## Condensed Consolidated Interim Statements of Financial Position

Stated in thousands of dollars

(Unaudited)

| As at | September 30, 2021 | December 31, 2020 |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Accounts receivable | **$ 58,968** | $ 29,796 |
| Prepaid expenses and deposits | **4,044** | 5,253 |
| | **63,012** | 35,049 |
| Petroleum and natural gas properties (note 5) | **1,093,809** | 672,915 |
| | **$ 1,156,821** | $ 707,964 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | **$ 73,009** | $ 51,265 |
| Fair value of financial contracts (note 7) | **54,869** | 18,883 |
| Bank debt (note 8) | **—** | 260,908 |
| Current portion of lease and other obligations (note 15) | **9,157** | 8,796 |
| Current portion of decommissioning obligations (note 10) | **6,000** | 4,000 |
| | **143,035** | 343,852 |
| Fair value of financial contracts (note 7) | **4,513** | 3,778 |
| Bank debt (note 8) | **189,371** | — |
| Term debt (note 8) | **47,203** | 32,718 |
| Convertible debentures (note 9) | **73,219** | 71,181 |
| Decommissioning obligations (note 10) | **264,444** | 290,655 |
| Long term lease and other obligations (note 15) | **24,940** | 31,996 |
| **Shareholders' equity** | | |
| Share capital | **1,595,569** | 1,482,249 |
| Equity component of convertible debentures (note 9) | **6,266** | 6,266 |
| Contributed surplus | **50,370** | 52,118 |
| Deficit | **(1,242,109)** | (1,606,849) |
| | **410,096** | (66,216) |
| Commitments (note 14) | | |
| Subsequent event (note 16) | | |
| | **$ 1,156,821** | $ 707,964 |

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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | 2020 |
| Petroleum and natural gas revenue (note 12) | **$ 105,104** | $ 56,931 | **$ 266,682** | $ 151,142 |
| Processing income (note 12) | **978** | 934 | **3,239** | 3,766 |
| Royalties | **(15,501)** | (6,285) | **(35,051)** | (18,005) |
| Realized gain (loss) on financial contracts | **(23,209)** | (2,627) | **(60,942)** | 26,346 |
| Unrealized loss on financial contracts (note 7) | **(1,416)** | (3,309) | **(30,413)** | (8,174) |
| | **65,956** | 45,644 | **143,515** | 155,075 |
| **Expenses** | | | | |
| Operating | **28,288** | 23,204 | **82,156** | 75,109 |
| Transportation | **1,798** | 2,187 | **4,630** | 7,874 |
| General and administrative | **3,346** | 3,000 | **9,344** | 9,518 |
| Stock-based compensation (note 11) | **631** | 1,797 | **2,740** | 4,904 |
| Depletion and depreciation (note 5) | **31,499** | 22,250 | **74,688** | 80,464 |
| Impairment (reversal) (note 6) | **—** | — | **(323,640)** | 590,628 |
| Finance expense | **7,889** | 8,949 | **24,779** | 29,434 |
| Loss (gain) on disposal of petroleum and natural gas properties (note 5) | **—** | (3,024) | **(22,294)** | 5,093 |
| Transaction and other costs (note 13) | **1,502** | 459 | **2,981** | 654 |
| Gain on acquisition of petroleum and natural gas properties (note 4) | **(65,449)** | — | **(65,449)** | — |
| | **9,504** | 58,822 | **(210,065)** | 803,678 |
| Income (loss) before income taxes | **56,452** | (13,178) | **353,580** | (648,603) |
| Deferred income tax expense (recovery) (note 6) | **(11,160)** | 6 | **(11,160)** | 40,967 |
| **Net income (loss) and comprehensive income (loss) for the period** | **$ 67,612** | $ (13,184) | **$ 364,740** | $ (689,570) |
| Income (loss) per share (note 11) | | | | |
| Basic | **$ 1.18** | $ (0.33) | **$ 7.82** | $ (17.51) |
| Diluted | **$ 1.15** | $ (0.33) | **$ 7.63** | $ (17.51) |

