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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Surge Energy Inc.

Opinion

We have audited the consolidated financial statements of Surge Energy Inc. (the "Entity"), which comprise:

- the consolidated statements of financial position as at December 31, 2020 and December 31, 2019
- the consolidated statements loss and comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to note 2 in the financial statements, which indicates that there is uncertainty as to the Entity'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.

As stated in note 2 in the financial statements, these events or conditions, along with other matters as set forth in note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the "*Material Uncertainty related to Going Concern*" section of the auditors' report, we have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Assessment of the recoverable amount of the cash generating units

Description of the matter

We draw attention to note 2, note 3 and note 6 to the financial statements. The Entity identified an indicator of impairment at March 31, 2020 for all cash generating units (the "CGUs") and identified an indicator of impairment at December 31, 2020 for the Southwest Saskatchewan CGU and performed an impairment test to estimate the recoverable amount of each CGU. The Entity has recorded an impairment charge of $628.1 million related to its CGUs for the year ended December 31, 2020.

The estimated recoverable amount of each CGU involves significant estimates, including:

- The estimate of cash flows from proved and probable oil and gas reserves
- The discount rates.

The estimate of cash flows from proved and probable oil and gas reserves includes significant assumptions related to:

- Forecasted oil and gas commodity prices
- Forecasted production
- Forecasted operating costs
- Forecasted royalty costs
- Forecasted future development costs.

The Entity engages independent third party reserve evaluators to estimate the cash flows from proved and probable oil and gas reserves as at December 31, 2019, which were updated by the internal reserve evaluators to March 31, 2020.

The Entity engages independent third party reserve evaluators to estimate the cash flows from proved and probable oil and gas reserves as at December 31, 2020.

Why the matter is a key audit matter

We identified the assessment of the recoverable amount of the CGUs as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures with respect to the estimate of cash flows from proved and probable oil and gas reserves and the discount rates.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

With respect to the estimate of cash flows from proved and probable oil and gas reserves as at December 31, 2019:

- We evaluated the competence, capabilities and objectivity of the independent third party reserve evaluators engaged by the Entity
- We compared forecasted oil and gas commodity prices to those published by other independent third party reserve evaluators

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- We compared the 2019 actual production, operating costs, royalty costs and development costs of the Entity to those estimates used in the prior year's estimate of cash flows from proved oil and gas reserves to assess the Entity's ability to accurately forecast
- We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development costs assumptions by comparing to 2019 historical results. We took into account changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.

With respect to the estimate of cash flows from proved and probable oil and gas reserves as at March 31, 2020:

- We evaluated the competence, capabilities and objectivity of the internal reserve evaluators
- We compared forecasted oil and gas commodity prices to those published by other independent third party reserve evaluators
- We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development costs assumptions by comparing to the corresponding amounts in the cash flows from proved and probable oil and gas reserves estimated by the independent third party reserve evaluators as at December 31, 2019. We took into account changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.

With respect to the estimate of cash flows from proved and probable oil and gas reserves as at December 31, 2020:

- We evaluated the competence, capabilities and objectivity of the independent third party reserve evaluators engaged by the Entity
- We compared forecasted oil and gas commodity prices to those published by other independent third party reserve evaluators
- We compared the 2020 actual production, operating costs, royalty costs and development costs of the Entity to those estimates used in the prior year's estimate of cash flows from proved oil and gas reserves to assess the Entity's ability to accurately forecast
- We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development costs assumptions by comparing to 2020 historical results. We took into account changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Evaluating the appropriateness of the Entity's discount rates by comparing the discount rates to market and other external data
- Assessing the reasonableness of the Entity's estimate of the recoverable amount of each CGU by comparing the Entity's estimate to market metrics and other external data.

Assessment of indicators of impairment or reversal of impairment for the cash generating units

Description of the matter

We draw attention to note 2, note 3 and note 6 to the financial statements. The Entity assesses at each reporting date whether there is an indication that petroleum and natural gas properties within the cash generating units (the "CGUs") may be impaired or that historical impairment may be reversed. The Entity determined that there were no internal or external indicators of impairment or historical impairment reversal at December 31, 2020 for the Northwest Alberta, North Central Alberta and Central Alberta CGUs and no impairment tests were required. Significant management judgment is required to analyze internal and external indicators of impairment or historical impairment reversal with the estimate of cash flows from proved and probable oil and gas reserves being significant to the assessment.

