area.

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

OUTLOOK: SGY – POSITIONED FOR OUTPERFORMANCE IN 2022

Management is excited regarding Surge's exposure to rising crude oil prices in 2022, following the execution of the Company's strategic corporate initiatives throughout 2021. The Company anticipates generating significantly higher operating netbacks and cash flow from operating activities in 2022 at current strip commodity prices as compared to 2021.

Surge is now a 21,500 boepd (86 percent liquids) intermediate light and medium gravity oil producer, with over 975 internally estimated net development drilling locations, providing an estimated 13 year development drilling inventory.

With 2.6 billion of net (internally estimated) original oil in place⁹, a 6.5% recovery factor to date, and dominant positions in two top medium and light gravity crude oil growth plays, Surge believes that the Company is poised to deliver strong results on an operational basis in 2022 and beyond. Further, with more than \$170 million of free cash flow forecast for 2022 at US\$85 WTI¹⁰ crude oil prices, over \$1.3 billion in tax pools, and an attractive balance sheet, Surge anticipates that the Company will be positioned to deliver to its stakeholders a combination of:

- Continued net debt repayment (increasing Surge's NAV per share);
- A reinstated, sustainable, base monthly dividend;
- Share buybacks;
- A modest production growth wedge; and
- Potential for variable or special dividends.

Management re-confirms that the Company is targeting a reduction of net debt to a range of \$250 to \$265 million, at which point the Company will look to resume its historical, shareholder returns focused business model, including the reinstatement of a dividend. Management will also evaluate the potential for opportunistic share buybacks. A reduction of net debt to the targeted range will also add approximately \$0.60 to \$0.75 per share to the net asset value of the Company (based on approximately 83.4 million shares outstanding).

At current commodity price levels, Management estimates that Surge will be within its targeted net debt range before mid-year in 2022.

Surge's previously announced Board approved 2022 guidance is as follows:

⁹ See Oil and Gas Advisories section of this document for further information.

¹⁰ Additional pricing assumptions: (WCS: US\$13.00, EDM/Cromer US\$3.50 differentials), Fx of \$0.79 and AECO of \$3.25 per mcf.



Guidance	@ US \$80 WTI	@ US \$85 WTI	@ US \$90 WTI
Exit 2021 production	21,500 boepd (86% liquids)		
Average 2022 production	21,500 boepd (86% liquids)		
2022(e) Expenditures on property, plant, and equipment	\$124 million		
2022(e) Cash flow from operating activities (\$MM)*	\$275	\$295	\$315
<i>Per share</i>	<i>\$3.30/sh</i>	<i>\$3.54/sh</i>	<i>\$3.78/sh</i>
2022(e) Free cash flow (\$MM)	\$151	\$171	\$191
<i>Per share</i>	<i>\$1.81/sh</i>	<i>\$2.05/sh</i>	<i>\$2.29/sh</i>
2022(e) All-in payout ratio ¹¹	45%	42%	39%
2022(e) Exit net debt to 2022(e) cash flow from operating activities ratio**	0.64x	0.55x	0.44x
2022(e) Royalties as % of petroleum and natural gas revenue	15.5%	16.25%	17.0%
Net operating expenses	\$15.75 - \$16.50 per boe		
2022(e) Transportation expenses	\$1.00 - \$1.25 per boe		
2022(e) General & administrative expenses	\$1.95 - \$2.05 per boe		

* Cash flow from operating activities assumes a nil change in non-cash working capital.

**2022(e) exit net debt is prior to any contemplated allocation of 2022(e) free cash flow to shareholder returns through dividends or share buybacks.