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, 2019 | 38,391,768 | $ 1,466,506 | $ 6,266 | $ 52,224 | $ (853,689) | $ 671,307 |
| Net loss for the period | — | — | — | — | (689,570) | (689,570) |
| Share issue costs, net of tax of $29 | — | (83) | — | — | — | (83) |
| Flow-through shares issued | 1,028,105 | 10,268 | — | — | — | 10,268 |
| Premium on flow-through shares | — | (1,442) | — | — | — | (1,442) |
| Transfer on exercise of RSAs and PSAs [1] | 554,803 | 7,000 | — | (7,000) | — | — |
| Stock-based compensation | — | — | — | 5,661 | — | 5,661 |
| Dividends | — | — | — | — | (5,863) | (5,863) |
| Balance at September 30, 2020 | 39,974,675 | $ 1,482,249 | $ 6,266 | $ 50,885 | $ (1,549,122) | $ (9,722) |
| | | | | | | |
| Balance at December 31, 2020 [2] | 39,971,614 | $ 1,482,249 | $ 6,266 | $ 52,118 | $ (1,606,849) | $ (66,216) |
| Net income for the period | — | — | — | — | 364,740 | 364,740 |
| Issued pursuant to acquisition | 26,928,394 | 90,000 | | — | — | 90,000 |
| Share issue costs | — | (2,406) | — | — | — | (2,406) |
| Flow-through shares issued | 4,586,471 | 23,001 | — | — | — | 23,001 |
| Premium on flow-through shares | — | (3,119) | — | — | — | (3,119) |
| Transfer on exercise of RSAs and PSAs [1] | 690,830 | 5,844 | — | (5,844) | — | — |
| Stock-based compensation | — | — | — | 4,096 | — | 4,096 |
| **Balance at September 30, 2021** | **72,177,308** | **$ 1,595,569** | **$ 6,266** | **$ 50,370** | **$ (1,242,109)** | **$ 410,096** |

(1) RSA and PSA defined as restricted share and performance share awards

(2) The number of common shares has been adjusted retrospectively to reflect the 8.5:1 share consolidation that was approved by the Corporation's shareholders on August 17, 2021 (note 11).

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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| Cash provided by (used in) | | | | |
| **Operating** | | | | |
| Net income (loss) | **$ 67,612** | $ (13,184) | **$ 364,740** | $ (689,570) |
| Loss (gain) on disposal of petroleum and natural gas properties | **—** | (3,024) | **(22,294)** | 5,093 |
| Gain on acquisition of petroleum and natural gas properties | **(65,449)** | — | **(65,449)** | — |
| Unrealized loss on financial contracts | **1,416** | 3,309 | **30,413** | 8,174 |
| Finance expense | **7,889** | 8,949 | **24,779** | 29,434 |
| Interest expense | **(6,135)** | (8,039) | **(20,679)** | (19,343) |
| Depletion and depreciation | **31,499** | 22,250 | **74,688** | 80,464 |
| Impairment (reversal) | **—** | — | **(323,640)** | 590,628 |
| Decommissioning expenditures | **(2,105)** | (63) | **(4,649)** | (1,754) |
| Transaction and other costs (income) | **(801)** | 459 | **(1,907)** | 556 |
| Stock-based compensation | **631** | 1,797 | **2,740** | 4,904 |
| Deferred income tax expense (recovery) | **(11,160)** | 6 | **(11,160)** | 40,967 |
| Change in non-cash working capital | **2,866** | 2,622 | **2,485** | 11,637 |
| Cash flow from operating activities | **26,263** | 15,082 | **50,067** | 61,190 |
| **Financing** | | | | |
| Bank debt | **(2,284)** | (10,494) | **(100,874)** | (20,349) |
| Term debt | **—** | — | **7,500** | — |
| Dividends paid | **—** | — | **—** | (8,583) |
| Issuance of flow-through shares | **—** | — | **23,001** | 10,268 |
| Payments on lease obligations | **(2,167)** | (2,048) | **(6,432)** | (6,018) |
| Share issue costs | **(317)** | (25) | **(2,406)** | (112) |
| Cash flow used in financing activities | **(4,768)** | (12,567) | **(79,211)** | (24,794) |
| **Investing** | | | | |
| Petroleum and natural gas properties | **(33,932)** | (2,477) | **(81,330)** | (38,497) |
| Disposition of petroleum and natural gas properties | **—** | 762 | **102,591** | 6,038 |
| Change in non-cash working capital | **12,437** | (800) | **7,883** | (3,937) |
| Cash flow from (used in) investing activities | **(21,495)** | (2,515) | **29,144** | (36,396) |
| 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 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, 2020. 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, 2020.

