

## Condensed Consolidated Interim Statements of Financial Position

Stated in thousands of dollars

(Unaudited)

As at	March 31, 2023	December 31, 2022
<b>Assets</b>		
Current assets		
Accounts receivable	\$ 64,642	\$ 60,623
Fair value of financial contracts (note 5)	2,126	1,482
Prepaid expenses and deposits	4,340	3,032
	<b>71,108</b>	65,137
Fair value of financial contracts (note 5)	297	660
Property, plant and equipment (note 4)	1,396,029	1,407,885
Deferred income taxes	74,094	76,395
	<b>\$ 1,541,528</b>	\$ 1,550,077
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 89,094	\$ 93,373
Dividends payable	3,933	3,375
Fair value of financial contracts (note 5)	702	3,423
Current portion of term debt (note 6)	25,834	24,849
Current portion of lease and other obligations	9,223	6,412
Current portion of decommissioning obligations (note 8)	10,000	10,000
	<b>138,786</b>	141,432
Fair value of financial contracts (note 5)	32	23
Bank debt (note 6)	27,345	30,597
Term debt (note 6)	221,890	231,183
Convertible debentures (note 7)	32,803	32,491
Decommissioning obligations (note 8)	238,657	253,642
Long term lease and other obligations	21,078	22,387
<b>Shareholders' equity</b>		
Share capital	1,781,957	1,765,442
Equity component of convertible debentures (note 7)	2,715	2,715
Contributed surplus	61,924	58,960
Deficit	(985,659)	(988,795)
	<b>860,937</b>	838,322
	<b>\$ 1,541,528</b>	\$ 1,550,077

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

## Condensed Consolidated Interim Statements of Income (loss) and Comprehensive Income (loss)

Stated in thousands of dollars, except per share amounts

(Unaudited)

	Three Months Ended March 31,	
	2023	2022
Petroleum and natural gas revenue (note 10)	\$ 161,970	\$ 169,124
Processing income (note 10)	2,534	1,806
Royalties	(29,042)	(28,401)
Unrealized gain (loss) on financial contracts	3,606	(47,982)
Realized loss on financial contracts	(1,995)	(28,809)
	137,073	65,738
<b>Expenses</b>		
Operating	52,892	37,454
Transportation	4,047	2,777
General and administrative	4,610	4,032
Stock-based compensation (note 9)	1,815	1,183
Depletion and depreciation (note 4)	44,357	35,440
Finance expense	11,903	6,889
Transaction and other costs (income)	352	(169)
	119,976	87,606
Income (loss) before income taxes	17,097	(21,868)
Deferred income tax expense	2,308	—
<b>Net income (loss) and comprehensive income (loss) for the period</b>	<b>\$ 14,789</b>	<b>\$ (21,868)</b>
Income (loss) per share (note 9)		
Basic	\$ 0.15	\$ (0.26)
Diluted	\$ 0.15	\$ (0.26)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

## Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

Stated in thousands of dollars, except share amounts

(Unaudited)

	Number of common shares	Share capital	Convertible debentures - equity portion	Contributed surplus	Deficit	Total equity
Balance at December 31, 2021	83,357,221	\$ 1,654,211	\$ 6,266	\$ 52,147	\$ (1,199,241)	\$ 513,383
Net loss for the year	—	—	—	—	(21,868)	(21,868)
Stock-based compensation	—	—	—	1,878	—	1,878
Balance at March 31, 2022	83,357,221	\$ 1,654,211	\$ 6,266	\$ 54,025	\$ (1,221,109)	\$ 493,393
<b>Balance at December 31, 2022</b>	96,477,366	\$ 1,765,442	\$ 2,715	\$ 58,960	\$ (988,795)	\$ 838,322
Net income for the year	—	—	—	—	14,789	14,789
Share issue costs, net of tax recovery of \$0.1 million	—	(160)	—	—	—	(160)
Flow-through shares issued	1,850,000	19,629	—	—	—	19,629
Premium on flow-through shares	—	(2,980)	—	—	—	(2,980)
Transfer on exercise of RSAs and PSAs <sup>(1)</sup>	7,093	26	—	(26)	—	—
Stock-based compensation, net of tax recovery of \$0.1 million	—	—	—	2,990	—	2,990
Dividends	—	—	—	—	(11,653)	(11,653)
<b>Balance at March 31, 2023</b>	<b>98,334,459</b>	<b>\$ 1,781,957</b>	<b>\$ 2,715</b>	<b>\$ 61,924</b>	<b>\$ (985,659)</b>	<b>\$ 860,937</b>