FORWARD LOOKING STATEMENTS:

This press release contains forward-looking statements. The use of any of the words “anticipate”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “should”, “believe” and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

More particularly, this press release contains statements concerning: Surge’s declared focus and primary goals; management’s expectations and plans with respect to the development of its assets and the timing thereof; the timing of bringing recently drilled wells onto production; Surge’s drilling inventory and locations; Surge’s drilling program and timing matters related thereto; the estimated impact of the Minard fire on average annual production for 2022; the Company’s dedication to creating value for current and future generations; Surge’s expectations regarding the generation of significantly higher operating netbacks and cash flow from operating activities in 2022; Surge’s belief that it is poised to deliver strong results on an operational basis; the Company’s expectation that it will be positioned to deliver to its stakeholders a combination of: continued net debt repayment, a reinstated, sustainable, base monthly dividend, share buybacks, a modest production growth wedge; and potential for variable or special dividends; and Surge’s 2022 guidance, including, management’s estimates regarding average 2022 production, 2022 expenditures on property, plant, and

¹¹ This is a non-GAAP and other financial measure which is defined in the Non-GAAP and Other Financial Measures section of this document.



equipment, 2022 cash flow from operating activities, including on a per share basis; 2022 free cash flow, including on a per share basis, 2022 all-in payout ratio, 2022 exit net debt to 2022 cash flow from operating activities ratio, 2022 royalties as % of petroleum and natural gas revenue; 2022 net operating expenses, 2022 transportation expenses and 2022 general & administrative expenses.

The forward-looking statements are based on certain key expectations and assumptions made by Surge, including expectations and assumptions the performance of existing wells and success obtained in drilling new wells; anticipated expenses, cash flow and capital expenditures; the application of regulatory and royalty regimes; prevailing commodity prices and economic conditions; development and completion activities; the performance of new wells; the successful implementation of waterflood programs; the availability of and performance of facilities and pipelines; the geological characteristics of Surge's properties; the successful application of drilling, completion and seismic technology; the determination of decommissioning liabilities; prevailing weather conditions; exchange rates; licensing requirements; the impact of completed facilities on operating costs; the availability and costs of capital, labour and services; and the creditworthiness of industry partners.

Although Surge believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Surge can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the condition of the global economy, including trade, public health (including the impact of COVID-19) and other geopolitical risks; risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks); commodity price and exchange rate fluctuations and constraint in the availability of services, adverse weather or break-up conditions; uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures; and failure to obtain the continued support of the lenders under Surge's bank line. Certain of these risks are set out in more detail in Surge's AIF dated March 9, 2022 and in Surge's MD&A for the period ended December 31, 2021, both of which be accessed under the Company's profile at www.sedar.com.

The forward-looking statements contained in this press release are made as of the date hereof and Surge undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

Oil and Gas Advisories

The term "boe" means barrel of oil equivalent on the basis of 1 boe to 6,000 cubic feet of natural gas. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 1 boe for 6,000 cubic feet of natural gas is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. "Boe/d" and "boepd" mean barrel of oil equivalent per day. Bbl means barrel of oil and "bopd" means barrels of oil per day. NGLs means natural gas liquids.

This press release contains certain oil and gas metrics and defined terms which do not have standardized meanings or standard methods of calculation and therefore such measures may not be comparable to similar metrics/terms presented by other issuers and may differ by definition and application. All oil and gas metrics/terms used in this document are defined below:



Original Oil in Place (“OOIP”) means Discovered Petroleum Initially In Place (“DPIIP”). DPIIP is derived by Surge’s internal Qualified Reserve Evaluators (“QRE”) and prepared in accordance with National Instrument 51-101 and the Canadian Oil and Gas Evaluations Handbook (“COGEH”). DPIIP, as defined in COGEH, is that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production. The recoverable portion of DPIIP includes production, reserves and Resources Other Than Reserves (ROTR). OOIP/DPIIP and potential recovery rate estimates are based on current recovery technologies. There is significant uncertainty as to the ultimate recoverability and commercial viability of any of the resource associated with OOIP/DPIIP, and as such a recovery project cannot be defined for a volume of OOIP/DPIIP at this time. “Internally estimated” means an estimate that is derived by Surge’s internal QRE’s and prepared in accordance with National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities*. All internal estimates contained in this new release have been prepared effective as of Jan 1, 2021.

Reserve life index is calculated as total Company share reserves divided by the annualized fourth quarter production.