For matters relating to the COVID-19 pandemic, refer to Note 2 "Basis of preparation" in the consolidated financial statements as at December 31, 2020.

The condensed consolidated interim financial statements were authorized for issuance by the Board of Directors on November 3, 2021.

### 3. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements at September 30, 2021 have been prepared following the same accounting policies as the consolidated financial statements as at December 31, 2020.

## 4. ACQUISITION

### Astra Oil Corporation

Effective August 18, 2021 the Corporation acquired all of the issued and outstanding common shares of Astra Oil Corp. ("Astra") in exchange for the issuance of 26,928,394 common shares of Surge with an assigned value of $90.0 million. The common shares have been ascribed a fair value of $3.34 per common share issued, as determined based on the Corporation's closing share price at the date prior to closing, August 17, 2021. The acquisition complements Surge's existing conventional crude oil asset base and the defined operating strategy of investing capital to acquire operated light gravity crude oil reservoirs. The operations from the acquisition have been included in the results of Surge commencing August 18, 2021.

Surge incurred transaction costs of $2.3 million on the acquisition which were expensed through the consolidated statement of income (loss) and comprehensive income (loss).

The transaction was accounted for as a business combination.

The purchase price, based on management's estimates of fair values and subject to change, is as follows:

| Fair value of net assets acquired | | Total |
|---|---|---|
| Petroleum and natural gas properties | $ | 192,217 |
| Working capital | | 16,854 |
| Bank debt | | (29,337) |
| Term debt | | (4,399) |
| Fair value of financial contracts | | (9,400) |
| Lease obligations | | (365) |
| Decommissioning obligations | | (2,198) |
| Deferred income tax liability | | (7,922) |
| Gain on acquisition | | (65,449) |
| Net assets acquired | $ | 90,000 |
| **Consideration** | | |
| Common shares (26,928,394 at $3.34 per share) | | 90,000 |
| Total consideration paid | $ | 90,000 |

Petroleum and natural gas revenue of $14.1 million and net income of $5.7 million are included in the consolidated statement of income (loss) and comprehensive income (loss) for the Astra acquisition since the closing date of August 18, 2021.

If the Astra acquisition had occurred on January 1, 2021, the Corporation's pro forma results of petroleum and natural gas revenue and net income (loss) and comprehensive net income (loss) for the period ended September 30, 2021 are estimated to have been as follows:

| For the period ended September 30, 2021 | | As stated | Astra Oil Corp. prior to August 18, 2021 | | Pro Forma |
|---|---|---|---|---|---|
| Petroleum and natural gas revenue | $ | 266,682 | 61,008 | $ | 327,690 |
| Net income (loss) and comprehensive income (loss) | $ | 364,740 | 3,940 | $ | 368,680 |

## 5. PETROLEUM AND NATURAL GAS PROPERTIES

### Petroleum and Natural Gas Properties

| | | Total |
|---|---|---|
| Balance at December 31, 2019 | $ | 2,729,660 |
| Dispositions | | (56,219) |
| Additions | | 52,773 |
| Right of use assets | | 2,209 |
| Change in decommissioning obligations | | 30,901 |
| Capitalized stock-based compensation | | 1,170 |
| Balance at December 31, 2020 | $ | 2,760,494 |
| Acquisitions | | 191,202 |
| Dispositions | | (369,488) |
| Additions | | 81,330 |
| Right of use assets | | (269) |
| Change in decommissioning obligations | | (10,383) |
| Capitalized stock-based compensation | | 1,356 |
| **Balance at September 30, 2021** | **$** | **2,654,242** |