<sup>(1)</sup> RSA and PSA defined as restricted share and performance share awards.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

## Condensed Consolidated Interim Statements of Cash Flows

Stated in thousands of dollars

(Unaudited)

	Three Months Ended March 31,	
	2023	2022
Cash provided by (used in)		
<b>Operating</b>		
Net income (loss)	\$ 14,789	\$ (21,868)
Unrealized (gain) loss on financial contracts	(3,606)	47,982
Finance expense	11,903	6,889
Interest expense	(8,587)	(6,564)
Depletion and depreciation	44,357	35,440
Decommissioning expenditures	(3,249)	(1,495)
Transaction and other costs (income)	221	(324)
Stock-based compensation	1,815	1,183
Deferred income tax expense	2,308	—
Change in non-cash working capital	(5,445)	(9,061)
Cash flow from operating activities	54,506	52,182
<b>Financing</b>		
Bank debt	(3,252)	(1,286)
Term debt	(8,827)	(848)
Dividends paid	(11,095)	—
Issuance of flow-through shares	19,629	—
Payments on lease obligations	(1,310)	(1,427)
Share issue costs	(211)	—
Cash flow used in financing activities	(5,066)	(3,561)
<b>Investing</b>		
Expenditures on property, plant and equipment	(45,733)	(42,968)
Proceeds from dispositions	678	—
Change in non-cash working capital	(4,385)	(5,653)
Cash flow used in investing activities	(49,440)	(48,621)
Change in cash	—	—
Cash, beginning of the year	—	—
<b>Cash, end of the year</b>	<b>\$ —</b>	<b>\$ —</b>

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Tabular amounts are in thousands of dollars, except share and per share data

### 1. REPORTING ENTITY

Surge Energy Inc.'s (the "Corporation" or "Surge") business consists of the exploration, development and production of oil and gas from properties in western Canada. Surge's common shares are traded on the Toronto Stock Exchange ("TSX") under the symbol SGY. The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries.

### 2. BASIS OF PREPARATION

#### Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" and using the accounting policies outlined by the Corporation in its annual consolidated financial statements for the year ended December 31, 2022. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. These condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2022.

The condensed consolidated interim financial statements were authorized for issuance by the Board of Directors on May 3, 2023.

### 3. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements at March 31, 2023 have been prepared following the same accounting policies as the consolidated financial statements as at December 31, 2022.

#### 4. PROPERTY, PLANT AND EQUIPMENT

##### Property, plant and equipment

	Total
Balance at December 31, 2021	\$ 2,804,684
Acquisitions	209,440
Dispositions	(32)
Additions	169,944
Right of use assets	2,505
Change in decommissioning obligations	(51,146)
Capitalized stock-based compensation	2,933
Balance at December 31, 2022	\$ 3,138,328
Dispositions	(678)
Additions	45,733
Change in decommissioning obligations	(13,607)
Capitalized stock-based compensation	1,053
<b>Balance at March 31, 2023</b>	<b>\$ 3,170,829</b>

	Total
<b>Accumulated depletion and depreciation</b>	
Balance at December 31, 2021	\$ (1,588,127)
Depletion and depreciation expense	(151,960)
Change in decommissioning obligations	9,644
Balance at December 31, 2022	\$ (1,730,443)
Depletion and depreciation expense	(47,475)
Change in decommissioning obligations	\$ 3,118
<b>Balance at March 31, 2023</b>	<b>\$ (1,774,800)</b>

