Condensed Consolidated Interim Statements of Financial Position

Stated in thousands of dollars

(Unaudited)

As at	June 30, 2020	December 31, 2019
Assets		
Current Assets		
Accounts receivable	**$ 27,503**	$ 41,486
Fair value of financial contracts (note 6)	**1,001**	1,067
Prepaid expenses and deposits	**5,828**	4,875
	34,332	47,428
Fair value of financial contracts (note 6)	**—**	191
Petroleum and natural gas properties (note 4)	**725,955**	1,335,845
Deferred income taxes	**—**	42,390
	$ 760,287	$ 1,425,854
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 33,782**	$ 40,848
Dividends payable	**—**	2,719
Fair value of financial contracts (note 6)	**9,345**	2,653
Current portion of bank debt (note 7)	**306,549**	—
Current portion of lease and other obligations (note 13)	**7,999**	8,103
Current portion of decommissioning obligations (note 9)	**5,000**	6,000
	362,675	60,323
Fair value of financial contracts (note 6)	**5,151**	1,201
Bank debt (note 7)	**—**	316,404
Convertible debentures (note 8)	**69,907**	68,699
Decommissioning obligations (note 9)	**286,155**	269,339
Long term lease and other obligations (note 13)	**34,715**	38,581
Shareholders' equity		
Share capital	**1,475,268**	1,466,506
Equity component of convertible debentures (note 8)	**6,266**	6,266
Contributed surplus	**56,088**	52,224
Deficit	**(1,535,938)**	(853,689)
	1,684	671,307
Going concern (note 2)		
Commitments (note 12)		
	$ 760,287	$ 1,425,854

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

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

Stated in thousands of dollars, except per share amounts

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	2019
Petroleum and natural gas revenue (note 11)	**$ 30,505**	$ 107,665	**$ 94,211**	$ 205,533
Processing and other income (note 11)	**1,112**	783	**2,832**	1,257
Royalties	**(3,215)**	(13,788)	**(11,720)**	(24,849)
Realized gain (loss) on financial contracts	**15,464**	(2,537)	**28,973**	(3,253)
Unrealized gain (loss) on financial contracts (note 6)	**(36,052)**	10,541	**(4,865)**	1,294
	7,814	102,664	**109,431**	179,982
Expenses				
Operating	**23,706**	28,297	**51,905**	58,210
Transportation	**2,641**	2,616	**5,687**	6,479
General and administrative	**3,102**	3,652	**6,518**	7,122
Bad debt provision	**66**	—	**97**	131
Transaction and other costs	**—**	698	**98**	892
Stock-based compensation (note 10)	**1,987**	1,106	**3,107**	2,194
Depletion and depreciation (note 4)	**22,101**	41,511	**58,214**	81,594
Impairment (note 5)	**—**	—	**590,628**	—
Finance expense	**7,253**	11,827	**20,485**	20,888
Loss on disposal of petroleum and natural gas properties (note 4)	**8,117**	12,316	**8,117**	12,316
	68,973	102,023	**744,856**	189,826
Income (Loss) before income taxes	**(61,159)**	641	**(635,425)**	(9,844)
Deferred income tax expense	**—**	3,252	**40,961**	750
Net loss and comprehensive loss for the period	**$ (61,159)**	$ (2,611)	**$ (676,386)**	$ (10,594)
Loss per share (note 10)				
Basic	**$ (0.18)**	$ (0.01)	**$ (2.03)**	$ (0.03)
Diluted	**$ (0.18)**	$ (0.01)	**$ (2.03)**	$ (0.03)