| | | Total |
|---|---|---|
| **Accumulated depletion and depreciation** | | |
| Balance at December 31, 2019 | $ | (1,393,815) |
| Depletion and depreciation expense | | (105,042) |
| Impairment | | (628,053) |
| Dispositions | | 39,331 |
| Balance at December 31, 2020 | $ | (2,087,579) |
| Depletion and depreciation expense | | (74,688) |
| Impairment reversal | | 323,640 |
| Dispositions | | 278,194 |
| **Balance at September 30, 2021** | **$** | **(1,560,433)** |

| | | Total |
|---|---|---|
| **Carrying amounts** | | |
| At December 31, 2020 | $ | 672,915 |
| **At September 30, 2021** | **$** | **1,093,809** |

The calculation of depletion and depreciation expense for the period ended September 30, 2021 included an estimated $786.6 million (December 31, 2020 - $839.4 million) for future development costs associated with proved plus probable reserves and deducted $63.5 million (December 31, 2020 - $59.6 million) for the estimated salvage value of production equipment and facilities.

### 2021 Dispositions

During the nine months period ended September 30, 2021, the Corporation disposed of certain assets in Southeast Alberta and Northeast Alberta for cash proceeds of $102.6 million. The assets had a carrying value of $93.4 million and an associated decommissioning liability of $13.1 million, resulting in a gain on disposal of $22.3 million.

## 6. IMPAIRMENT

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| Impairment (reversal) of petroleum and natural gas properties | **—** | — | **(323,640)** | 590,628 |

The Corporation identified six cash generating units as of September 30, 2021 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 September 30, 2021 were geographically labeled Northwest Alberta, North Central Alberta, Central Alberta, Southeast Alberta, Southwest Saskatchewan and Southeast Saskatchewan.

In the second quarter of 2021, due to increases in forward oil and natural gas prices, a test for impairment reversal was completed in four of the Corporation's six CGUs. The Corporation determined that the estimated recoverable amounts of the Northwest Alberta, North Central Alberta, Southeast Alberta, and Southwest Saskatchewan CGUs exceeded the carrying values and previous impairment, net of depletion, of $323.6 million was reversed. The before tax discount rate applied in the calculation as at June 30, 2021 was 17 - 20 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 $123.4 million as at September 30, 2021.

The following table outlines forecasted oil and gas commodity prices and exchange rates used in the impairment test at June 30, 2021. The forecasted oil and gas commodity prices are consistent with those used by the Corporation's external reserve evaluators and are a significant assumption in assessing the recoverable amount. The 2020 reserve report was updated internally to June 30, 2021 and includes significant financial assumptions regarding forecasted production, royalty rates, operating costs, and future development costs 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) |
| 2021 | 83.75 | 73.13 | 3.63 | 88.75 | 44.38 | 40.13 | — | 0.80 |
| 2022 | 81.10 | 70.16 | 3.29 | 85.00 | 47.44 | 38.04 | 3.0 | 0.80 |
| 2023 | 78.45 | 67.17 | 2.82 | 82.46 | 48.58 | 35.56 | 3.0 | 0.80 |
| 2024 | 75.84 | 64.34 | 2.67 | 79.94 | 47.13 | 33.98 | 2.0 | 0.80 |
| 2025 | 77.36 | 65.63 | 2.72 | 81.54 | 48.07 | 34.66 | 2.0 | 0.80 |
| 2026 | 78.90 | 66.94 | 2.78 | 83.17 | 49.03 | 35.35 | 2.0 | 0.80 |
| 2027 | 80.48 | 68.28 | 2.83 | 84.83 | 50.01 | 36.06 | 2.0 | 0.80 |
| 2028 | 82.09 | 69.65 | 2.89 | 86.53 | 51.01 | 36.78 | 2.0 | 0.80 |
| 2029 | 83.73 | 71.04 | 2.95 | 88.26 | 52.03 | 37.51 | 2.0 | 0.80 |
| 2030 | 85.41 | 72.46 | 3.00 | 90.02 | 53.07 | 38.26 | 2.0 | 0.80 |
| 2031 | 87.12 | 73.91 | 3.06 | 91.82 | 54.13 | 39.03 | 2.0 | 0.80 |

The reserve report updated at June 30, 2021 in the impairment test also assesses many other financial assumptions regarding forecasted 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 June 30, 2021, however, it should be noted that all estimates are subject to uncertainty.