	Total
<b>Carrying amounts</b>	
At December 31, 2022	\$ 1,407,885
<b>At March 31, 2023</b>	<b>\$ 1,396,029</b>

## 5. RISK MANAGEMENT

At March 31, 2023, the following risk management contracts were outstanding with an asset fair market value of \$2.4 million and a liability fair market value of \$0.7 million (December 31, 2022 – asset of \$2.1 million and liability of \$3.4 million):

### West Texas Intermediate Crude Oil Derivative Contracts (WTI)

Period	Bought Put		Collars		
	Volumes (bbls/d)	Average Price (CAD/bbl)	Volumes (bbls/d)	Average Bought Put (CAD/bbl)	Average Sold Call (CAD/bbl)
Qtr. 2 2023	5,665	\$87.85	—	—	—
Qtr. 3 2023	5,500	\$86.63	—	—	—
Qtr. 4 2023	1,674	\$83.82	3,826	\$84.93	\$139.98
Qtr. 1 2024	—	—	5,336	\$86.34	\$125.26

### Natural Gas Derivative Contracts

Period	NYMEX Collars			NYMEX - AECO Basis Swaps		AECO Collars		
	Volumes (MMBtu/d)	Average Bought Put (CAD/MMBtu)	Average Sold Call (CAD/MMBtu)	Volumes (MMBtu/d)	Average Price (CAD/MMBtu)	Volumes (GJ/d)	Average Bought Put (CAD/GJ)	Average Sold Call (CAD/GJ)
Qtr. 2 2023	1,000	\$5.41	\$11.15	1,000	\$(1.81)	4,000	\$2.75	\$3.67
Qtr. 3 2023	3,000	\$5.41	\$11.15	3,000	\$(1.95)	2,000	\$2.75	\$3.73
Qtr. 4 2023	4,326	\$5.41	\$11.67	4,326	\$(2.63)	674	\$2.75	\$3.73
Qtr. 1 2024	4,500	\$5.41	\$13.22	4,500	\$(2.25)	—	—	—
Qtr. 2 2024	—	—	—	2,000	\$(1.55)	—	—	—
Qtr. 3 2024	—	—	—	2,000	\$(1.55)	—	—	—
Qtr. 4 2024	—	—	—	674	\$(1.55)	—	—	—

### Foreign Currency Exchange Derivative Contracts

Type	Term	Notional Amount (USD)	Floor	Ceiling
Average Rate Collar	Oct 2022 - Dec 2023	\$5,000,000	1.3420	1.4000
Average Rate Collar	Nov 2022 - Dec 2023	\$5,000,000	1.3333	1.3850
Average Rate Collar	Mar 2023 - Dec 2023	\$5,000,000	1.3200	1.4225

### Interest Rate Derivative Contracts

Type	Term	Notional Amount (CAD)	Surge Receives	Surge Pays	Fixed Rate Surge Pays
Fixed-to-Floating Rate Swap	Jul 2019 - Jun 2024	\$50,000,000	Floating Rate	Fixed Rate	1.7850%

The following table summarizes the sensitivity of the fair value of the Corporation's market risk management positions to fluctuations in natural gas prices, crude oil prices and interest rates. All such fluctuations were evaluated independently, with all other variables held constant. Fluctuations in the following on the respective derivative contracts would have had the following impact on the net earnings:

Net earnings impact for the period ended March 31, 2023	Increase	Decrease
Crude Oil - Change of +/- \$1.00	\$ (2,263)	\$ 2,263
Natural Gas - Change of +/- \$0.10	\$ (2,538)	\$ 2,538
Foreign Exchange - Change of +/- \$0.01	\$ 116	\$ (116)
Interest rate - Change of +/- 100 points	\$ 385	\$ (385)

## 6. DEBT

### Bank Debt

As at March 31, 2023, the Corporation had a total commitment of \$150 million, being the aggregate of a committed revolving term facility of \$120 million and an operating loan facility of \$30 million, with a syndicate of banks. A review and redetermination of the borrowing base is scheduled to occur semi-annually on or before May 31 and November 30 of each year. The facility is available on a revolving basis until December 19, 2023. On December 19, 2023, at the Corporation's discretion, the facility is available on a non-revolving basis for a one-year period, at the end of which time the facility would be due and payable. Alternatively, the facilities may be extended for a further 364-day period at the request of the Corporation and subject to the approval of the syndicate.