The estimate of cash flows from proved and probable oil and gas reserves includes significant assumptions related to:

- Forecasted oil and gas commodity prices
- Forecasted production
- Forecasted operating costs
- Forecasted royalty costs
- Forecasted future development costs.

The Entity engages independent third party reserve evaluators to estimate the cash flows from proved and probable oil and gas reserves as at December 31, 2020.

Why the matter is a key audit matter

We identified the assessment of indicators of impairment or reversal of impairment for the CGUs as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures with respect to the internal and external impairment or reversal of indicators of impairment or historic impairment reversal including the estimate of cash flows from proved and probable oil and gas reserves.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

We evaluated the Entity's assessment of internal and external indicators of impairment or historic impairment reversal by considering whether quantitative and qualitative information in the analysis was consistent with external market and industry data, the Entity's press releases and certain minutes of the meetings of the Board of Directors and the estimate of cash flows from proved and probable oil and gas reserves.

With respect to the estimate of cash flows from proved and probable oil and gas reserves as at December 31, 2020:

- We evaluated the competence, capabilities and objectivity of the independent third party reserve evaluators engaged by the Entity
- We compared forecasted oil and gas commodity prices to those published by other independent third party reserve evaluators
- We compared the 2020 actual production, operating costs, royalty costs and development costs of the Entity to those estimates used in the prior year's estimate of proved oil and gas reserves and the related cash flows to assess the Entity's ability to accurately forecast

- We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development costs assumptions by comparing to 2020 historical results. We took into account changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditors' report is Shane Doig.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
March 9, 2021

Consolidated Statements of Financial Position

Stated in thousands of dollars

As at	December 31, 2020	December 31, 2019
Assets		
Current Assets		
Accounts receivable	$ 29,796	$ 41,486
Fair value of financial contracts (note 7)	—	1,067
Prepaid expenses and deposits	5,253	4,875
	35,049	47,428
Fair value of financial contracts (note 7)	—	191
Petroleum and natural gas properties (note 5)	672,915	1,335,845
Deferred income taxes (note 14)	—	42,390
	$ 707,964	$ 1,425,854
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 51,265	$ 40,848
Dividends payable	—	2,719
Fair value of financial contracts (note 7)	18,883	2,653
Bank debt (note 8)	260,908	—
Current portion of lease and other obligations (note 19)	8,796	8,103
Current portion of decommissioning obligations (note 10)	4,000	6,000
	343,852	60,323
Fair value of financial contracts (note 7)	3,778	1,201
Bank debt (note 8)	—	316,404
Term debt (note 8)	32,718	—
Convertible debentures (note 9)	71,181	68,699
Decommissioning obligations (note 10)	290,655	269,339
Long term lease and other obligations (note 19)	31,996	38,581
Shareholders' equity		
Share capital	1,482,249	1,466,506
Equity component of convertible debentures (note 9)	6,266	6,266
Contributed surplus	52,118	52,224
Deficit	(1,606,849)	(853,689)
	(66,216)	671,307
Going concern (note 2)		
Commitments (note 18)		
Subsequent events (note 20)		
	$ 707,964	$ 1,425,854

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

Approved on behalf of the Board:

(Signed)
Allison Maher, Director

(Signed)
Paul Colborne, Director

Consolidated Statements of Loss and Comprehensive Loss

Stated in thousands of dollars, except per share amounts

	Years Ended December 31,	
	2020	2019
Petroleum and natural gas revenue (note 12)	**$ 211,049**	$ 394,349
Processing income (note 12)	**4,772**	4,303
Royalties	**(24,498)**	(51,837)
Realized gain (loss) on financial contracts	**20,099**	(4,679)
Unrealized loss on financial contracts (note 7)	**(15,071)**	(2,071)
	196,351	340,065
Expenses		
Operating	**101,640**	116,338
Transportation	**9,766**	11,866
General and administrative	**12,486**	14,287
Transaction and other costs	**98**	173
Stock-based compensation (note 11)	**5,724**	6,279
Depletion and depreciation (note 5)	**105,042**	163,450
Impairment (note 6)	**628,053**	180,701
Finance expense (note 13)	**38,776**	34,963
Loss on disposal of petroleum and natural gas properties (note 5)	**5,093**	12,316
Other costs (income) (note 17)	**(3,997)**	210
	902,681	540,583
Loss before income taxes	**(706,330)**	(200,518)
Deferred income tax expense (recovery) (note 14)	**40,967**	(41,854)
Net loss and comprehensive loss for the year	**$ (747,297)**	$ (158,664)
Loss per share (note 11)		
Basic	**$ (2.22)**	$ (0.50)
Diluted	**$ (2.22)**	$ (0.50)

