

# Surge Energy Inc. Announces Third Quarter 2019 Results

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CALGARY, Nov. 4, 2019 - [Surge Energy Inc.](#) ("Surge" or the "Company") (TSX: SGY) announces its operating and financial results for the quarter ended September 30, 2019.

## MESSAGE TO SHAREHOLDERS

Surge's large original oil in place ("OOIP"), light and medium gravity crude oil asset base continues to outperform market expectations.

Surge's Q3/19 average production rate of 21,217 boepd contains virtually no contribution from the Company's Q3/19 drilling program, as drilling operations in the quarter did not commence until September 1, 2019.

As set forth in the chart below, over the last four financial quarters Surge has maintained production within less than 1 percent of the Company's 2019 budgeted production estimates, while drilling 12 (21 percent) fewer wells than budgeted.

In addition, with drilling and waterflood results outperforming expectations, Surge management strategically decided to start drilling operations in the quarter, picking up the Company's rigs on September 1, 2019, rather than on June 15, 2019 as management had previously budgeted. This capital allocation decision allowed the Company to continue to reduce net debt, which has now reduced the Company's net debt by \$84 million in 2019.

### Q4 2018 &dash; Q3 2019 Budget to Actuals Comparison

	2018/19 Budget	Estimates	Actuals
New wells on production	49 wells budgeted		37 wells drilled
Average production*	21,535 boe/d*		21,360 boe/d

\* Based on Q4/18 guidance (i.e. post the Greater Sawn core-area acquisition), and 2019 guidance of 22,000 boepd, adjusted for the 490 boepd non-core disposition that closed in Q1/19.

Surge management believes that these excellent operational results are directly related to: 1) the Company's high quality OOIP, light and medium gravity crude oil assets; 2) the Company's talented, hard-working employees; and 3) management's strategic, timely, capital allocation/spending decisions.

Based on continued successful drilling and waterflood results at Surge's Sparky, Valhalla, Greater Sawn and Shaunavon areas, the Company's Q3/19 production rate averaged 21,217 boepd (85% liquids), which represents an increase of 18 percent over Q3/18 production of 18,029 boepd (79% liquids).

Additionally, the Company achieved a 26 percent increase in liquids production in Q3/19 when compared to Q3/18, by targeting higher value light and medium oil production with the recent drilling programs and acquisitions.

### Q3/19 HIGHLIGHTS

- Surge's Q3/19 production of 21,217 boepd increased by 18 percent over Q3/18 production of 18,029 boepd.
- Surge's liquids weighting increased six percent, up from 79 percent in Q3/18 to 85 percent in Q3/19.
- The Company's Q3/19 liquids production increased by 26 percent as compared to Q3/18, up from 14,229 bblpd to 18,029 bblpd (96 percent light and medium oil).
- The Company's cash flow from operating activities in Q3/19 was \$40.2 million, an increase of eight percent over Q3/18's \$37.2 million.

- Surge's adjusted funds flow<sup>ii</sup> in Q3/19 was \$41.5 million, an increase of two percent over Q3/18 at \$40.6 million.
- Operating expenses for Q3/19 were \$14.69 per boe and net operating expenses<sup>ii</sup> were \$13.93 per boe, both below the Company's 2019 guided range of \$14.95 - \$15.45 per boe.
- Surge generated \$11.2 million of adjusted funds flow in the quarter in excess of exploration and development expenditures and dividends declared (and was used to further reduce net debt).
- The Company paid dividends of \$8.0 million in Q3/19, representing 19 percent of Q3/19 adjusted funds flow.
- In the last nine months Surge has reduced net debt by \$84 million.