As at June 30, 2021, a one percent increase in the assumed discount rate and/or a five percent decrease in the forecast operating cash flows would have the following impact on the pre-tax impairment reversal 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 |
|---|---|---|---|
| North Central Alberta | (8,340) | (10,532) | (18,872) |
| Northwest Alberta | (5,781) | (7,702) | (13,483) |
| Southwest Saskatchewan | (1,404) | (4,715) | (6,119) |
| **Total** | **(15,525)** | **(22,949)** | **(38,474)** |

The impairment reversal recorded for Southeast Alberta would not change based on altering the inputs noted above.

### 2020 Impairment

Refer to Note 6 "Impairment" in the consolidated financial statements as at December 31, 2020.

## 7. RISK MANAGEMENT

At September 30, 2021, the following risk management contracts were outstanding with an asset fair market value of nil and a liability fair market value of $59.4 million (December 31, 2020 – asset of nil and liability of $22.7 million):

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

| | Swaps | | Collars | | | Three-way Collar | | | |
|---|---|---|---|---|---|---|---|---|---|
| Period | Volumes (bbls/d) | Average Price (CAD/bbl) | Volumes (bbls/d) | Average Bought Put (CAD/bbl) | Average Sold Call (CAD/bbl) | Volumes (bbls/d) | Average Sold Put (CAD/bbl) | Average Bought Put (CAD/bbl) | Average Sold Call (CAD/bbl) |
| Qtr. 4 2021 | 6,634 | $58.53 | 1,450 | $53.34 | $61.64 | 250 | $44.33 | $54.46 | $64.60 |
| Qtr. 1 2022 | 4,000 | $76.14 | 2,500 | $55.00 | $71.88 | 1,000 | $58.26 | $69.66 | $89.93 |
| Qtr. 2 2022 | 6,500 | $78.27 | | | | 1,500 | $58.26 | $68.40 | $90.14 |
| Qtr. 3 2022 | 3,500 | $77.43 | | | | | | | |
| Qtr. 4 2022 | 3,500 | $76.87 | | | | | | | |

### Western Canadian Select Derivative Contracts (WCS)

| | Swaps | |
|---|---|---|
| Period | Volumes (bbls/d) | Average Price (CAD/bbl) |
| Qtr. 4 2021 | 2,500 | $(16.35) |
| Qtr. 1 2022 | 2,500 | $(15.82) |
| Qtr. 2 2022 | 2,500 | $(15.82) |
| Qtr. 3 2022 | 1,500 | $(16.13) |
| Qtr. 4 2022 | 1,500 | $(16.13) |

### Mixed Sweet Blend Derivative Contracts (MSW)

| | Swaps | |
|---|---|---|
| Period | Volumes (bbls/d) | Average Price (CAD/bbl) |
| Qtr. 4 2021 | 2,600 | $(7.05) |
| Qtr. 1 2022 | 2,000 | $(6.14) |
| Qtr. 2 2022 | 2,000 | $(6.14) |
| Qtr. 3 2022 | 2,000 | $(6.14) |
| Qtr. 4 2022 | 2,000 | $(6.14) |

### Natural Gas Derivative Contracts

| | Chicago Swaps | | Chicago Collars | | | AECO Swaps | |
|---|---|---|---|---|---|---|---|
| Period | Volumes (MMBtu/d) | Average Price (CAD/MMBtu) | Volumes (MMBtu/d) | Average Bought Put (CAD/MMBtu) | Average Sold Call (CAD/MMBtu) | Volumes (GJ/d) | Average Price (CAD/GJ) |
| Qtr. 4 2021 | 1,011 | $3.19 | 2,337 | $4.51 | $5.90 | 5,326 | $2.85 |
| Qtr. 1 2022 | | | 2,000 | $5.86 | $7.60 | 4,000 | $3.21 |