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, 2018	309,286,225	$ 1,441,773	$ 3,551	$ 52,417	$ (663,249)	$ 834,492
Net loss for the period	—	—	—	—	(10,594)	(10,594)
Flow-through shares issued	4,684,932	6,840	—	—	—	6,840
Premium on flow-through shares	—	(562)	—	—	—	(562)
Convertible debentures issued, net of tax of $1,004	—	—	2,715	—	—	2,715
Transfer on exercise of RSAs and PSAs (1)	79,346	158	—	(158)	—	—
Stock-based compensation	—	—	—	3,609	—	3,609
Dividends	—	—	—	—	(15,622)	(15,622)
Balance at June 30, 2019	314,050,503	$ 1,448,209	$ 6,266	$ 55,868	$ (689,465)	$ 820,878
Balance at December 31, 2019	326,330,027	$ 1,466,506	$ 6,266	$ 52,224	$ (853,689)	$ 671,307
Net loss for the period	—	—	—	—	(676,386)	(676,386)
Share issue costs, net of tax of $23	—	(64)	—	—	—	(64)
Flow-through shares issued	8,738,889	10,268	—	—	—	10,268
Premium on flow-through shares	—	(1,442)	—	—	—	(1,442)
Stock-based compensation	—	—	—	3,864	—	3,864
Dividends	—	—	—	—	(5,863)	(5,863)
Balance at June 30, 2020	**335,068,916**	**$ 1,475,268**	**$ 6,266**	**$ 56,088**	**$ (1,535,938)**	**$ 1,684**

(1) 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,	
	2020	2019	**2020**	2019
Cash provided by (used in)				
Operating				
Net loss	**$ (61,159)**	$ (2,611)	**$ (676,386)**	$ (10,594)
Loss on disposal of petroleum and natural gas properties	**8,117**	12,316	**8,117**	12,316
Unrealized loss (gain) on financial contracts	**36,052**	(10,541)	**4,865**	(1,294)
Finance expense	**7,253**	11,827	**20,485**	20,888
Interest expense	**(5,563)**	(6,816)	**(11,304)**	(14,284)
Depletion and depreciation	**22,101**	41,511	**58,214**	81,594
Impairment	**—**	—	**590,628**	—
Decommissioning expenditures	**(151)**	(1,111)	**(1,691)**	(2,818)
Bad debt provision	**66**	—	**97**	131
Stock-based compensation	**1,987**	1,106	**3,107**	2,194
Deferred income tax expense	**—**	3,252	**40,961**	750
Change in non-cash working capital	**(5,733)**	(3,126)	**9,015**	(14,168)
Cash flow from operating activities	**2,970**	45,807	**46,108**	74,715
Financing				
Bank debt	**745**	(79,163)	**(9,855)**	(89,090)
Dividends paid	**(279)**	(7,850)	**(8,583)**	(15,582)
Issuance of flow-through shares	**—**	—	**10,268**	6,840
Payments on lease obligations	**(2,003)**	(1,729)	**(3,970)**	(3,435)
Share issue costs	**—**	—	**(87)**	—
Issuance of convertible debentures	**—**	32,495	**—**	32,495
Cash flow used in financing activities	**(1,537)**	(56,247)	**(12,227)**	(68,772)
Investing				
Petroleum and natural gas properties	**(3,516)**	(25,197)	**(36,020)**	(66,458)
Disposition of petroleum and natural gas properties	**5,276**	29,166	**5,276**	57,246
Acquisitions	**—**	—	**—**	(273)
Change in non-cash working capital	**(3,193)**	6,471	**(3,137)**	3,542
Cash flow from (used in) investing activities	**(1,433)**	10,440	**(33,881)**	(5,943)
Change in cash	**—**	—	**—**	—
Cash, beginning of the period	**—**	—	**—**	—
Cash, end of the period	**$ —**	$ —	**$ —**	$ —

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. The address of Surge's registered office is 2100, 635-8th Avenue SW, Calgary, Alberta, Canada, T2P 3M3. The condensed consolidated interim financial statements include the accounts of the Corporation, its wholly-owned subsidiaries and partnerships.

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, 2019. 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, 2019.