## FINANCIAL AND OPERATING SUMMARY

(\$000s except per share amounts)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018 <sup>2</sup>	% Change	2019	2018	% Change
<b>Financial highlights</b>						
Oil sales	93,818	85,946	9 %	289,333	233,954	24 %
NGL sales	1,958	3,598	(46)%	6,032	8,546	(29)%
Natural gas sales	1,250	1,492	(16)%	7,194	3,920	84 %
Total oil, natural gas, and NGL revenue	97,026	91,036	7 %	302,559	246,420	23 %
Cash flow from operating activities	40,228	37,197	8 %	114,943	95,137	21 %
Per share - basic (\$)	0.13	0.16	(19)%	0.37	0.41	(10)%
Adjusted funds flow	41,513	40,638	2 %	134,106	107,403	25 %
Per share - basic (\$)	0.13	0.18	(28)%	0.43	0.46	(7)%
Total exploration and development expenditures	22,247	28,701	(22)%	88,705	86,954	2 %
Total acquisition and dispositions	12,077	6,279	92 %	(44,896)	28,733	(256)%
Total capital expenditures	34,324	34,980	(2)%	43,809	115,687	(62)%
Net debt <sup>1</sup> , end of period	377,409	282,394	34 %	377,409	282,394	34 %
<b>Operating highlights</b>						
<b>Production:</b>						
Oil (bbls per day)	17,170	13,560	27 %	17,358	13,120	32 %
NGLs (bbls per day)	769	669	15 %	713	595	20 %
Natural gas (mcf per day)	19,668	22,797	(14)%	20,342	20,004	2 %
Total (boe per day) (6:1)	21,217	18,029	18 %	21,461	17,049	26 %
<b>Average realized price (excluding hedges):</b>						
Oil (\$ per bbl)	59.39	68.89	(14)%	61.06	65.32	(7)%

NGL (\$ per bbl)	27.69	58.46	(53)%	30.97	52.57	(41)%
Natural gas (\$ per mcf)	0.69	0.71	(3)%	1.30	0.72	81 %
Netback (\$ per boe)						
Petroleum and natural gas revenue	49.71	54.89	(9)%	51.64	52.94	(2)%
Realized gain (loss) on financial contracts	(0.86)	(1.91)	(55)%	(0.84)	(1.84)	(54)%
Royalties	(7.12)	(8.32)	(14)%	(6.61)	(7.68)	(14)%
Net operating expenses <sup>1</sup>	(13.93)	(14.36)	(3)%	(14.36)	(14.37)	(0)%
Transportation expenses	(1.42)	(1.55)	(8)%	(1.58)	(1.48)	7 %
Operating netback <sup>3</sup>	26.38	28.75	(8)%	28.25	27.57	2 %
G&A expense	(1.81)	(1.98)	(9)%	(1.82)	(2.08)	(13)%
Interest expense	(3.31)	(2.27)	46 %	(3.54)	(2.42)	46 %
Adjusted funds flow <sup>1, 3</sup>	21.26	24.50	(13)%	22.89	23.07	(1)%
Common shares outstanding, end of period	324,215	233,618	39 %	324,215	233,618	39 %
Weighted average basic shares outstanding	318,076	231,988	37 %	313,876	231,932	35 %
Stock option dilution	&mdash;	4,234	(100)%	&mdash;	4,736	(100)%
Weighted average diluted shares outstanding	318,076	236,222	35 %	313,876	236,668	33 %

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In accordance with industry practice, the Company uses adjusted funds flow to analyze the cash flow generated from its ongoing principal business activities. On this basis, both adjusted funds flow and cash flow from operating activities are provided for comparative purposes. Please see the Non-GAAP Financial Measures section of this release for further details.

## OPERATIONAL HIGHLIGHTS

Surge spent a total of \$22.2 million of exploration and development capital in the third quarter of 2019 for the drilling of 4 gross (4 net) successful wells, the completion of 1 gross (1 net) successful well (\$10.3 million on drilling and completions), together with waterflood injector conversions, associated infrastructure, land and seismic.

Surge also spent \$4.9 million on facilities, equipment, and pipelines during the quarter, focused on optimizing and expanding the Company's waterfloods.

Included in capital spending for Q3/19 are two key, core area, land acquisitions of a total of \$5.7 million.

Based on Surge's recent internal 2019 type curve review<sup>iii</sup>, management now estimates Surge has approximately 10 years of economic drilling inventory at US\$50/bbl WTI, and approximately 13 years of highly economic drilling inventory at US\$60 WTI.

## SPARKY CORE AREA

During the quarter, Surge brought on production four, better than type-curve, horizontal Sparky wells in Provost that were drilled in Q2/19 on the Company's first ever four well drilling pad. Due to pad efficiencies, the average "all-in" cost to drill, complete, equip and tie-in the wells at Provost was \$1.05 million per well, compared to a budget of \$1.25 million per well. Combined, these four wells produced over 750 bopd for the month of August.