### Interest Rate Derivative Contracts

| 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<br>1. Beginning at 1.786%<br>2. Ending at 2.714%<br>3. 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 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 September 30, 2021 | Increase | Decrease |
|---|---|---|
| Crude Oil - Change of +/- $1.00 | (3,556) | 3,556 |
| Natural Gas - Change of +/- $0.10 | (100) | 100 |
| Interest rate - Change of +/- 100 points | 1,125 | (1,125) |

## 8. DEBT

### Bank Debt

As at September 30, 2021, the Corporation had a total commitment of $215.0 million, being the aggregate of a revolving term facility of $195.0 million and an operating loan facility of $20.0 million, with a syndicate of banks. The revolving term facility will decrease by $2.5 million on October 31, 2021 to $212.5 million and again on November 30, 2021 to $210 million.

As at September 30, 2021, the Corporation had $189.4 million drawn on its committed revolving term facility. The revolving term commitment will continue to revolve until the next scheduled borrowing base redetermination date on or before November 30, 2021. The further extension of the credit facility is dependent on the Corporation's ability to repay or extend the term of the committed revolving term facility that matures and requires repayment on November 30, 2022. 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 environment, there is an increased risk that the lenders may decrease the amount available under the credit facilities 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 September 30, 2021, the Corporation had an effective interest rate of prime plus 2.75 percent on the revolving term/operating loan facility (December 31, 2020 – prime plus 3.50 percent).

The facilities are 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.

### Term Debt

As at September 30, 2021, the Corporation had a term loan of $40 million plus capitalized interest with Business Development Bank of Canada, for a four year, non-revolving second lien term facility, maturing on November 17, 2024. Interest on the outstanding term loan will accrue and be added to the principal amount (capitalized) in the first year. Interest on the outstanding term loan will be due and payable monthly by the Corporation thereafter. Interest on borrowings are summarized as follows:

i. for the period between November 17, 2020 and the first anniversary date, at a per annum rate equal to 5.0 percent;

ii. thereafter until the second anniversary date, at a per annum rate equal to the greater of: the senior interest rate plus 1.0 percent; and 6.0 percent;

iii. thereafter until the third anniversary date, at a per annum rate equal to the greater of: the senior interest rate plus 2.0 percent; and 7.0 percent;

iv. thereafter, at a per annum rate equal to the greater of: the senior interest rate plus 3.0 percent; and 8.0 percent.

As at September 30, 2021, the Corporation had an effective interest rate of 5.0 percent on the term facility (December 31, 2020 - 5.0 percent).

As at September 30, 2021, the Corporation was compliant with all restrictions in its first and second lien credit agreements.

### Emissions Reduction Fund

As part of the Astra acquisition on August 18, 2021, the Corporation assumed a five-year, interest free term loan with the Federal Government of Canada via the Emissions Reduction Fund ("ERF") administered by the Department of Natural Resources. The ERF will provide Surge with up to $9.1 million for the Corporation's planned gas emission reduction program which will see the Corporation build infrastructure to eliminate greenhouse gas emissions in specific operating areas. Loan repayments will begin on March 31 2025, when 10.0 percent of the repayable portion will be repaid, followed by 33.3 percent on March 31, 2026 and the remaining 56.7 percent on March 31, 2027.

In addition, on August 13, 2021, the Corporation entered into a five-year, interest free term loan with the Federal Government of Canada via the ERF administered by the Department of Natural Resources. The ERF will provide Surge with up to $2.1 million for the Corporation's planned gas emission reduction program which will see the Corporation build infrastructure to eliminate greenhouse gas emissions in specific operating areas. Loan repayments will begin on March 31 2025, when 10.0 percent of the repayable portion will be repaid, followed by 33.3 percent on March 31, 2026 and the remaining 56.7 percent on March 31, 2027.