Matters Relating to the COVID-19 Pandemic

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. In addition, global commodity prices have declined significantly due to a collapse in demand attributed to COVID-19 in combination with an oversupply of oil. Governments worldwide, including those in Canada, have enacted emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to businesses globally, resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions, however the success of these interventions is not currently determinable. The current economic environment may have significant adverse impacts on the Corporation including, but not limited to:

- Material declines in revenue and cash flows as a result of the decline in commodity prices;
- Declines in revenue and cash flows due to a reduced capital program and shut-in production;
- Increased impairment charges (see note 5);
- Inability to comply with restrictions in lending agreements (see note 7);
- Increased risk of non-performance by the Corporation's customers which could materially increase the risk of nonpayment of accounts receivable and customer defaults;
- Increased restructuring charges as the Corporation aligns its structure and personnel to the dynamic environment; and
- If the situation continues for prolonged periods it could jeopardize the Corporation's ability to continue as a going concern.

The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Corporation is not known at this time. Estimates and judgments made by management in the preparation of these financial statements are increasingly difficult and subject to a higher degree of measurement uncertainty during this volatile period.

At current forward pricing scenarios, exploration and production companies in Canada may not conform to the standard reserve-based lending ("RBL") structures. The Federal Government has acknowledged the challenges facing the oil and gas industry and has announced a support program intended to provide a liquidity backstop to RBL credit facilities which will be administered through the Export Development Bank of Canada ("EDC") and the Business Development Bank of Canada ("BDC"). EDC and BDC will work directly with the primary banking institutions to provide additional lending and credit capacity to qualifying oil and gas producers that (based on certain criteria) were deemed financially viable prior to the onset of the COVID-19 pandemic.

The Corporation believes it meets the criteria for support under the announced program and is working with its banking syndicate to access this liquidity.

Going Concern

As at June 30, 2020, the Corporation had $306.5 million drawn on a total commitment of $335.0 million available under its syndicated RBL credit facility. The facility is comprised of a $155.0 million revolving term commitment, a $167.5 million non-revolving term commitment, and a $12.5 million operating loan facility (refer to note 7 "Bank Debt" for additional information). The revolving term commitment will continue to revolve until the next scheduled borrowing base redetermination date of December 15, 2020. The further extension of the credit facility is dependent on the Corporation's ability to repay or extend the term of the $167.5 million non-revolving term commitment that matures and requires repayment on March 31, 2021. Management is working with its syndicate of lenders to address the non-revolving term commitment and extend the maturity date of the credit facility, however there can be no assurances with respect thereto. Should the Corporation fail to secure an extension, it could result in a failure to meet the terms of the lending agreement and the lender would have the right, but not the obligation, to demand repayment of amounts drawn on the credit facility. If the amount drawn is demanded and not repaid, this would constitute a default under the credit facility. A default under the credit facility would also constitute a default under the unsecured convertible debentures thereby allowing the holders to demand repayment of amounts outstanding.

The Corporation's ability to continue as a going concern is dependent upon the Corporation's ability to maintain the credit facility at or above amounts currently drawn and its ability to renew the credit facility prior to its repayment/maturity date. There can be no assurances that the facility will be renewed or additional sources of funding will be available for the Corporation. These matters cause material uncertainty which may cast significant doubt on the Corporation's ability to continue as a going concern.

These condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern assumption were not appropriate, adjustments would be necessary in the carrying value of the Corporation's assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. These adjustments could be material.

The condensed consolidated interim financial statements were authorized for issuance by the Board of Directors on July 30, 2020.

3. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements at June 30, 2020 have been prepared following the same accounting policies as the consolidated financial statements as at December 31, 2019.

4. PETROLEUM AND NATURAL GAS PROPERTIES

Petroleum and Natural Gas Properties

		Total
Balance at December 31, 2018	$	2,587,869
Acquisitions		15,682
Dispositions		(87,199)
Additions		119,465
Right of use assets		35,529
Change in decommissioning obligations		54,011
Capitalized stock-based compensation		4,303
Balance at December 31, 2019	$	2,729,660
Dispositions		(36,068)
Additions		36,020
Change in decommissioning obligations		18,671
Capitalized stock-based compensation		757
Balance at June 30, 2020	**$**	**2,749,040**

		Total
Accumulated depletion and depreciation		
Balance at December 31, 2018	$	(1,059,304)
Depletion and depreciation expense		(163,450)
Impairment		(180,701)
Dispositions		9,640
Balance at December 31, 2019	$	(1,393,815)
Depletion and depreciation expense		(58,214)
Impairment		(590,628)
Dispositions		19,572
Balance at June 30, 2020	**$**	**(2,023,085)**

		Total
Carrying amounts		
At December 31, 2019	$	1,335,845
At June 30, 2020	**$**	**725,955**

The calculation of depletion and depreciation expense for the period ended June 30, 2020 included an estimated $883.0 million (December 31, 2019 - $897.3 million) for future development costs associated with proved plus probable reserves and deducted $59.6 million (December 31, 2019 - $61.4 million) for the estimated salvage value of production equipment and facilities.