Surge has more than 70 net drilling locations<sup>iii</sup> remaining at the Company's large, 90 million net OOIP, Sparky pool at Provost. As a result of Surge's drilling results at Provost, operating expenses in this area are currently \$6.75 per boe.

In late Q3/19, Surge drilled 3 additional gross (3 net) Sparky wells at Provost from a four well pad. The fourth (4<sup>th</sup> net) well from this pad was subsequently drilled in early October, and all four wells were completed and brought on production in early Q4/19.

## Commercial Waterflood Response at Eyehill

As depicted by the production graph below, Surge has seen an excellent waterflood response from its horizontal waterflood program at the Company's 170 million net OOIP, 29 degree API oil asset at Eyehill.

Surge currently has 10 wells at Eyehill which have been receiving pressure support from seven offset horizontal water injectors for a period of more than one year. Aggregate production from these 10 wells is currently over 700 boepd, representing 29 percent of the total 2,400 boepd production from the pool. Due to the conventional nature of this large reservoir (i.e. a sandstone with 29 percent porosity, and good permeability), the wells receiving pressure support from the waterflood have experienced an arresting of the production decline.

In addition to the arrested decline, over the past nine months the Company is now seeing a significant increase in oil production (i.e. a classic "oil bank" response) - with a static producing well count.

Accordingly, the production receiving support from the waterflooded area at Eyehill has now increased by over 250 boepd since June 2018. Further, Surge drilled and brought on production an additional eleventh well offsetting injection in Q1/19 which is still producing at over 80 boepd after eight months on production, and is showing positive signs of waterflood support.

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The Company has now drilled 62 consecutive successful wells at Eyehill, increasing production by 480 percent from 500 boepd in 2015 to its peak of over 2,900 boepd in May of 2017. In addition, management has identified an additional 58 low-risk, follow up development drilling locations<sup>iii</sup> at Eyehill, together with full-field waterflood implementation.

Surge will continue to implement this proven, disciplined operating strategy of:

1. delivering higher initial drilling growth and value creation; and

2. strategically transitioning the Company's high quality, large OOIP, Sparky sandstone reservoirs into low decline wells (i.e. thereby delivering long term adjusted funds flow in excess of exploration and development expenditures, and profit to investment ratios).

This conservative, low risk, operating strategy continues to lower the Company's corporate decline, and increase sustainability, which is key to Surge's growth plus dividend paying business model. This operating strategy will also continue to be applied at the Company's Sparky core, large OOIP sandstone reservoirs assets at: Eyehill, Eyehill South, Betty Lake, Betty Lake North, Provost, Sounding MM, Sounding East, Lakeview, Macklin, and Cadogan.

## VALHALLA CORE AREA

At Valhalla, Surge successfully drilled and completed a 100 percent working interest, light oil Doig horizontal well in Q3/19. This is Surge's fourth 200 meter horizontal in-fill well drilled into the Doig reservoir, and further validates the continued downspacing of this large, 150 million barrel net OOIP, light oil pool.

Surge estimates an inventory of more than 75 net light oil locations<sup>iii</sup> at Valhalla in the Doig, Charlie Lake and Montney formations, providing a drilling inventory of more than 15 years.

## CONSISTENT HEDGING PROGRAM

Surge has a hedging program in place to protect the Company's adjusted funds flow. For the remainder of 2019, Surge has hedged 6,750 bbl/d of WTI crude oil with an average floor price of CAD \$72/bbl. This represents approximately 47 percent of Surge's forecasted after royalty crude oil production for Q4/19. Surge has also retained further upside to WTI price increases on 56 percent of the hedged volumes, with an average ceiling of CAD \$99/bbl.

Furthermore, Surge has hedged approximately 45 percent of forecasted 2020 gas production at weighted average floor of CAD \$2.05/GJ, more than 40 percent higher than the Q3/19 year to date average of CAD \$1.44/GJ.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE

In 2019, the Company elected to participate in the Alberta Energy Regulators ("AER") Area Based Closure program ("ABC program"). Building on the Company's work in the first half of 2019, Surge continued to efficiently direct capital under the ABC program in Q3/19, abandoning its non-core Leela natural gas property.

The Company continues to achieve abandonment costs that are approximately 50 percent of AER estimates, confirming Surge's belief in the economies of scale that are found within the ABC program. Given the Company's success in 1H/19 at Cherry and in Q3/19 at Leela, Surge has initiated ABC programs in a number of the Company's non-core areas.

