

## Condensed Consolidated Interim Statements of Financial Position

Stated in thousands of dollars

(Unaudited)

As at	June 30, 2023	December 31, 2022
<b>Assets</b>		
Current assets		
Accounts receivable	\$ 50,839	\$ 60,623
Fair value of financial contracts (note 5)	3,317	1,482
Prepaid expenses and deposits	5,814	3,032
	59,970	65,137
Fair value of financial contracts (note 5)	17	660
Property, plant and equipment (note 4)	1,383,822	1,407,885
Deferred income taxes	68,901	76,395
	\$ 1,512,710	\$ 1,550,077
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 76,038	\$ 93,373
Dividends payable	3,933	3,375
Fair value of financial contracts (note 5)	2,284	3,423
Current portion of term debt (note 6)	26,822	24,849
Current portion of convertible debentures (note 7)	33,124	—
Current portion of lease and other obligations	7,751	6,412
Current portion of decommissioning obligations (note 8)	10,000	10,000
	159,952	141,432
Fair value of financial contracts (note 5)	91	23
Bank debt (note 6)	15,675	30,597
Term debt (note 6)	212,894	231,183
Convertible debentures (note 7)	—	32,491
Decommissioning obligations (note 8)	237,181	253,642
Long term lease and other obligations	19,743	22,387
<b>Shareholders' equity</b>		
Share capital	1,781,954	1,765,442
Equity component of convertible debentures (note 7)	2,715	2,715
Contributed surplus	65,909	58,960
Deficit	(983,404)	(988,795)
	867,174	838,322
	\$ 1,512,710	\$ 1,550,077

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

## Condensed Consolidated Interim Statements of Income and Comprehensive Income

Stated in thousands of dollars, except per share amounts

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Petroleum and natural gas revenue (note 10)	\$ 155,477	\$ 212,999	\$ 317,447	\$382,123
Processing income (note 10)	1,700	1,569	4,234	3,375
Royalties	(25,852)	(37,734)	(54,894)	(66,135)
Unrealized gain (loss) on financial contracts	(846)	31,783	2,760	(16,199)
Realized loss on financial contracts	(1,985)	(45,966)	(3,980)	(74,775)
	128,494	162,651	265,567	228,389
<b>Expenses</b>				
Operating	47,774	38,189	100,666	75,643
Transportation	3,395	3,095	7,442	5,872
General and administrative	4,791	4,186	9,401	8,218
Stock-based compensation (note 9)	2,740	1,210	4,555	2,393
Depletion and depreciation (note 4)	44,740	36,023	89,097	71,463
Finance expense	11,369	8,335	23,272	15,224
Gain on disposal	(3,883)	—	(3,883)	—
Transaction and other costs (income)	324	(414)	676	(583)
	111,250	90,624	231,226	178,230
Income before income taxes	17,244	72,027	34,341	50,159
Deferred income tax expense	3,189	—	5,497	—
<b>Net income and comprehensive income for the period</b>	<b>\$ 14,055</b>	<b>\$ 72,027</b>	<b>\$ 28,844</b>	<b>\$ 50,159</b>
Income per share (note 9)				
Basic	\$ 0.14	\$ 0.86	\$ 0.30	\$ 0.60
Diluted	\$ 0.14	\$ 0.83	\$ 0.29	\$ 0.58