## 9. CONVERTIBLE DEBENTURES

### Convertible Debentures

| | Number of convertible debentures | Liability Component | Equity Component |
|---|---|---|---|
| Balance at December 31, 2019 | 79,000 | 68,699 | 6,266 |
| Accretion of discount | — | 2,482 | — |
| Balance at December 31, 2020 | 79,000 | 71,181 | 6,266 |
| Accretion of discount | — | 2,038 | — |
| **Balance at September 30, 2021** | **79,000** | **73,219** | **6,266** |

The fair value of the convertible debentures at September 30, 2021 was $76.5 million using quoted market prices on the TSX (level 1 fair value).

## 10. 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 $283.6 million (December 31, 2020 – $279.7 million). These payments are expected to be made over the next 20 years with the majority of costs to be incurred between 2021 and 2041. A risk free rate of 1.98 percent (December 31, 2020 – 1.00 percent) and an inflation rate of 1.73 percent (December 31, 2020 – 1.28 percent) was used to calculate the decommissioning obligations.

A reconciliation of the decommissioning obligations is provided below:

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Balance, beginning of period | **$ 294,655** | $ 275,339 |
| Liabilities related to acquisitions | **2,198** | — |
| Liabilities related to dispositions | **(13,158)** | (5,757) |
| Change in estimate [(1)] | **(12,955)** | 28,809 |
| Liabilities incurred | **2,572** | 2,092 |
| Accretion expense | **3,693** | 3,425 |
| Site rehabilitation program grant | **(1,912)** | (4,948) |
| Decommissioning expenditures | **(4,649)** | (4,305) |
| **Balance, end of period** | **$ 270,444** | $ 294,655 |
| **Expected to be incurred within one year** | **$ 6,000** | $ 4,000 |
| **Expected to be incurred beyond one year** | **$ 264,444** | $ 290,655 |

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

The decommissioning obligations acquired in the Astra acquisition (note 4) were initially recognized using a fair value discount rate. They were subsequently revalued using the risk-free rate noted above resulting in a change in estimate with the offset to petroleum and natural gas properties.

During the nine months ended September 30, 2021, approximately $1.9 million was granted to Surge through the Alberta Site Rehabilitation Program ("SRP") to pay service companies to complete abandonment and reclamation work.

## 11. SHARE CAPITAL

### (a) Share consolidation

On August 17, 2021, the shareholders of the Corporation approved a consolidation of common shares on the basis of a ratio of 8.5 pre-consolidation common shares for each one post-consolidation common share. The share consolidation was completed on August 18, 2021.

The number of common shares and share based rewards has been adjusted retrospectively to reflect the 8.5:1 share consolidation.

### (b) Flow-through Share Issuance

In May 2021, the Corporation issued 4.59 million flow-through shares related to Canadian development expenditures at a price of $5.02 per share for total gross proceeds of $23.0 million. The implied premium on the flow-through shares of $0.68 per share or $3.1 million was recorded as a flow-through share liability. As at September 30, 2021, the Corporation had incurred the qualifying exploration expenditures. The implied premium related to expenditures has been released through the deferred tax expense.

In November 2019, the Corporation issued 0.25 million flow-through shares related to Canadian exploration expenditures at a price of $10.03 per share for total gross proceeds of $2.5 million. The implied premium on the flow-through shares of $1.45 per share or $0.4 million was recorded as a flow-through share liability. As at September 30, 2021, the Corporation had incurred $0.9 million of the qualifying exploration expenditures, with the remaining commitment to be spent in the fourth quarter of 2021 based on an extension to flow-through share commitments enacted into law in June 2021.

### (c) 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 9.5% (September 30, 2020 - 8%) for PSAs and 8.1% (September 30, 2020 - 6%) for RSAs was used to value all awards granted for the period ended September 30, 2021. The weighted average fair value of awards granted for the period ended September 30, 2021 is $5.07 (September 30, 2020 - $2.81) per PSA granted and $5.05 (September 30, 2020 - $2.81) 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 shares reserved for issuance under the stock incentive plan cannot exceed 8.9 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, 2020 | 1,175,016 | 1,403,217 |
| Granted | 1,048,434 | 1,004,275 |
| Exercised | (523,756) | (167,074) |
| Forfeited | (99,181) | (129,716) |
| **Balance at September 30, 2021** | **1,600,513** | **2,110,702** |