F&D is calculated on the capital and divided by the reserves category in which F&D is being calculated.

Replacement of production/Production replacement is calculated as the total organic reserve additions (i.e. excluding acquisitions and dispositions) divided by annual production for the year in which its being calculated.

Net Asset Value is the total discounted (10%) Before Tax value of reserves less net debt, divided by the number of shares.

Drilling Inventory

This press release discloses drilling locations in two categories: (i) booked locations; and (ii) unbooked locations. Booked locations are proved locations and probable locations derived from an internal evaluation using standard practices as prescribed in the Canadian Oil and Gas Evaluations Handbook and account for drilling locations that have associated proved and/or probable reserves, as applicable.

Unbooked locations are internal estimates based on prospective acreage and assumptions as to the number of wells that can be drilled per section based on industry practice and internal review. Unbooked locations do not have attributed reserves or resources. Unbooked locations have been identified by Surge’s internal certified Engineers and Geologists (who are also Qualified Reserve Evaluators) as an estimation of our multi-year drilling activities based on evaluation of applicable geologic, seismic, engineering, production and reserves information. There is no certainty that the Company will drill all unbooked drilling locations and if drilled there is no certainty that such locations will result in additional oil and gas reserves, resources or production. The drilling locations on which the Company actually drills wells will ultimately depend upon the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors. While certain of the unbooked drilling locations have been de-risked by drilling existing wells in relative close proximity to such unbooked drilling locations, the majority of other unbooked drilling locations are farther away from existing wells where management has less information about the characteristics of the reservoir and therefore there is more uncertainty whether wells will be drilled in such locations and if drilled there is more uncertainty that such wells will result in additional oil and gas reserves, resources or production.

Assuming a Jan 1, 2022 reference date, the Company will have over >1,050 gross (>975 net) drilling locations identified herein; of these >550 gross (>500 net) are unbooked locations. Of the 456 net booked locations identified herein, 362 net are Proved locations and 95 net are Probable locations based on Sproule’s 2021YE reserves. Assuming an average number of wells drilled per year of 75, Surge’s >1,050 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 EUR’s were measured against OOIP estimates to ensure a



reasonable recovery factor was being achieved based on the respective spacing assumption. Other assumptions, such as capital, operating expenses, wellhead offsets, land encumbrances, working interests and NGL yields were all reviewed, updated and accounted for on a well by well basis by Surge's Qualifies Reserve Evaluators. All type curves fully comply with Part 5.8 of the Companion Policy 51 – 101CP.

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", "all-in payout ratio", "free cash flow", "net debt", "net debt to cash flow from operating activities", "net operating expenses", and "operating netback" are not prescribed by GAAP. These non-GAAP and other financial measures are included because management uses the information to analyze business performance, cash flow generated from the business, leverage and liquidity, resulting from the Company's principal business activities and it may be useful to investors on the same basis. None of these measures are used to enhance the Company's reported financial performance or position. The non-GAAP and other financial measures do not have a standardized meaning prescribed by IFRS and therefore are unlikely to be comparable to similar measures presented by other issuers. They are common in the reports of other companies but may differ by definition and application. All non-GAAP and other financial measures used in this document are defined below, and as applicable, reconciliations to the most directly comparable GAAP measure for the year ended December 31, 2021, have been provided to demonstrate the calculation of these measures:

Adjusted Funds Flow

Adjusted funds flow is a non-GAAP 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.



<i>(\$000s except per share amounts)</i>	Three Months Ended December 31,		Years Ended December 31,	
	2021	2020	2021	2020
Cash flow from operating activities	50,417	11,000	100,484	72,190
Change in non-cash working capital	(15,659)	(5,084)	(18,144)	(16,721)
Decommissioning expenditures	2,089	2,551	6,738	4,305
Cash settled transaction and other costs	6,473	-	11,360	98
Adjusted funds flow	\$ 43,320	\$ 8,467	\$ 100,438	\$ 59,872
Per share - basic	\$ 0.55	\$ 0.21	\$ 1.83	\$ 1.51

All-in Payout Ratio

All-in payout ratio is a non-GAAP ratio, calculated as expenditures on property, plant and equipment divided by cash flow from operating activities. Management uses this measure to determine the amount of cash from operating activities that is used to reinvest in the exploration and development of its asset base.