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 income for the year	—	—	—	—	50,159	50,159
Stock-based compensation	—	—	—	3,771	—	3,771
Dividends	—	—	—	—	(2,918)	(2,918)
Balance at June 30, 2022	83,357,221	\$ 1,654,211	\$ 6,266	\$ 55,918	\$ (1,152,000)	\$ 564,395
<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	—	—	—	—	28,844	28,844
Share issue costs, net of tax recovery of \$0.1 million	—	(163)	—	—	—	(163)
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 expense of \$0.4 million	—	—	—	6,975	—	6,975
Dividends	—	—	—	—	(23,453)	(23,453)
<b>Balance at June 30, 2023</b>	<b>98,334,459</b>	<b>\$ 1,781,954</b>	<b>\$ 2,715</b>	<b>\$ 65,909</b>	<b>\$ (983,404)</b>	<b>\$ 867,174</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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Cash provided by (used in)				
<b>Operating</b>				
Net income	\$ 14,055	\$ 72,027	\$ 28,844	\$ 50,159
Gain on disposal of property, plant and equipment	(3,883)	—	(3,883)	—
Unrealized (gain) loss on financial contracts	846	(31,783)	(2,760)	16,199
Finance expense	11,369	8,335	23,272	15,224
Interest expense	(8,740)	(6,837)	(17,327)	(13,401)
Depletion and depreciation	44,740	36,023	89,097	71,463
Decommissioning expenditures	(1,361)	(501)	(4,610)	(1,996)
Transaction and other costs (income)	175	(478)	396	(802)
Stock-based compensation	2,740	1,210	4,555	2,393
Deferred income tax expense	3,189	—	5,497	—
Change in non-cash working capital	(2,522)	(2,198)	(7,967)	(11,259)
Cash flow from operating activities	60,608	75,798	115,114	127,980
<b>Financing</b>				
Bank debt	(11,670)	(74,526)	(14,922)	(75,812)
Term debt	(8,529)	28,135	(17,356)	27,287
Dividends paid	(11,801)	(2,918)	(22,896)	(2,918)
Issuance of flow-through shares	—	—	19,629	—
Payments on lease obligations	(1,335)	(1,453)	(2,645)	(2,880)
Share issue costs	(3)	—	(214)	—
Change in non-cash working capital	—	2,918	—	2,918
Cash flow used in financing activities	(33,338)	(47,844)	(38,404)	(51,405)
<b>Investing</b>				
Expenditures on property, plant and equipment	(30,589)	(36,890)	(76,322)	(79,858)
Proceeds from dispositions	1,696	32	2,374	32
Change in non-cash working capital	1,623	8,904	(2,762)	3,251
Cash flow used in investing activities	(27,270)	(27,954)	(76,710)	(76,575)
Change in cash	—	—	—	—
Cash, beginning of the year	—	—	—	—
<b>Cash, end of the year</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 August 2, 2023.

### 3. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements at June 30, 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	(684)
Additions	76,322
Change in decommissioning obligations	(13,433)
Capitalized stock-based compensation	2,829
<b>Balance at June 30, 2023</b>	<b>\$ 3,203,362</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	(92,794)
Change in decommissioning obligations	3,697
<b>Balance at June 30, 2023</b>	<b>\$ (1,819,540)</b>
	Total
<b>Carrying amounts</b>	
At December 31, 2022	\$ 1,407,885
<b>At June 30, 2023</b>	<b>\$ 1,383,822</b>

## 5. RISK MANAGEMENT

At June 30, 2023, the following risk management contracts were outstanding with an asset fair market value of \$3.3 million and a liability fair market value of \$2.4 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. 3 2023	5,500	\$84.90	—	—	—
Qtr. 4 2023	—	—	4,995	\$82.58	\$132.74
Qtr. 1 2024	—	—	5,336	\$84.63	\$122.77
Qtr. 2 2024	5,200	\$83.08	—	—	—
Qtr. 3 2024	842	\$79.48	—	—	—

### Western Canadian Select Derivative Contracts (WCS)

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. 3 2023	—	—	489	\$18.55	\$25.50
Qtr. 4 2023	—	—	1,500	\$18.55	\$25.50
Qtr. 1 2024	1,000	\$18.35	1,000	\$14.57	\$23.58
Qtr. 2 2024	1,000	\$18.35	1,000	\$14.57	\$23.58
Qtr. 3 2024	1,000	\$18.35	1,000	\$14.57	\$23.58
Qtr. 4 2024	1,000	\$18.35	1,000	\$14.57	\$23.58

### 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. 3 2023	3,000	\$5.30	\$10.93	3,000	\$(1.91)	2,000	\$2.75	\$3.73
Qtr. 4 2023	4,326	\$5.30	\$11.44	4,326	\$(2.57)	674	\$2.75	\$3.73
Qtr. 1 2024	4,500	\$5.30	\$12.95	4,500	\$(2.20)	—	—	—
Qtr. 2 2024	5,000	\$3.97	\$6.62	5,000	\$(1.51)	—	—	—
Qtr. 3 2024	5,000	\$3.97	\$6.62	5,000	\$(1.51)	—	—	—
Qtr. 4 2024	1,685	\$3.97	\$6.62	1,685	\$(1.51)	—	—	—

### 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 June 30, 2023	Increase	Decrease
Crude Oil - Change of +/- \$1.00	\$ (2,779)	\$ 2,779
Natural Gas - Change of +/- \$0.10	\$ (3,123)	\$ 3,123
Foreign Exchange - Change of +/- \$0.01	\$ 116	\$ (116)
Interest rate - Change of +/- 100 points	\$ 385	\$ (385)

## 6. DEBT

### Bank Debt

As at June 30, 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. During the period, the Corporation reconfirmed and extended its existing \$150 million first lien credit facility, with the option of the facilities being extended for a further 364-day period at the request of the Corporation and subject to the approval of the syndicate. The maturity of the newly reconfirmed first lien credit facility is extended through to May 30, 2025.