During the period ended June 30, 2020, the Corporation disposed of certain non-core assets in Northwest Alberta for cash proceeds of $5.3 million. The assets had a carrying value of $16.5 million and an associated decommissioning liability of $3.1 million, resulting in a loss on disposal of $8.1 million.

5. IMPAIRMENT

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	**2020**	2019
Impairment of petroleum and natural gas properties	**—**	—	**590,628**	—

The Corporation identified six cash generating units as of June 30, 2020 based on the lowest level at which properties generate cash inflows while applying judgment to consider factors such as shared infrastructure, geographic proximity, petroleum type and similar exposures to market risk and materiality. The Corporation's CGUs at June 30, 2020, which are unchanged from December 31, 2019, were geographically labeled Northwest Alberta, North Central Alberta, Northeast Alberta, Central Alberta, Southeast Alberta and Southwest Saskatchewan.

For the period ended June 30, 2020, the Corporation determined there were no indicators of impairment in any of the six cash generating units and no indications that impairment losses recognized in prior periods no longer exist or have decreased.

For the period ended March 31, 2020, due to declines in forward oil and natural gas prices, the Corporation determined an indication of potential impairment was present in all of its six CGUs. As a result, the Corporation completed an impairment test. Recoverable value was estimated at value in use based on before tax discounted cash flows from oil and gas proved plus probable reserves. It was determined that the carrying value of the Northwest Alberta CGU exceeded the recoverable amount of $139.5 million, the carrying value of the North Central Alberta CGU exceeded the recoverable amount of $124.4 million, the carrying value of the Northeast Alberta CGU exceeded the recoverable amount of $31.3 million, the carrying value of the Central Alberta CGU exceeded the recoverable amount of $5.2 million, the carrying value of the Southeast Alberta CGU exceeded the recoverable amount of $303.0 million, and the carrying value of the Southwest Saskatchewan CGU exceeded the recoverable amount of $100.0 million and a $590.6 million impairment was recognized. The before tax discount rate applied in the value in use calculation as at March 31, 2020 was 13 - 25 percent.

Under IFRS, deferred income tax assets may only be recognized to the extent that it is probable that future taxable profits will be available against which the unused tax losses and deductible temporary differences can be utilized. Accordingly, the Corporation has not recognized a total deferred income tax asset of approximately $191.0 million as at June 30, 2020.

The following table outlines forecast commodity prices and exchange rates used in the Corporation’s CGU impairment tests at March 31, 2020. The forecast commodity prices are based on the average price forecasts from the three large external reserve engineering evaluators and are a key assumption in assessing the recoverable amount. The reserve report also includes financial assumptions regarding royalty rates, operating costs, and future development capital that can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities.

	Medium and Light Crude Oil		Natural Gas	NGL				
Year	Canadian Light Sweet Crude 40˚ API ($/bbl)	Western Canadian Select 20.5˚ API ($/bbl)	AECO Gas Price ($/MMBtu)	Edmonton Condensate ($/bbl)	Edmonton Butane ($/bbl)	Edmonton Propane ($/bbl)	Inflation rates (%/Yr)	Exchange rate ($US/$Cdn)
2020	29.22	19.21	1.74	34.35	18.27	10.04	—	0.71
2021	46.85	34.65	2.20	50.72	29.70	17.08	1.0	0.73
2022	59.27	46.34	2.38	62.80	37.87	23.55	2.0	0.75
2023	65.02	51.25	2.45	68.49	41.80	26.03	2.0	0.75
2024	68.43	54.28	2.53	71.73	44.14	27.57	2.0	0.75
2025	69.81	55.72	2.60	73.16	45.02	28.19	2.0	0.75
2026	71.24	56.96	2.66	74.66	45.95	28.83	2.0	0.75
2027	72.70	58.22	2.72	76.19	46.89	29.49	2.0	0.75
2028	74.19	59.51	2.79	77.75	47.86	30.17	2.0	0.75
2029	75.71	60.82	2.85	79.34	48.84	30.85	2.0	0.75
2030	77.22	62.04	2.92	80.96	49.81	31.54	2.0	0.75