Free Cash Flow

Free cash flow is a non-GAAP financial measure, calculated as cash flow from operating activities less expenditures on property, plant and equipment. 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 per share.

<i>(\$000s)</i>	Years ended December 31,	
	2021	2020
Cash flows from operating activities	100,484	72,190
Less: expenditures on property, plant and equipment	(103,786)	(52,773)
Free Cash Flow	(3,302)	19,417

Net Debt and Net Debt to Cash Flow from Operating Activities

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.

Net debt to cash flow from operating activities is a non-GAAP ratio, calculated as exit net debt divided by cash flow from operating activities. Management uses this ratio to assess the time (in years) that it would take to fund net debt based on the annualized cash flow from operating activities.



<i>(\$000s)</i>	As at Dec 31, 2021	As at Dec 31, 2020
Accounts receivable	55,738	29,796
Prepaid expenses and deposits	3,152	5,253
Accounts payable and accrued liabilities	(84,330)	(51,265)
Bank debt	(98,066)	(260,908)
Term debt	(133,993)	(32,718)
Convertible debentures	(73,935)	(71,181)
Net Debt	(331,434)	(381,023)

Net Operating Expenses

Net operating expenses is a non-GAAP financial measure, determined by deducting processing income, primarily generated by processing third party volumes at processing facilities where the Company has an ownership interest. It is common in the industry to earn third party processing revenue on facilities where the entity has a working interest in the infrastructure asset. Under IFRS this source of funds is required to be reported as revenue. However, the Company's principal business is not that of a midstream entity whose activities are dedicated to earning processing and other infrastructure payments. Where the Company has excess capacity at one of its facilities, it will look to process third party volumes as a means to reduce the cost of operating/owning the facility. As such, third party processing revenue is netted against operating costs when analyzed by management.

<i>(\$000s)</i>	Years ended December 31,	
	2021	2020
Operating expenses	116,413	101,640
Less: processing income	(4,575)	(4,772)
Net operating expenses	111,838	96,868

Operating Netback

Operating netback is a non-GAAP financial measure, calculated as petroleum and natural gas revenue and processing and other income, less royalties, realized gain (loss) on commodity and FX contracts, operating expenses, and transportation expenses. Operating netback per boe is calculated as operating netback divided by total barrels of oil equivalent produced during a specific period of time. There is no comparable measure in accordance with IFRS. This metric is used by management to evaluate the Company's ability to generate cash margin on a unit of production basis.



(\$000s)	Three Months Ended December 31,		Years Ended December 31,	
	2021	2020	2021	2020
Petroleum and natural gas revenue	143,381	59,907	410,063	211,049
Processing and other income	1,336	1,006	4,575	4,772
Royalties	(23,414)	(6,493)	(58,465)	(24,498)
Realized gain (loss) on commodity and FX contracts	(31,048)	(6,247)	(91,990)	20,099
Operating expenses	(34,257)	(26,531)	(116,413)	(101,640)
Transportation expenses	(2,468)	(1,892)	(7,098)	(9,766)
Operating netback	53,530	19,750	140,672	100,016
G&A expense	(3,894)	(2,968)	(13,238)	(12,486)
Interest expense	(6,317)	(8,315)	(26,996)	(27,658)
Adjusted funds flow	43,320	8,467	100,438	59,872
Barrels of oil equivalent (boe)	1,946,873	1,596,718	6,439,384	6,579,239
Operating netback (\$ per boe)	\$ 27.49	\$ 12.37	\$ 21.84	\$ 15.21
Adjusted funds flow (\$ per boe)	\$ 22.25	\$ 5.30	\$ 15.59	\$ 9.11

FURTHER INFORMATION:

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