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

Consolidated Statements of Changes in Shareholders' Equity

Stated in thousands of dollars, except share amounts

	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 year	—	—	—	—	(158,664)	(158,664)
Share issue costs, net of tax of $41	—	(110)	—	—	—	(110)
Flow-through shares issued	11,848,644	15,621	—	—	—	15,621
Premium on flow-through shares	—	(1,553)	—	—	—	(1,553)
Convertible debentures issued, net of tax of $1,004	—	—	2,715	—	—	2,715
Transfer on exercise of RSAs and PSAs (1)	5,195,158	10,775	—	(10,775)	—	—
Stock-based compensation	—	—	—	10,582	—	10,582
Dividends	—	—	—	—	(31,776)	(31,776)
Balance at December 31, 2019	326,330,027	$ 1,466,506	$ 6,266	$ 52,224	$ (853,689)	$ 671,307
Balance at December 31, 2019	326,330,027	$ 1,466,506	$ 6,266	$ 52,224	$ (853,689)	$ 671,307
Net loss for the year	—	—	—	—	(747,297)	(747,297)
Share issue costs, net of tax of $29	—	(83)	—	—	—	(83)
Flow-through shares issued	8,738,889	10,268	—	—	—	10,268
Premium on flow-through shares	—	(1,442)	—	—	—	(1,442)
Transfer on exercise of RSAs and PSAs (1)	4,715,823	7,000	—	(7,000)	—	—
Stock-based compensation	—	—	—	6,894	—	6,894
Dividends	—	—	—	—	(5,863)	(5,863)
Balance at December 31, 2020	**339,784,739**	**$ 1,482,249**	**$ 6,266**	**$ 52,118**	**$ (1,606,849)**	**$ (66,216)**

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

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

Consolidated Statements of Cash Flows

Stated in thousands of dollars

	Years Ended December 31,	
	2020	2019
Cash provided by (used in)		
Operating		
Net loss	**$ (747,297)**	$ (158,664)
Loss on disposal of petroleum and natural gas properties	**5,093**	12,316
Unrealized loss on financial contracts	**15,071**	2,071
Finance expense	**38,776**	34,963
Interest expense	**(27,658)**	(26,657)
Depletion and depreciation	**105,042**	163,450
Impairment	**628,053**	180,701
Decommissioning expenditures	**(4,305)**	(5,522)
Other costs (income)	**(3,997)**	210
Transaction and other costs	**—**	(1,307)
Stock-based compensation	**5,724**	6,279
Deferred income tax expense (recovery)	**40,967**	(41,854)
Change in non-cash working capital (note 16)	**16,721**	(16,569)
Cash flow from operating activities	**72,190**	149,417
Financing		
Bank debt	**(55,496)**	(92,189)
Term debt	**32,500**	—
Dividends paid	**(8,583)**	(31,634)
Other financial obligations	**—**	12,094
Issuance of flow-through shares	**10,268**	15,621
Payments on lease obligations	**(8,101)**	(6,810)
Share issue costs	**(112)**	(151)
Issuance of convertible debentures	**—**	32,495
Cash flow used in financing activities	**(29,524)**	(70,574)
Investing		
Petroleum and natural gas properties	**(52,773)**	(119,465)
Disposition of petroleum and natural gas properties	**6,038**	57,246
Acquisitions	**—**	(14,808)
Change in non-cash working capital (note 16)	**4,069**	(1,816)
Cash flow used in investing activities	**(42,666)**	(78,843)
Change in cash	**—**	—
Cash, beginning of the year	**—**	—
Cash, end of the year	**$ —**	$ —

The accompanying notes are an integral part of these consolidated 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, its wholly-owned subsidiaries and partnerships.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

The consolidated financial statements were authorized for issuance by the Board of Directors on March 9, 2021.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments which are measured at fair value.

The methods used to measure fair values are discussed in note 4.

(c) Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the Corporation's and its subsidiaries' functional currency.

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially from these estimates.

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and for any future years affected.

Critical Judgments in Applying Accounting Policies

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

The Corporation's assets are aggregated into cash-generating units for the purpose of calculating impairment. Cash generating units ("CGU" or "CGUs") are based on an assessment of the units ability to generate independent cash inflows. The determination of these CGUs was based on management's judgment in regards to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality.

