



# Surge Energy Inc. (ZPTAF)

Updated November 20<sup>th</sup>, 2025 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$5.45	<b>5 Year Annual Expected Total Return:</b>	2.4%	<b>Market Cap:</b>	\$537.9 M
<b>Fair Value Price:</b>	\$4.10	<b>5 Year Growth Estimate:</b>	0.0%	<b>Ex-Dividend Date:</b>	11/28/2025
<b>% Fair Value:</b>	133%	<b>5 Year Valuation Multiple Estimate:</b>	-5.5%	<b>Dividend Payment Date:</b>	12/15/2025
<b>Dividend Yield:</b>	6.8%	<b>5 Year Price Target</b>	\$4.10	<b>Years Of Dividend Growth:</b>	3
<b>Dividend Risk Score:</b>	F	<b>Sector:</b>	Energy	<b>Rating:</b>	Hold

## Overview & Current Events

Surge Energy is a Calgary-based independent oil and gas exploration, development and production company operating primarily in Alberta, Saskatchewan and Manitoba. Surge holds a focused and operated portfolio of light and medium gravity crude oil assets, including large oil-in-place reservoirs with low recovery factors. The company maintains a significant inventory of low-risk development drilling locations, including advancing water-flood enhanced recovery projects, while retaining operator control and high working interests across its key plays. Its strategy revolves around disciplined capital allocation, including targeting the highest return opportunities. This includes optimizing development timing, leveraging horizontal drilling and water flood tech, and focusing on cash flow generation, debt pay down, and shareholder returns. The company trades at a market cap of \$537.9 million. All figures in this report have been converted to USD unless otherwise noted.

On November 5<sup>th</sup>, 2025, Surge Energy reported its Q3 financial results for the period ending September 30<sup>th</sup>, 2025. Total revenue before hedging was approximately \$101.7 million, based on average daily production of 23,622 boe/d, with crude oil representing about 88% of the mix.

Surge Energy generated about \$49.7 million in adjusted funds flow, or \$0.50 per share basic and \$0.49 per share diluted, compared with about \$51.6 million and \$0.51 per share basic in the same quarter last year. The year-over-year decrease was driven primarily by lower realized commodity prices and slightly reduced production volumes, partially offset by lower royalties and operating costs following non-core asset dispositions in 2024. For FY2025, we expect AFFS of \$2.05.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>AFFS</b>	\$0.39	\$0.29	\$0.40	\$0.39	\$0.49	\$0.16	\$1.52	\$2.96	\$2.14	\$1.99	<b>\$2.05</b>	<b>\$2.05</b>
<b>DPS</b>	\$1.68	\$0.59	\$0.61	\$0.61	\$0.65	\$0.12	---	\$0.18	\$0.36	\$0.35	<b>\$0.37</b>	<b>\$0.43</b>
<b>Shares<sup>1</sup></b>	26.0	26.1	26.8	29.0	37.3	39.5	56.0	87.0	101.0	100.8	<b>98.9</b>	<b>145.0</b>

Over the past decade, Surge Energy's Adjusted Funds Flow per Share (AFFS) illustrates the company's sensitivity to oil price cycles, as well as its evolving operational and financial strategy. In the early part of the decade (2015–2016), AFFS declined from \$0.39 to \$0.29 as global crude prices collapsed, forcing Surge into capital preservation mode. In the 2017 to 2019 period, modest oil price recovery and strategic acquisitions helped stabilize cash flow, with AFFS rising gradually to \$0.49. However, the onset of the COVID-19 pandemic in 2020 triggered a sharp demand shock, pushing AFFS down to just \$0.16 despite production holding steady. The company suspended its dividend to prioritize balance sheet health.

A significant turnaround occurred in 2021 and 2022. Strong oil markets, efficient horizontal drilling, and the integration of accretive acquisitions, particularly in Southeast Saskatchewan, pushed AFFS to \$1.52 and then a cycle peak of \$2.96. These two years marked a period of excellent profitability, as high commodity prices aligned with operational leverage and lower debt service. In 2023 and 2024, AFFS declined moderately to \$2.14 and \$1.99, as oil prices normalized and

<sup>1</sup> Share count is in millions.

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Surge shifted focus toward shareholder returns and debt reduction. Despite the pullback, AFFS remained well above historical averages.

Moving forward, we don't expect any growth or decline in AFFS as market conditions could sway results either way. We do, however, expect the monthly dividend to keep growing at a modest pace. We have applied a 3% growth rate to our estimates, which we believe the company can sustain if oil prices don't collapse.

## Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Avg. P/AFF	---	---	---	---	20.6	25.6	2.0	2.0	3.0	2.6	<b>2.7</b>	<b>2.0</b>
Avg. Yld.	5.5%	3.6%	3.8%	4.4%	6.4%	2.9%	0.0%	3.1%	5.6%	6.7%	<b>6.8%</b>	<b>10.5%</b>

Surge Energy's P/AFF multiples, especially from 2021 onward, appear abnormally low relative to the strength of its cash flows. With AFF surging in recent years, P/AFF collapsed to just 1.2X in 2021 and remained under 3X through 2024. This disconnect, however, makes sense for this type of business. Surge's cash flows are volatile. In fact, without continued reinvestment, production falls, and if conditions turn, the company can quickly swing from strong profits to deep losses. That risk keeps valuation multiples low. We believe the company should trade at a higher yield to reflect the underlying risks attached. Still, the payout ratio remains reasonable on an AFF basis, so we have set the fair multiple at 2.0X.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

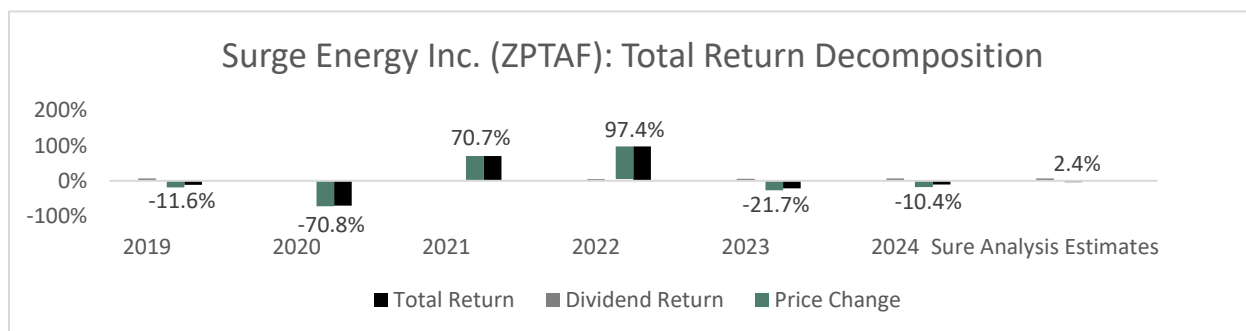
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	---	---	---	---	133%	75%	---	6%	17%	18%	<b>18%</b>	<b>21%</b>

Surge Energy offers moderate safety, supported by reduced net debt (~\$160 million) and positive operating cash flow, but remains fundamentally exposed to commodity volatility. Its asset base, including conventional oil plays in Sparky and SE Saskatchewan, provides relatively low decline rates and predictable well performance, lending some quality to operations. However, the company lacks true structural competitive advantages like integrated infrastructure or scale. Its edge lies mainly in cost control and familiarity with its mature assets. Still, in a recession, Surge's resilience is limited. Demand shocks typically hit oil hard, and with no downstream exposure or diversification, cash flow could quickly turn negative, as seen in 2020 when AFF/share dropped to \$0.16.

## Final Thoughts & Recommendation

Surge offers high cash flow yields and strong operational leverage, but its valuation reflects the fragile nature of that cash flow in a cyclical, capital-intensive business. For investors comfortable with commodity risk, it can be a high-reward bet on sustained oil strength and disciplined capital execution. However, we forecast annualized returns of just 2.4% over the medium-term, as valuation headwinds could more than offset returns from the dividend. We rate the stock a hold, but highlight that income investor should not rely on the monthly dividend.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	186	125	188	237	300	161	331	565	502	485
Gross Profit	60	47	96	116	138	64	195	357	267	260
Gross Margin	32.3%	37.7%	51.3%	48.8%	46.0%	40.0%	58.8%	63.3%	53.3%	53.6%
SG&A Exp.	12	14	11	15	15	14	14	17	21	22
Operating Profit	(33)	(16)	17	12	22	(32)	83	206	85	89
Operating Margin	-17.8%	-13.0%	8.9%	5.1%	7.4%	-19.8%	25.1%	36.5%	16.9%	18.3%
Net Profit	(168)	(23)	(5)	(55)	(120)	(558)	325	178	12	(39)
Net Margin	-89.9%	-18.4%	-2.7%	-23.3%	-39.8%	-346%	98.3%	31.5%	2.3%	-8.1%
Free Cash Flow	24	(14)	(4)	1	23	14	(3)	82	63	61
Income Tax	(52)	(1)	(1)	(12)	(32)	31	(9)	(56)	4	(12)

## Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	825	827	980	1,150	1,092	555	1,000	1,142	1,116	952
Cash & Equivalents									-	5
Accounts Receivable	18	22	29	15	32	23	44	45	40	41
Total Liabilities	240	249	363	538	578	607	598	524	480	437
Accounts Payable	27	24	25	31	31	40	66	69	64	66
Long-Term Debt	107	119	196	328	295	286	240	235	196	151
Shareholder's Equity	585	578	617	613	514	(52)	403	618	636	515
LTD/E Ratio	0.18	0.21	0.32	0.54	0.57	(5.51)	0.60	0.38	0.31	0.29

## Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	-13.2%	-2.8%	-0.6%	-5.2%	-10.7%	-67.7%	41.8%	16.6%	1.0%	-3.8%
Return on Equity	-22.2%	-3.9%	-0.9%	-9.0%	-21.2%	-242%	185.4%	34.9%	1.9%	-6.8%
ROIC	-15.9%	-3.3%	-0.7%	-6.3%	-13.7%	-107%	74.2%	23.8%	1.4%	-5.2%
Shares Out.	26.0	26.1	26.8	29.0	37.3	39.5	56.0	87.0	101.0	100.8
Revenue/Share	7.18	4.78	7.00	8.19	8.06	4.07	5.91	6.49	4.97	4.81
FCF/Share	0.93	(0.54)	(0.14)	0.04	0.61	0.37	(0.05)	0.94	0.62	0.60

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

### Disclaimer

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