The results of the Corporation's impairment tests are sensitive to changes in any of the key estimates of which changes could decrease or increase the recoverable amounts of assets and result in additional impairment charges or in the recovery of previously recorded impairment charges.

The external reserve evaluators also assess many other financial assumptions regarding royalty rates, operating costs and future development costs along with several other non-financial assumptions that affect reserve volumes. Management considered these assumptions for the impairment test at March 31, 2020, however, it should be noted that all estimates are subject to uncertainty.

As at March 31, 2020, a one percent increase in the assumed discount rate and/or a five percent decrease in the forecast operating cash flows would result in the following pre-tax impairment expense being recognized:

CGU	One percent increase in discount rate	Five percent decrease in cash flows	One percent increase in discount rate and five percent decrease in cash flows
Northeast Alberta	2,506	1,558	4,064
North Central Alberta	6,888	6,994	13,882
Northwest Alberta	7,048	7,276	14,324
Southwest Saskatchewan	6,120	5,555	11,675
Southeast Alberta	14,772	17,022	31,794
Central Alberta	550	769	1,319
Total	**37,884**	**39,174**	**77,058**

6. RISK MANAGEMENT

As a means of managing commodity price volatility, the Corporation enters into various derivative financial instrument agreements and physical contracts. The fair value of forward contracts and swaps is determined by discounting the difference between the contracted prices and published forward price curves as at the statement of financial position date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates and considering counter-party credit risk). The fair value of options and costless collars is based on option models that use published information with respect to volatility, prices and interest rates. Surge's financial derivative contracts are classified as level two in the fair value hierarchy.

At June 30, 2020, the following risk management contracts were outstanding with an asset fair market value of $1.0 million and a liability fair market value of $14.5 million (December 31, 2019 – asset of $1.3 million and liability of $3.9 million):

WTI Oil Hedges

Type	Term	bbl/d	Currency	Put Sold (per bbl)	Put Acquired (per bbl)	Call Sold (per bbl)	Swap Price (per bbl)
WTI	Q3 2020	500	USD	—	—	—	$57.25
WTI	Jul 2020	500	USD	—	—	—	$25.50
WTI	Aug 2020	250	USD	—	—	—	$26.10
WTI	Q4 2020	500	USD	—	—	—	$36.04
WTI	May 2020 - Mar 2021	750	USD	—	—	—	$32.02
WTI	Q1 2021	500	USD	—	—	—	$36.85
WTI	May 2020 - Jun 2021	400	USD	—	—	—	$32.95
WTI	Q2 2021	250	USD	—	—	—	$32.05
WTI	May 2020 - Jul 2021	350	USD	—	—	—	$33.20
WTI	Q1 2020 - Q3 2020	1,000	USD	$46.00	$54.00	$64.13	—
WTI	Q2 2020 - Q3 2020	500	USD	$46.00	$54.00	$63.55	—
WTI	Q3 2020	1,500	USD	$47.00	$55.00	$65.00	—
WTI	Q3 2019 - Q4 2020	500	USD	$47.50	$57.50	$71.50	—
WTI	2H 2020	500	USD	$49.00	$57.00	$66.50	—
WTI	Q4 2020	1,500	USD	$26.00	$35.33	$39.50	—
WTI	Q3 2020 - Q1 2021	500	USD	$44.00	$52.00	$60.00	—
WTI	Q4 2020 - Q1 2021	1,000	USD	$26.00	$36.00	$40.30	—