### Term Debt

As at March 31, 2023, the Corporation had a non-revolving first-lien term facility of \$60 million with a syndicate of banks, maturing on December 19, 2024. The principal amount is repayable in scheduled quarterly repayments, commencing on March 31, 2023. As at March 31, 2023, the Corporation had \$56.0 million drawn on the facility.

As at March 31, 2023, the Corporation had a non-revolving second-lien term loan commitment of \$200 million, being the aggregate of two term facilities of \$160 million, maturing on December 9, 2026 (Term Facility A) and \$40 million, maturing on April 30, 2025 (Term Facility B). As at March 31, 2023, the Corporation had \$187.8 million, excluding unamortized issue costs, drawn on these facilities.

The principal amounts are repayable in scheduled quarterly repayments, commencing on December 31, 2023 for Term Facility A and March 31, 2023 for Term Facility B.

Under Term Facility A, the Corporation is required to make additional principal repayments in each calendar month in which a shareholder distribution is paid. Under Term Facility B, the Corporation is required to make an additional principal repayment in each calendar month based on the applicable level of the WTI band for the prior month commodity price, commencing on May 31, 2024.

### Financial Covenants

The Corporation is subject to certain financial covenants under the first lien and second lien facilities. As at March 31, 2023, the Corporation was compliant with all restrictions and covenants in its first and second lien credit agreements.

### Emissions Reduction Fund

As at March 31, 2023, the Corporation had a \$7.1 million (December 31, 2022 - \$7.2 million) loan repayable relating to the Government of Canada Emissions Reduction Fund ("ERF"). As at March 31, 2023, the Corporation had received \$10.4 million (December 31, 2022 - \$9.8 million) of funds from ERF for the Corporation's planned gas emissions reduction program.



## 7. CONVERTIBLE DEBENTURES

	Number of convertible debentures	Liability Component	Equity Component
Balance at December 31, 2021	79,000	73,935	6,266
Accretion of discount	—	2,696	—
Other finance expenses	—	360	—
Redeemed	(44,500)	(44,500)	(3,551)
Balance at December 31, 2022	34,500	32,491	2,715
Accretion of discount	—	312	—
<b>Balance at March 31, 2023</b>	<b>34,500</b>	<b>\$ 32,803</b>	<b>\$ 2,715</b>

The fair value of the convertible debentures at March 31, 2023 was \$34.6 million using quoted market prices on the TSX (level 1 fair value).

## 8. DECOMMISSIONING OBLIGATIONS

The Corporation's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. A risk free rate of 3.02 percent (December 31, 2022 – 3.28 percent) and an implied inflation rate of 1.68 percent (December 31, 2022 – 2.09 percent) was used to calculate the decommissioning obligations.

A reconciliation of the decommissioning obligations is provided below:

	March 31, 2023	December 31, 2022
Balance, beginning of year	\$ 263,642	\$ 307,515
Liabilities related to acquisitions	—	11,469
Change in estimate <sup>(1)</sup>	(14,336)	(54,483)
Liabilities incurred	729	3,337
Accretion expense	1,871	7,002
Site rehabilitation program grant	—	(3,303)
Decommissioning expenditures	(3,249)	(7,895)
<b>Balance, end of period</b>	<b>\$ 248,657</b>	<b>\$ 263,642</b>
<b>Expected to be incurred within one year</b>	<b>10,000</b>	<b>10,000</b>
<b>Expected to be incurred beyond one year</b>	<b>\$ 238,657</b>	<b>\$ 253,642</b>

<sup>(1)</sup> The change in estimate was primarily the result of the change in discount and inflation rates.