Significant management judgement is required to analyze internal and external indicators of impairment or historical impairment reversal with the estimate of cash flows from proved and probable oil and gas reserves as determined annually by the Corporation's independent third-party reserve evaluators being significant to the assessment. In determining the estimated recoverable amount of assets or CGUs, in the absence of quoted market prices, impairment tests are based on estimates of the cash flows from proved and probable oil and gas reserves. The estimate of cash flows from proved and probable oil and gas reserves includes significant assumptions related to forecasted oil and gas commodity prices, forecasted production, forecasted operating costs, royalties and future development costs discount rates, market value of land and other relevant assumptions.

The application of the Corporation's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found in assessing if technical feasibility and commercial reserves have been achieved.

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

Key Sources of Estimation Uncertainty

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in these consolidated financial statements.

Estimation of recoverable quantities of proved and probable reserves include estimates and assumptions regarding forecasted oil and gas commodity prices, exchange rates, discount rates, forecasted production, forecasted operating costs, royalty costs and future development costs for future cash flows as well as the interpretation of complex geological and geophysical models and data. Changes in reported reserves can affect the impairment of assets, the decommissioning obligations, the economic feasibility of exploration and evaluation assets and the amounts reported for depletion, depreciation and amortization of property, plant and equipment. These reserve estimates are undertaken by independent third party reserve evaluators, who work with information provided by the Corporation to establish reserve determinations in accordance with National Instrument 51-101.

The Corporation estimates the decommissioning obligations for oil and natural gas wells and their associated production facilities and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning obligations and related accretion expense require assumptions regarding removal date, environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, inflation estimates, removal technologies in determining the removal cost, and the estimate of the liability specific discount rates to determine the present value of these cash flows.

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities and cash flows from proved and probable oil and gas reserves being acquired.

The Corporation's estimate of the fair value of derivative financial instruments is dependent on estimated forward prices and volatility in those prices.

Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include:

- Incremental borrowing rate: The Incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease obligations, and the resulting interest and depreciation expense, may differ due to changes in the market conditions and lease term.
- Lease term: Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

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 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 6);
- Inability to comply with restrictions in lending agreements (see note 8);
- 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 the forward pricing scenarios experienced in 2020, exploration and production companies in Canada did not conform to the standard reserve-based lending (“RBL”) structures. The Federal Government acknowledged the challenges facing the oil and gas industry and announced support programs intended to provide a liquidity backstop to RBL credit facilities administered through the Export Development Bank of Canada (“EDC”) and the Business Development Bank of Canada (“BDC”). EDC and BDC worked 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. In November of 2020, the Corporation met the criteria for support under the announced programs. EDC joined the Corporation's syndicated RBL credit facility and the Corporation secured a four year, non-revolving second lien Term facility, maturing on November 17, 2024 under the BDC's Business Credit Availability Program Mid-Market Financing Program (refer to note 8 "Debt" for additional information).

Going Concern

As at December 31, 2020, the Corporation had $260.9 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 8 "Debt" for additional information). The revolving term commitment will continue to revolve until the next scheduled borrowing base redetermination date of June 30, 2021. 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 December 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.

Subsequent to December 31, 2020, the Corporation reached an agreement in principle with its respective lender syndicates to re-determine its first and second lien credit facilities (refer to note 20 "Subsequent Events" for additional information).

These consolidated 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.

Evolving Demand for Energy

The Corporation has considered the impact of the evolving worldwide demand for energy and global advancement of alternative sources of energy that are not sourced from fossil fuels in its assessment of impairment of its oil and gas properties. The measurement of impairment on the Corporation’s oil and gas properties was based on proved and probable reserves, the life of which is generally less than 20 years. At December 31, 2020, a specific adjustment to the recoverable amount to account for the risk of the evolving demand for energy was not considered necessary, however, the recoverable amount is based on an estimated period of cash flows that indirectly reflects changing energy demands and the discount rate applied in the impairment test incorporates the current cost of capital in the energy industry which indirectly reflects current market trends around the evolving demand for energy and climate change. The ultimate period in which global energy markets can transition from carbon based sources to alternative energy is highly uncertain.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

Operating expenses in profit or loss are presented as a combination of function and nature to conform with industry practice. Depletion and depreciation is presented on a separate line by its nature, while operating expenses and general and administrative expenses are presented on a functional basis. Significant expenses such as key management personnel's short-term employee benefits and stock-based compensation are presented by their nature in the notes to the financial statements.