Oil Differential Hedges

Type	Term	bbl/d	Currency	Floor (per bbl)	Ceiling (per bbl)	Swap Price (per bbl)
WCS Swap	Q2 2020 - Q3 2020	1,500	USD	—	—	US$WTI less $16.40
WCS Swap	Q3 2020	500	USD	—	—	US$WTI less $16.45
WCS Swap	2H 2020	1,000	USD	—	—	US$WTI less $17.50
WCS Swap	Q4 2020 - Q2 2021	500	USD	—	—	US$WTI less $14.05
WCS Swap	1H 2021	500	USD	—	—	US$WTI less $14.80
WCS Swap	2021	500	USD	—	—	US$WTI less $15.40
MSW Swap	Q2 2020 - Q3 2020	3,500	USD	—	—	US$WTI less $4.94
WCS Collar	Q2 2020 - Q4 2020	1,500	USD	US$WTI less $15.50	US$WTI less $20.00	—
WCS Collar	2020	1,000	USD	US$WTI less $14.60	US$WTI less $19.95	—

Natural Gas Hedges

Type	Term	Volume	Currency	Floor	Ceiling
Chicago Swap	Apr 2020 - Oct 2020	3,000 mmbtu/d	USD	$2.045 per mmbtu	$2.045 per mmbtu
Chicago Swap	Nov 2020 - Oct 2021	3,000 mmbtu/d	USD	$2.52 per mmbtu	$2.52 per mmbtu
Chicago Collar	Nov 2019 - Oct 2020	3,000 mmbtu/d	USD	$2.25 per mmbtu	$2.90 per mmbtu
Chicago Collar	Nov 2020 - Oct 2021	3,000 mmbtu/d	USD	$2.15 per mmbtu	$2.90 per mmbtu
AECO Swap	Nov 2019 - Dec 2020	3,000 gj/d	CAD	$1.975 per gj	$1.975 per gj
AECO Swap	2020	4,000 gj/d	CAD	$1.45 per gj	$1.45 per gj
AECO Swap	Nov 2020 - Mar 2021	2,000 gj/d	CAD	$2.31 per gj	$2.31 per gj
AECO Swap	2021	2,000 gj/d	CAD	$2.1225 per gj	$2.1225 per gj

CAD/USD FX Hedges

Type	Term	Monthly Notional Amount (USD$)	Total Notional Amount (USD$)	Swap Rate (CAD$ per USD$)
Avg Rate Forward	Q2 2020 - Q4 2020	$1,000,000	$9,000,000	$1.3245

Interest Rate Hedges

Type	Term	Notional Amount (CAD$)	Surge Receives	Surge Pays	Fixed Rate SGY Pays
Fixed-to-Floating Rate Swap	Feb 2018 - Feb 2023	$100,000,000	Floating Rate	Fixed Rate	Semi-Annual Step Up • Beginning at 1.786% • Ending at 2.714% • Averaging 2.479%
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 foreign exchange. All such fluctuations were evaluated independently, with all other variables held constant. Fluctuations in crude oil and natural gas prices would have had the following impact on the net earnings:

Net earnings impact for the period ended June 30, 2020	Increase	Decrease
Crude Oil - Change of +/- $1.00	(2,362)	2,362
Natural Gas - Change of +/- $0.10	(394)	394
Interest rate - Change of +/- 100 points	1,125	(1,125)
Foreign Exchange - Change of +/- $0.01	(8)	8

7. BANK DEBT

As at June 30, 2020, the Corporation had a total commitment of $335.0 million, being the aggregate of a committed revolving term facility of $155.0 million, a committed non-revolving term facility of $167.5 million, and an operating loan facility of $12.5 million, with a syndicate of banks. The revolving term commitment will continue to revolve until the next scheduled borrowing base redetermination date of December 15, 2020. The further extension of the credit facility is dependent on the Corporation's ability to repay or extend the term of the $167.5 million committed non-revolving term facility that matures and requires repayment on March 31, 2021. As the available lending limits of the facilities are based on the syndicate's interpretation of the Corporation's reserves, commodity prices and decommissioning obligations, there can be no assurance that the amount of the available facilities will not decrease at the next scheduled review. In the current pricing environment, there is an increased risk that the lenders may decrease the amount available under the credit facility and the decreases could be material. Interest rates vary depending on the ratio of Senior Debt to EBITDA (as defined in the lending agreement). As at June 30, 2020, the Corporation had an effective interest rate of prime plus 2.75 percent on the revolving term facility (December 31, 2019 – prime plus 1.25 percent on a $350 million revolving term/operating loan facility) and an effective interest rate of prime plus 5.75 percent on the non-revolving term facility (December 31, 2019 - not applicable).