Surge has committed approximately \$6 million in 2019 to a proactive, well-funded, annual abandonment and reclamation program and has spent \$4.1 million during the first nine months of 2019. This builds on the \$17.5 million the Company has spent since 2014.

During the first nine months of 2019, the Company abandoned 130 wells. Due to capital efficiencies afforded under the ABC program, the Company has now increased its target abandonment commitment for 2019 from 125 to 150 wells, which is approximately three times the number of wells the Company plans to drill this year.

In addition to Surge's extensive annual abandonment and reclamation program set forth above, the Company also pays annually into the industry wide Alberta Orphan Well Fund.

On September 18, 2019 Surge was the recipient of two plaques presented by STARS Air Ambulance. The

plaques recognize Surge's support of the "Fund a Flight" initiative for life-saving missions flown by the air rescue helicopters in communities close to Surge's operating areas. The two most recent missions funded by Surge were near the Alberta communities of Slave Lake and Valhalla. As part of its ongoing commitment to the communities in which it operates, Surge has had a long-standing partnership with STARS in both Alberta and Saskatchewan contributing to the organization in more ways than "Fund a Flight". This includes participating in the site registration program and supporting the Industry Emergency Communications Center, both of which enhance the safety of Surge's operations, and the safety of the industry as a whole.

Surge is a supporter of community engagement and recognizes the importance of supporting charitable organizations in the communities in which the Company operates. Details on the Company's recent community engagement initiatives can be found on Surge's website at [www.surgeenergy.ca](http://www.surgeenergy.ca).

## OUTLOOK & CONSISTENT PRODUCTION; SUSTAINABLE DIVIDEND

Management's stated goal is to be the best positioned, top performing, light/medium gravity crude oil growth and dividend paying public company in its peer group in Canada.

Surge's high quality, large OOIP, light and medium gravity crude oil asset base continues to outperform management's expectations.

The Company now has over 2.5 Billion barrels of internally estimated OOIP, with a low 6.2 percent recovery factor to date, and a deep inventory of over 800 highly economic drilling locations<sup>iii</sup> - providing a 13 year drilling inventory. In addition, the Company has a low 23 percent annual corporate decline, with over 55 percent of Surge's asset base under various stages of waterflood.

In the last four financial quarters, Surge has maintained production within less than one percent of budget guidance, while drilling 21 percent (12) less wells than estimated. Furthermore, the Company has now reduced net debt by \$84 million in the last nine months, while maintaining an attractive dividend yield of over nine percent, representing 19 percent of Q3/19 adjusted funds flow.

Surge anticipates confirming 2020 guidance in early January 2020.

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## 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 dividend payout ratio and all-in payout ratio; anticipated 2019 exit rate production; Surge's declared focus and primary goals, and the ability of management to successfully implement such goals; management's expectations with respect to Surge's asset base; the quality and characteristics of Surge's assets; Surge's annual exploration and development capital expenditure program and budget; continued success of Surge's drilling and waterflood programs; drilling inventory; corporate decline; anticipated Q4 realized crude oil prices; commodity prices; availability of undrawn capacity with respect to Surge's credit facility; the ability of Surge's hedging program to protect the Company's adjusted funds flow; management's continued evaluation of the repurchase of Surge shares under the existing NCIB; management's plans to confirm 2020 guidance and the timing thereof; and Surge's dividend policy and the expectations of management with respect to an increase to Surge's dividend.

Information respecting Surge's 2020 forecast operating netback and forecast cash flow from operating

activities set forth in this press release may be considered to be future-oriented financial information or a financial outlook for the purposes of applicable Canadian securities laws. Financial outlook and future-oriented financial information and projected operational information contained in this press release are based on assumptions about future events based on management's assessment of the relevant information currently available that management considers to be reasonable in the circumstances. The future-oriented financial information and financial outlooks and projected operational information contained in this press release have been approved by management as of the date of this press release. Readers are cautioned that any such future-oriented financial information, financial outlooks and projected operational information contained herein should not be used for purposes other than those for which it is disclosed herein.

The forward-looking statements are based on certain key expectations and assumptions made by Surge; 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 ability of Surge to increase its dividend post-closing; 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 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 or 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 Annual Information Form dated March 12, 2019 and in Surge's MD&A for the period ended September 30, 2019, both of which have been filed on SEDAR and can be accessed at [www.sedar.com](http://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.