### Term Debt

As at June 30, 2023, the Corporation had a non-revolving first lien term facility of \$56 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 June 30, 2023, the Corporation had \$52 million drawn on the facility.

As at June 30, 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 June 30, 2023, the Corporation had \$183.3 million, excluding unamortized issue costs, drawn on these facilities.

The principal amounts are repayable in scheduled quarterly repayments, commencing on December 31, 2022 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 June 30, 2023, the Corporation was compliant with all restrictions and covenants in its first and second lien credit agreements.

### Emissions Reduction Fund

As at June 30, 2023, the Corporation had a \$7.3 million (December 31, 2022 - \$7.2 million) loan repayable relating to the Government of Canada Emissions Reduction Fund ("ERF"). As at June 30, 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	—	633	—
<b>Balance at June 30, 2023</b>	<b>34,500</b>	<b>\$ 33,124</b>	<b>\$ 2,715</b>

The fair value of the convertible debentures at June 30, 2023 was \$34.8 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 3.09 percent (December 31, 2022 – 3.28 percent) and an implied inflation rate of 1.70 percent (December 31, 2022 – 2.09 percent) was used to calculate the decommissioning obligations.

A reconciliation of the decommissioning obligations is provided below:

	June 30, 2023	December 31, 2022
Balance, beginning of year	\$ 263,642	\$ 307,515
Liabilities related to acquisitions	—	11,469
Liabilities related to dispositions	(2,417)	—
Change in estimate <sup>(1)</sup>	(14,457)	(54,483)
Liabilities incurred	1,248	3,337
Accretion expense	3,775	7,002
Site rehabilitation program grant	—	(3,303)
Decommissioning expenditures	(4,610)	(7,895)
<b>Balance, end of period</b>	<b>\$ 247,181</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>\$ 237,181</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 June 30, 2023, the Corporation had incurred \$10.8 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	546,550	—
Reinvested	47,544	60,865
Exercised	(4,201)	(2,892)
Forfeited	(24,889)	(6,178)
<b>Balance at June 30, 2023</b>	<b>2,030,383</b>	<b>2,265,819</b>

The weighted average fair value of awards granted for the period ended June 30, 2023 is nil (2022 - \$11.54) for PSAs and \$7.43 (2022 - \$11.25) 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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Stock-based compensation on PSAs and RSAs	4,516	1,893	7,384	\$ 3,771
Capitalized stock-based compensation	(1,776)	(683)	(2,829)	(1,378)
Total stock-based compensation expense	\$ 2,740	\$ 1,210	\$ 4,555	\$ 2,393

#### (d) Per share amounts

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Weighted average number of shares - basic	98,334,459	83,357,221	97,713,941	83,357,221
Effect of dilutive instruments	2,853,449	2,917,383	2,706,019	2,666,486
Weighted average number of shares - basic and diluted	101,187,908	86,274,604	100,419,960	86,023,707

In computing diluted per share amounts for the three months ended June 30, 2023, 3,016 (2022 - 14,700) RSAs and 6,004 (2022 - 3,000) PSAs were excluded from the calculation as their effect was anti-dilutive. In computing diluted per share amounts for the six months ended June 30, 2023, nil (2022 - 16,700) RSAs and 6,004 (2022 - 3,000) 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 month of June 2023 (June 2022 - \$0.035 per share). Dividends of \$0.04 per share were declared and outstanding at June 30, 2023 and were paid in July 2023. Dividends for the month of July 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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Oil	\$ 149,530	\$ 196,470	\$ 302,194	\$ 353,910
Natural gas liquids	2,642	4,939	6,260	8,992
Natural gas	3,305	11,590	8,993	19,221
Total petroleum and natural gas revenue	\$ 155,477	\$ 212,999	\$ 317,447	\$ 382,123
Processing	1,700	1,569	4,234	3,375
Total petroleum, natural gas and processing revenue	\$ 157,177	\$ 214,568	\$ 321,681	\$ 385,498

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.