The facility is secured by a general assignment of book debts, debentures of $1.5 billion with a floating charge over all assets of the Corporation with a negative pledge and undertaking to provide fixed charges on the major producing petroleum and natural gas properties at the request of the bank.

The financial covenant, whereby the Corporation's ratio of Net Senior Debt to EBITDA shall not exceed 3.00:1.00, was removed effective June 19, 2020.

As at June 30, 2020, the Corporation was compliant with all restrictions in the credit agreement. Refer to note 2 "Basis of Preparation" for additional information. Copies of the Corporation's credit agreements may be accessed through the SEDAR website (www.sedar.com).

8. CONVERTIBLE DEBENTURES

Convertible Debentures

	Number of convertible debentures	Liability Component	Equity Component
Balance at December 31, 2018	44,500	37,973	3,551
Issuance of convertible debentures	34,500	30,551	3,949
Issue costs	—	(1,776)	(230)
Deferred income tax liability	—	—	(1,004)
Accretion of discount	—	1,951	—
Balance at December 31, 2019	79,000	68,699	6,266
Accretion of discount	—	1,208	—
Balance at June 30, 2020	**79,000**	**69,907**	**6,266**

The fair value of the convertible debentures at June 30, 2020 was $43.5 million using quoted market prices on the TSX (level 1 fair value).

9. 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. The Corporation estimates the total uninflated and undiscounted amount of cash flows required to settle its decommissioning obligations is approximately $291.2 million (December 31, 2019 – $293.7 million). These payments are expected to be made over the next 50 years with the majority of costs to be incurred between 2024 and 2067. A risk free rate of 1.00 percent (December 31, 2019 – 1.76 percent) and an inflation rate of 1.00 percent (December 31, 2019 – 1.50 percent) was used to calculate the fair value of the decommissioning obligations.

A reconciliation of the decommissioning obligations is provided below:

		June 30, 2020		December 31, 2019
Balance, beginning of period	**$**	**275,339**	$	229,213
Liabilities related to acquisitions		**—**		874
Liabilities related to dispositions		**(3,103)**		(7,997)
Change in estimate [1]		**17,547**		51,823
Liabilities incurred		**1,125**		2,188
Accretion expense		**1,938**		4,760
Decommissioning expenditures		**(1,691)**		(5,522)
Balance, end of period	**$**	**291,155**	$	275,339
Expected to be incurred within one year	**$**	**5,000**	$	6,000
Expected to be incurred beyond one year	**$**	**286,155**	$	269,339

[1] The change in estimate was primarily the result of decreasing the discount and inflation rates.

10. SHARE CAPITAL

(a) Flow-through Share Issuance

In January 2020, the Corporation issued 8.7 million flow-through shares related to Canadian development expenditures at a price of $1.175 per share for total gross proceeds of $10.3 million. The implied premium on the flow-through shares of $0.165 per share or $1.4 million was recorded as a flow-through share liability. As at June 30, 2020, the Corporation had incurred the qualifying development expenditures. The implied premium related to expenditures has been released through the deferred tax expense.

In November 2019, the Corporation issued 2.1 million flow-through shares related to Canadian exploration expenditures at a price of $1.18 per share for total gross proceeds of $2.5 million. The implied premium on the flow-through shares of $0.17 per share or $0.4 million was recorded as a flow-through share liability. As at June 30, 2020, the Corporation had incurred $0.1 million of the qualifying exploration expenditures, with the remaining commitment to be spent in 2020.