Subsidiaries

Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, substantive potential voting rights are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the statement of income.

Jointly owned assets

Many of the Corporation’s oil and natural gas activities involve jointly owned assets. The consolidated financial statements include the Corporation’s share of these jointly owned assets and a proportionate share of the relevant revenue and related costs.

The relationships with jointly owned asset partners have been referred to as joint ventures in the remainder of these financial statements as is common in the Canadian oil and gas industry.

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

Transactions in foreign currencies are translated to the functional currencies of each entity at exchange rates prevailing on the date of each transaction. Monetary assets and liabilities denominated in foreign currencies are translated to each entity's functional currency at the period-end exchange rate. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Foreign currency differences arising on translation are recognized in profit or loss. Foreign currency gains and losses are reported on a net basis.

(c) Cash and cash equivalents

Cash and cash equivalents are comprised of cash and all investments that are highly liquid in nature and have a original maturity date of three months or less.

(d) Petroleum and natural gas properties

Exploration and evaluation expenditures

Pre-license costs are recognized in profit or loss as incurred.

Exploration and evaluation costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalized as exploration and evaluation assets. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting a mineral resource is generally considered to be determinable when proved and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved and/or probable reserves have been discovered. Upon determination of technical feasibility and commercial viability, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to petroleum and natural gas properties.

Development and production costs

Petroleum and natural gas properties, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. The cost of development and production assets includes; transfers from exploration and evaluation assets, which generally include the cost to drill the well and the cost of the associated land upon determination of technical feasibility and commercial viability; the cost to complete and tie-in the wells; facility costs; the cost of recognizing provisions for future restoration and decommissioning; geological and geophysical costs; and directly attributable overheads.

When significant parts of an item of petroleum and natural gas properties have different useful lives, then they are accounted for as separate components.

Gains and losses on disposal of petroleum and natural gas properties, property swaps and farm-outs are determined by comparing the proceeds from disposal, or fair value of the asset received or given up, with the carrying amount of petroleum and natural gas properties and are recognized net in profit or loss.

Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of petroleum and natural gas properties are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of petroleum and natural gas properties are recognized in profit or loss as incurred.

Depletion and Depreciation

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the period to the related proved and probable oil and gas reserves, taking into account estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives.

Proved and probable oil and gas reserves are estimated annually by independent third party reserve evaluators and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. For financial statements, internal estimates of changes in reserves and future development costs are used for determining depletion for the period. For purposes of this calculation, petroleum and gas reserves are converted to a common unit of measure on the basis of their relative energy content, where six thousand cubic feet of gas equals one barrel of oil or liquids.

Surge has deemed the estimated useful lives for gas processing plants, pipeline facilities, and compression facilities to be consistent with the reserve lives of the areas for which they serve. As a result, Surge includes the cost of these assets within their associated major component (area or group of areas) for the purpose of depletion using the unit of production method.

Office equipment is depreciated using a declining balance method using rates from 20% to 100% dependent on the type of equipment.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(e) Impairment

Non-financial assets

The Corporation assesses at each reporting date whether there is an indication that petroleum and natural gas properties within the CGUs may be impaired or that historical impairment may be reversed. If any such indication exists, then the asset’s or CGUs recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are tested at the operating segment level.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit” or “CGU”). The recoverable amount of an asset or a CGU is the greater of its value in use ("VIU") and its fair value less costs to sell ("FVLCS").

In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. VIU is generally computed by reference to the present value of the future cash flows from proved and probable oil and gas reserves.

FVLCS is the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The FVLCS is generally determined as the net present value of the estimated future cash flows expected to arise from a CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted using a rate that would be applied by a market participant to arrive at a net present value of the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

In respect of petroleum and natural gas properties and exploration and evaluation assets, historical impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

Impairment charges are recognized in profit or loss.

(f) Convertible debentures

The Debentures are a non-derivative financial instrument that creates a financial liability of the entity and grants an option to the holder of the instrument to convert it into common shares of the Corporation. The liability component of the Debentures is initially recorded at the fair value of a similar liability that does not have a conversion option. The equity component is recognized initially, net of deferred income taxes, as the difference between gross proceeds and the fair value of the liability component. Transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds. Subsequent to initial recognition, the liability component of the Debentures is measured at amortized cost using the effective interest method and is accreted each period, such that the carrying value will equal the principal amount outstanding at maturity. The equity component is not re-measured. The carrying amounts of the liability and equity components of the Debentures are reclassified to shareholders' capital on conversion to common shares.

