



Surge Energy Inc. (ZPTAF)

Updated May 12th, 2026, by Nikolaos Sismanis

Key Metrics

Current Price:	\$7.19	5 Year Annual Expected Total Return:	-0.3%	Market Cap:	\$705 M
Fair Value Price:	\$5.00	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	04/30/2026
% Fair Value:	144%	5 Year Valuation Multiple Estimate:	-7.0%	Dividend Payment Date:	05/15/2026
Dividend Yield:	5.3%	5 Year Price Target	\$5.00	Years Of Dividend Growth:	3
Dividend Risk Score:	F	Sector:	Energy	Rating:	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 \$705 million. All figures in this report have been converted to USD unless otherwise noted.

On May 6th, 2026, Surge Energy reported its Q1 financial results for the period ending March 31st, 2026. Total petroleum and natural gas revenue was about \$113.0 million, based on average daily production of 23,893 boe/d, with crude oil and NGLs representing about 89% of the production mix. Surge Energy generated about \$50.7 million in adjusted funds flow, or \$0.51 per share basic and \$0.49 per share diluted, compared with about \$57.3 million and \$0.57 per share basic in the same quarter last year. The year-over-year decrease was driven primarily by lower realized commodity prices and a realized loss on commodity and FX contracts, partially offset by modestly higher production and lower royalties per boe. Free cash flow was \$18.8 million. For FY2026, we expect AFFS of \$2.00.

Growth on a Per-Share Basis

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031
AFFS	\$0.29	\$0.40	\$0.39	\$0.49	\$0.16	\$1.52	\$2.96	\$2.14	\$1.99	\$2.02	\$2.00	\$2.00
DPS	\$0.59	\$0.61	\$0.61	\$0.65	\$0.12	---	\$0.18	\$0.36	\$0.35	\$0.38	\$0.38	\$0.44
Shares¹	26.1	26.8	29.0	37.3	39.5	56.0	87.0	101.0	100.8	100.6	102.3	145.0

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 2026, AFFS was weak at \$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 Surge shifted focus toward shareholder returns and debt reduction. In 2025, AFFS remained broadly stable, as lower oil prices were largely offset by reduced costs and continued operational efficiency.

¹ Share count is in millions.

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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	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Now	2031
Avg. P/AFF	---	---	---	20.6	25.6	2.0	2.0	3.0	2.6	2.2	3.6	2.5
Avg. Yld.	3.6%	3.8%	4.4%	6.4%	2.9%	0.0%	3.1%	5.6%	6.7%	8.5%	5.3%	8.8%

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 2X in 2021 and remained under 3X through 2025. 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 2.5X.

Safety, Quality, Competitive Advantage, & Recession Resiliency

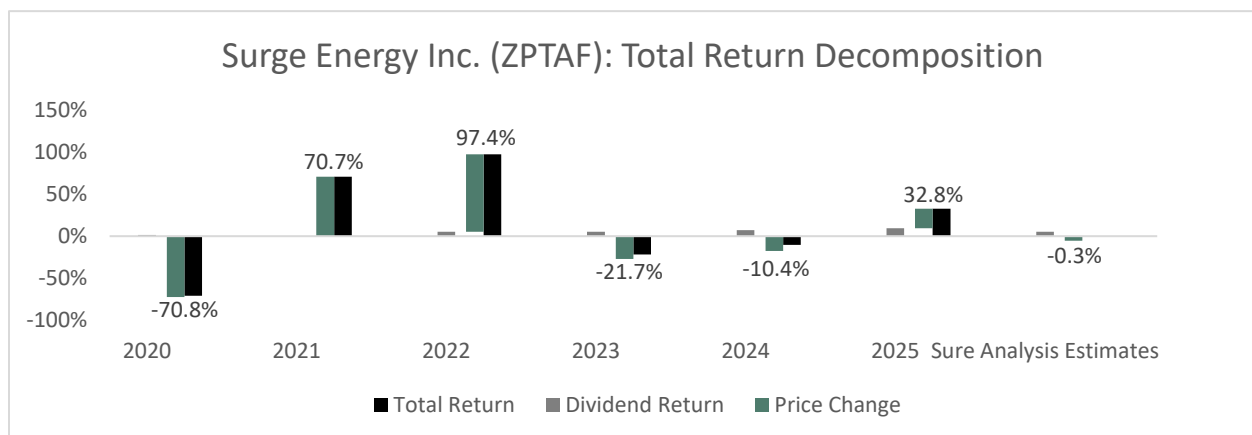
Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031
Payout	203%	153%	156%	133%	75%	---	6%	17%	18%	19%	19%	22%

Surge Energy offers moderate safety, supported by reduced net debt (~\$173 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 the possibility of negative returns over the medium-term, as valuation headwinds could more than offset returns from the dividend. We rate the stock a hold only due to its progressive dividend growth but stress that investors should not rely on the monthly dividend.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenue	125	188	237	300	161	331	565	502	485	344
Gross Profit	47	96	116	138	64	195	357	267	260	82
Gross Margin	37.7%	51.3%	48.8%	46.0%	40.0%	58.8%	63.3%	53.3%	53.6%	23.8%
SG&A Exp.	14	11	15	15	14	14	17	21	22	22
Operating Profit	(16)	17	12	22	(32)	83	206	85	89	59
Operating Margin	-13.0%	8.9%	5.1%	7.4%	-19.8%	25.1%	36.5%	16.9%	18.3%	17.2%
Net Profit	(23)	(5)	(55)	(120)	(558)	325	178	12	(39)	29
Net Margin	-18.4%	-2.7%	-23.3%	-39.8%	-346%	98.3%	31.5%	2.3%	-8.1%	8.4%
Free Cash Flow	(14)	(4)	1	23	14	(3)	82	63	61	72
Income Tax	(1)	(1)	(12)	(32)	31	(9)	(56)	4	(12)	10

Balance Sheet Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total Assets	827	980	1,150	1,092	555	1,000	1,142	1,116	952	966
Cash & Equivalents	-	-	-	-	-	-	-	-	5	14
Accounts Receivable	22	29	15	32	23	44	45	40	41	33
Total Liabilities	249	363	538	578	607	598	524	480	437	437
Accounts Payable	24	25	31	31	40	66	69	64	66	47
Long-Term Debt	119	196	328	295	286	240	235	196	151	178
Shareholder's Equity	578	617	613	514	(52)	403	618	636	515	529
LTD/E Ratio	0.21	0.32	0.54	0.57	(5.51)	0.60	0.38	0.31	0.29	0.34

Profitability & Per Share Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Return on Assets	-2.8%	-0.6%	-5.2%	-10.7%	-67.7%	41.8%	16.6%	1.0%	-3.8%	3.0%
Return on Equity	-3.9%	-0.9%	-9.0%	-21.2%	-242%	185.4%	34.9%	1.9%	-6.8%	5.5%
ROIC	-3.3%	-0.7%	-6.3%	-13.7%	-107%	74.2%	23.8%	1.4%	-5.2%	4.2%
Shares Out.	26.1	26.8	29.0	37.3	39.5	56.0	87.0	101.0	100.8	100.9
Revenue/Share	4.78	7.00	8.19	8.06	4.07	5.91	6.49	4.97	4.81	3.41
FCF/Share	(0.54)	(0.14)	0.04	0.61	0.37	(0.05)	0.94	0.62	0.60	0.71

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

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