## 9. SHARE CAPITAL

### (a) Flow-through Share Issuance

In March 2023, the Corporation issued 1.9 million flow-through shares related to Canadian development expenditures at a price of \$10.61 per share for total gross proceeds of \$19.6 million. The implied premium on the flow-through shares of \$1.61 per share or \$3.0 million was recorded as a flow-through share liability. As at March 31, 2023, the Corporation had incurred \$1.1 million of the qualifying development expenditures, with the remaining commitment to be spent on or before December 31, 2023. The implied premium related to expenditures has been released through the deferred tax expense.

## (b) Restricted and Performance Share Award Incentive Plan

The Corporation has a Stock Incentive Plan which authorizes the Board of Directors to grant restricted share awards ("RSAs") and performance share awards ("PSAs") to directors, officers, employees and certain consultants of Surge.

The number of restricted and performance share awards outstanding are as follows:

	Number of restricted share awards	Number of performance share awards
Balance at December 31, 2022	1,465,379	2,214,024
Granted	507,550	—
Reinvested	18,371	27,846
Exercised	(4,201)	(2,892)
Forfeited	(20,851)	(6,178)
<b>Balance at March 31, 2023</b>	<b>1,966,248</b>	<b>2,232,800</b>

The weighted average fair value of awards granted for the period ended March 31, 2023 is nil (2022 - \$6.29) for PSAs and \$9.00 (2022 - \$6.82) per RSA. In the case of PSAs, the award value is adjusted for a payout multiplier which can range from 0.0 to 2.0 and is dependent on the performance of the Corporation relative to pre-defined corporate performance measures for a particular period. On the vesting dates, the Corporation has the option of settling the award value in cash or common shares of the Corporation. For purposes of stock-based compensation a payout multiple of 1.0 was assumed for the PSAs granted during the period.

## (c) Stock-based compensation

A reconciliation of the stock-based compensation expense is provided below:

	Three Months Ended March 31,	
	2023	2022
Stock-based compensation on PSAs and RSAs	2,868	1,878
Capitalized stock-based compensation	(1,053)	(695)
Total stock-based compensation expense	\$ 1,815	\$ 1,183

## (d) Per share amounts

The following table summarizes the shares used in calculating income per share:

	Three Months Ended March 31,	
	2023	2022
Weighted average number of shares - basic	97,086,527	83,357,221
Effect of dilutive instruments	2,296,200	—
Weighted average number of shares - basic and diluted	99,382,727	83,357,221

In computing diluted per share amounts at March 31, 2023, 2,522 RSAs and 5,917 PSAs (2022 - all RSAs and PSAs) were excluded from the calculation as their effect was anti-dilutive. The common shares potentially issuable on the conversion of the convertible debentures were also excluded as they were determined to be anti-dilutive.

## (e) Dividend

The Board of Directors declared a dividend of \$0.04 per share for the months of January through March 2023 (January - March 2022 - nil per share). Dividends of \$0.04 per share were declared and outstanding at March 31, 2023 and were paid in April 2023. Dividends for the month of April 2023 have been declared at \$0.04 per share.

## 10. REVENUE

The following table presents the Corporation's petroleum and natural gas revenues disaggregated by revenue source:

	Three Months Ended March 31,	
	2023	2022
Oil	\$ 152,664	\$ 157,440
Natural gas liquids	3,618	4,053
Natural gas	5,688	7,631
Total petroleum and natural gas revenue	\$ 161,970	\$ 169,124
Processing	2,534	1,806
Total petroleum, natural gas and processing revenue	\$ 164,504	\$ 170,930

Surge's revenue was generated entirely in the provinces of Alberta, Saskatchewan, and Manitoba. The majority of revenue resulted from sales whereby the transaction price was based on the index prices.