## Reserves Data

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 means barrel of oil equivalent per day. Original Oil in Place ("OOIP") is the equivalent to Discovered Petroleum Initially In Place ("DPIIP") for the purposes of this press release. DPIIP is defined as quantity of hydrocarbons that are estimated to be in place within a known accumulation. There is no certainty that it will be commercially viable to produce any portion of the resources. A recovery project cannot be defined for this volume of DPIIP at this time, and as such it cannot be further sub-categorized. Bbl means barrel of oil. NGLs means natural gas liquids.

## Drilling Locations

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, 2020 reference date, the company will have over >800 gross (>800 net) drilling locations identified herein, of these >400 gross (>400 net) are unbooked locations. Of the 388 net booked locations identified herein 297 net are Proved locations and 91 net are Probable locations based on Sproule's 2018YE reserves.

Surge type curves were constructed using a representative, factual and balanced analog data set, as of Aug 31, 2019. 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 and accounted for on a well by well basis by Surge's Qualified Reserve Evaluators. Over 95% of the locations used in the economic inventory slide were represented by type curves developed by Surge's Qualified Reserve Evaluators, the remaining locations were represented using Sproule's 2018YE type curves. All type curves fully comply with Part 5.8 of the Companion Policy 51 &ndash; 101CP. Type Curve economics were run at US\$50/bbl, US\$60/bbl, US\$70/bbl and US\$80/bbl WTI, with differential assumptions of US\$16/bbl WCS and US\$5/bbl EDMN, and a 0.75 USD/CAD FX.

Assuming the Jan 1, 2020 reference date outlined in the above Surge type curve review for 2019, 78 gross (78 net) Provost Sparky locations were identified. Sproule's 2018YE reserve bookings for Provost Sparky was 18 gross (18 net) Proved locations and 8 gross (8 net) Probable locations.

Assuming the Jan 1, 2020 reference date outlined in the above Surge type curve review for 2019, 58 gross (>58 net) Eyehill Sparky locations were identified. Sproule's 2018YE reserve bookings for Eyehill Sparky was 21 gross (21 net) Proved locations and 15 gross (15 net) Probable locations.

Assuming the Jan 1, 2020 reference date outlined in the above Surge type curve review for 2019, 39 gross (31.1 net) Valhalla Doig, 37 gross (29.4 net) Charlie Lake, and 16 gross (15.8 net) Montney locations were identified. Sproule's 2018YE reserve bookings for Doig was 31 gross (25.1 net) Proved locations and 5 gross (3.9 net) Probable locations. Sproule's 2018YE reserve bookings for Charlie Lake was 5 gross (5 net) Proved locations and 3 gross (3 net) Probable locations. Sproule's 2018YE reserve bookings for Montney was 8 gross (8 net) Proved locations and 1 gross (1 net) Probable locations.

## Non-GAAP Financial Measures

Certain secondary financial measures in this press release &ndash; namely, "adjusted funds flow", "adjusted funds flow per share", "net operating expenses" and "net debt" are not prescribed by GAAP. These non-GAAP 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 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 financial measures used in this document are defined below:

## Adjusted Funds Flow & Adjusted Funds Flow per Share

The Company adjusts cash flow from operating activities in calculating adjusted funds flow for changes in non-cash working capital, decommissioning expenditures, transaction and other costs, and cash settled stock-based compensation plans, particularly cash used to settle withholding obligations on stock-based compensation arrangements that are settled in shares. 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 acquisitions, which management believes do not reflect the ongoing cash flows of the business, and as such reduces comparability. Subsequent to the third quarter of 2018, all of the Company's stock-based compensation plans are equity classified as the Company has the intention of settling all awards with shares. Cash settled stock-based compensation currently represents the statutory tax withholdings required on stock-based compensation awards and is a discretionary allocation of capital. The Company has the option to either require the holder to sell shares earned in the stock-based compensation plan to satisfy tax withholdings, or the Company can issue less shares to the individual and remit a cash payment to satisfy tax withholding requirements. 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 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		Nine Months Ended	
(\$000s except per share)	Sept 30, 2019	Sept 30, 2018	Sept 30, 2019	Sept 30, 2018
Cash flow from operating activities	\$ 40,228	\$ 37,197	\$ 114,943	\$ 95,137
Change in non-cash working capital	(475)	(2,269)	13,693	1,126
Decommissioning expenditures	1,279	1,329	4,097	4,909
Transaction and other costs	481	1,016	1,373	1,784
Cash settled stock-based compensation -		3,365	-	4,447
Adjusted funds flow	\$ 41,513	\$ 40,638	\$ 134,106	\$ 107,403
Per share &ndash; basic	\$ 0.13	\$ 0.18	\$ 0.43	\$ 0.47