### (d) Stock-based compensation

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| Stock-based compensation on PSAs and RSAs | **898** | 1,797 | **4,096** | 5,661 |
| Capitalized stock-based compensation | **(267)** | — | **(1,356)** | (757) |
| Total stock-based compensation expense | **$ 631** | $ 1,797 | **$ 2,740** | $ 4,904 |

### (e) Per share amounts

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| Weighted average number of shares - basic | **57,379,790** | 39,660,630 | **46,662,260** | 39,388,144 |
| Effect of dilutive instruments | **1,242,800** | — | **1,127,440** | — |
| Weighted average number of shares - basic and diluted | **58,622,590** | 39,660,630 | **47,789,700** | 39,388,144 |

In computing diluted per share amounts at September 30, 2021, 956,585 RSAs and 994,033 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.

## 12. REVENUE

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | 2020 |
| Oil | **97,272** | $ 54,000 | **$ 243,639** | $ 143,643 |
| Natural gas liquids | **2,663** | 1,161 | **6,437** | 2,868 |
| Natural gas | **5,170** | 1,770 | **16,606** | 4,631 |
| Total petroleum and natural gas revenue | **$ 105,104** | $ 56,931 | **$ 266,682** | $ 151,142 |
| Processing | **978** | 934 | **3,239** | 3,766 |
| Total petroleum, natural gas and processing revenue | **$ 106,082** | $ 57,865 | **$ 269,921** | $ 154,908 |

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 $188.5 million for the nine months ended September 30, 2021 (2020 - $129.3 million).

## 13. TRANSACTION AND OTHER COSTS

The following table presents the Corporation's transaction and other costs:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | 2020 |
| Transaction costs | **2,255** | — | **4,240** | 98 |
| Severance costs | **48** | — | **648** | — |
| Bad debt provision | **123** | 1,129 | **5** | 1,226 |
| Site rehabilitation program grant income | **(924)** | (670) | **(1,912)** | (670) |
| Total transaction and other costs | **$ 1,502** | $ 459 | **$ 2,981** | $ 654 |

## 14. COMMITMENTS

Future minimum payments relating to variable office rent payments and firm transport commitments at September 30, 2021 are as follows:

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Less than 1 year | **$ 6,897** | $ 9,861 |
| 1 - 3 years | **7,194** | 7,081 |
| 3 - 5 years | **4,700** | 4,842 |
| 5+ years | **1,582** | 3,109 |
| **Total commitments** | **$ 20,373** | $ 24,893 |

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.

## 15. LEASES

The Corporation has recognized the following lease and other obligations:

| | Total |
|---|---|
| Lease obligations at December 31, 2019 | $ 46,684 |
| Additions | 2,209 |
| Interest expense | 3,325 |
| Payments | (11,426) |
| Lease and other obligations at December 31, 2020 | $ 40,792 |
| Dispositions | (628) |
| Additions | 365 |
| Interest expense | 2,185 |
| Payments | (8,618) |
| **Lease and other obligations at September 30, 2021** | **$ 34,097** |
| **Current portion** | **9,157** |
| **Long term portion** | **24,940** |

During the nine months ended September 30, 2021, the Corporation cancelled the term of certain existing leases resulting in the derecognition of $0.3 million right-of-use assets and $0.6 million lease obligations.

As part of the corporate acquisition on August 18, 2021 (note 4), the corporation acquired a lease resulting in the recognition of a $0.3 million right-of-use asset and $0.4 million lease obligation.

## 16. SUBSEQUENT EVENT

On October 4, 2021, the Corporation announced that it has entered into an amalgamation agreement to acquire all of the issued and outstanding shares of Fire Sky Energy Inc. ("Fire Sky") for total consideration of approximately $58 million funded by the issuance of approximately $55 million of share consideration and the assumption of approximately $3.0 million of bank debt and working capital. The acquisition is expected to close in November of 2021. Completion of the acquisition is subject to approval of at least 66 $^{2/3}$ percent of the voting Fire Sky shareholders.