(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.

Subject to the terms and conditions of the plan, each RSA entitles the holder to an award value to be typically paid as to one-third on each of the first, second and third anniversaries from the date of grant. Each PSA entitles the holder to an award value to be typically paid on the third anniversary of the date of grant. For the purpose of calculating share-based compensation, the fair value of each award is determined at the grant date using the closing price of the common shares. A weighted average forfeiture rate of 8% (June 30, 2019 - 15%) for PSAs and 6% (June 30, 2019 - 15%) for RSAs was used to value all awards granted for the period ended June 30, 2020. The weighted average fair value of awards granted for the period ended June 30, 2020 is $0.21 (June 30, 2019 - $nil) per PSA granted and $0.21 (June 30, 2019 - $1.32) 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.

The total number of RSA and PSA units granted cannot exceed 5 percent of the issued and outstanding shares of the Corporation.

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, 2019	5,775,594	7,602,333
Granted	48,750	16,250
Reinvested [(1)]	242,971	320,027
Forfeited	(89,075)	(16,885)
Balance at June 30, 2020	**5,978,240**	**7,921,725**

[(1)] Per the terms of the plan, cash dividends paid by the Corporation are reinvested to purchase incremental awards.

(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,	
	2020	2019	**2020**	2019
Stock-based compensation on PSAs and RSAs	**1,987**	1,780	**3,864**	3,609
Capitalized stock-based compensation	**—**	(674)	**(757)**	(1,415)
Total stock-based compensation expense	**$ 1,987**	$ 1,106	**$ 3,107**	$ 2,194

(d) Per share amounts

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	**2020**	2019
Weighted average number of shares - basic and diluted	**335,068,916**	314,010,237	**333,628,440**	311,741,581

In computing diluted per share amounts at June 30, 2020, 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) Dividends

The Board of Directors declared for the months of January through June 2020 cumulative dividends of $0.0175 per share (January - June 2019 - $0.05 per share). Effective April 14, 2020, the Corporation suspended all dividends.

11. 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,	
	2020	**2019**	**2020**	**2019**
Oil	**28,432**	$ 104,387	**$ 89,643**	$ 195,515
Natural gas liquids	**644**	1,649	**1,707**	4,074
Natural gas	**1,429**	1,629	**2,861**	5,944
Total petroleum and natural gas revenue	**$ 30,505**	$ 107,665	**$ 94,211**	$ 205,533
Processing and other revenue	**1,112**	783	**2,832**	1,257
Total petroleum, natural gas and other revenue	**$ 31,617**	$ 108,448	**$ 97,043**	$ 206,790

Surge's revenue was generated entirely in the provinces of Alberta and Saskatchewan. The majority of revenue resulted from sales whereby the transaction price was based on the index prices. Of total petroleum and natural gas revenue, three customers represented combined sales of $80.4 million for the six months ended June 30, 2020 (2019 - $146.3 million).

12. COMMITMENTS

Future minimum payments relating to variable office rent payments and firm transport commitments at June 30, 2020 are as follows:

	June 30, 2020	December 31, 2019
Less than 1 year	**$ 5,698**	$ 11,046
1 - 3 years	**13,940**	13,605
3 - 5 years	**4,823**	4,838
5+ years	**5,299**	5,343
Total commitments	**$ 29,760**	$ 34,832

During the year ended December 31, 2019, the Corporation disposed of a 1.7 percent gross overriding royalty ("GORR") on total revenue from the Corporation's Southwest Saskatchewan, Southeast Alberta and North Central Alberta assets. The Corporation has a drilling commitment on the GORR lands that must be fulfilled by April 30, 2022. In the event that the Corporation fails to fulfill the drilling commitment, the GORR shall increase from 1.7 percent to 2.7 percent.

13. LEASES

The Corporation has recognized the following lease and other obligations:

	Total
Lease and other obligations at December 31, 2019	**$ 46,684**
Interest expense	**1,735**
Payments	**(5,705)**
Lease and other obligations at June 30, 2020	**$ 42,714**
Current portion	**7,999**
Long term portion	**34,715**