#### Net Debt

There is no comparable measure in accordance with IFRS for net debt. Net debt is calculated as bank debt plus the liability component of the convertible debentures plus or minus working capital, however, excluding the fair value of financial contracts and other long term liabilities. 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 Sept 30, 2019	As at Dec 31, 2018	As at Sept 30, 2018
Bank debt	\$ (308,335)	\$ (408,593)	\$ (250,684)
Accounts receivable	40,562	21,084	35,940
Prepaid expenses and deposits	6,200	9,222	7,111
Accounts payable and accrued liabilities	(45,016)	(42,350)	(35,168)
Convertible debentures	(68,118)	(37,973)	(37,646)
Dividends payable	(2,702)	(2,577)	(1,947)
Total	\$ (377,409)	\$ (461,187)	\$ (282,394)

### Net Operating Expenses

Net operating expenses are determined by deducting processing and other revenue 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.

Additional information relating to non-GAAP measures can be found in the Company's most recent management's discussion and analysis MD&A, which may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)).

### Additional Metrics

This press release contains additional metrics commonly used in the oil and natural gas industry. These terms have been calculated by Management and do not have a standardized meaning. Management uses these oil and gas metrics to further analyze the performance of the Company over time and to compare the results of the Company with others in the industry. Additional metrics used in this press release are as follows:

#### Operating Netback & Adjusted Funds Flow Netback

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

(\$000s except per share)	Three Months Ended		Nine Months Ended	
	Sept 30, 2019	Sept 30, 2018	Sept 30, 2019	Sept 30, 2018
Petroleum and natural gas revenue*	\$ 97,026	\$ 91,036	\$ 302,559	\$ 246,420
Processing and other income*	1,483	537	2,740	2,242
Royalties*	(13,892)	(13,803)	(38,741)	(35,725)
Operating expenses*	(28,680)	(24,360)	(86,890)	(69,123)
Transportation expenses*	(2,763)	(2,574)	(9,242)	(6,907)
Realized gain (loss) on financial contracts*	(1,674)	(3,166)	(4,927)	(8,577)
Operating netback	\$ 51,500	\$ 47,670	\$ 165,499	\$ 128,330
G&A expense*	(3,525)	(3,276)	(10,647)	(9,677)
Interest expense*	(6,462)	(3,756)	(20,746)	(11,250)
Adjusted funds flow	\$ 41,513	\$ 40,638	\$ 134,106	\$ 107,403
Barrels of oil equivalent (boe)	1,951,893	1,658,668	5,859,104	4,654,377
Operating netback (\$ per boe)	\$ 26.38	\$ 28.74	\$ 28.25	\$ 27.57
Adjusted funds flow (\$ per boe)	\$ 21.26	\$ 24.50	\$ 22.89	\$ 23.07

\* Taken directly from the financial statements.

Additional information relating to non-GAAP and capital management measures can be found in the Company's most recent management's discussion and analysis MD&A, which may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)).

Neither the TSX nor its Regulation Services Provider (as that term is defined in the policies of the TSX) accepts responsibility for the accuracy or completeness of this information.

- i See Reserves Data in the Forward Looking Statements section of this document for further details.
- ii This is a non-GAAP financial measure that is defined in the Non-GAAP Financial Measures section of this document.
- iii See Drilling Locations in the Forward Looking Statements of this document for further details.
- iv Based on a \$1.05 share price and a \$0.10 annual dividend.

SOURCE [Surge Energy Inc.](#)

#### Contact

Paul Colborne, President & CEO, [Surge Energy Inc.](#), Phone: (403) 930-1507, Fax: (403) 930-1011, Email:

pcolborne@surgeenergy.ca; Jared Duca, Chief Financial Officer, [Surge Energy Inc.](#), Phone: (403) 930-1046, Fax: (403) 930-1011, Email: [jduca@surgeenergy.ca](mailto:jduca@surgeenergy.ca)

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