(g) Decommissioning obligations

The Corporation's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of abandonment and site restoration and capitalized in the relevant asset category. Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation as at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

The increase in the provision due to the passage of time is recognized as accretion (within finance expense) whereas increases/decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

(h) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(i) Stock-based compensation

The Corporation uses the fair value method for valuing stock-based compensation awards. Under the fair value method, compensation costs attributable to stock-based compensation awards is measured at fair value at the date of grant and expensed over the vesting period with a corresponding increase to contributed surplus or warrants. A forfeiture rate is estimated on the date of grant and is adjusted to reflect the actual number of awards that vest. Performance share awards are also subject to a performance multiplier that is adjusted to reflect the final number of awards. The fair value of each restricted and performance share award is determined with reference to the trading price of the Corporation's common shares on the date of grant. Upon the exercise of the stock-based compensation awards, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

(j) Revenue from contracts with customers

Revenue from the sale of crude oil, natural gas and natural gas liquids is measured based on the consideration specified in contracts with customers. The Corporation recognizes revenue when it transfers control of the product to the buyer. This is generally at the time the customer obtains legal title to the product and when it is physically transferred to the delivery mechanism agreed with the customer, often pipelines or other transportation methods.

Surge evaluates its arrangements with third parties and partners to determine if the Corporation acts as the principal or as an agent. In making this evaluation, management considers if the Corporation obtains control of the product delivered, which is indicated by Surge having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If Surge acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Corporation from the transaction.

Tariffs, tolls and fees charged to other entities for use of pipelines and facilities owned by the Corporation are evaluated by management to determine if these originate from contracts with customers or from incidental or collaborative arrangements. Tariffs, tolls and fees charged to other entities that are from contracts with customers are recognized in revenue when the related services are provided.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

(k) Finance income and expenses

Finance expense comprises interest expense on borrowings (cash interest and interest paid in kind), unrealized and realized gains and losses on interest rate financial contracts and accretion of the discount on provisions.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in profit or loss using the effective interest method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Corporation’s outstanding borrowings during the period.

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

(l) Per share information

Per share amounts are calculated based on the weighted average number of common shares outstanding during the year. The diluted weighted average number of shares is adjusted for the dilutive effect of stock-based compensation awards. Under the treasury stock method, only “in the money” dilutive instruments are included in the weighted average diluted number of shares. It is also assumed that any proceeds obtained upon the exercise of stock-based compensation awards plus the unamortized portion of stock-based compensation would be used to purchase common shares at the average price during the period. The weighted average number of shares is then reduced by the number of shares acquired.

(m) Flow-through shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. On issuance, the premium received on the flow-through shares, being the difference in price over a common share with no tax attributes, is recognized on the statement of financial position. As expenditures are incurred, the deferred tax liability associated with the renounced tax deductions are recognized through profit and loss along with a pro-rata portion of the deferred premium.

(n) Lease Arrangements

The Corporation assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration.

Leases are recognized as a right-of-use asset ("ROU asset") and a corresponding lease obligation at the date on which the leased asset is available for use by the Corporation. ROU assets and lease obligations are initially measured on a present value basis. Lease obligations are measured as the net present value of the lease payments which may include: fixed lease payments, variable lease payments based on an index or rate, and amounts expected to be payable under residual value guarantees and payments to exercise an extension or termination option, if the Corporation is reasonably expected to exercise either of those options.

These payments are discounted using the Corporation's incremental borrowing rate when the rate implicit to the lease is not readily available. The Corporation uses a single discount rate for a portfolio of leases with reasonably similar characteristics.

The lease obligation is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Corporation will exercise a purchase, extension or termination option that is within the control of the Corporation. When the lease obligation is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset or is recorded in the Consolidated Statement of Loss if the carrying amount of the ROU asset has been reduced to zero.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease obligation, less any incentives received, plus any lease payments made at, or before, the commencement date and initial direct costs and asset restoration costs, if any. The ROU asset is depreciated, on a straight-line basis, over the shorter of the estimated useful life of the asset or the lease term. The ROU asset may be adjusted for certain remeasurements of the lease obligation and impairment losses.

Lease payments are apportioned between the finance expenses and the reduction of the outstanding lease obligation. The finance expenses are allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the obligation.

Leases that have terms of less than twelve months or leases on which the underlying asset is of low value are recognized as an expense in the Consolidated Statement of Loss on a straight-line basis over the lease term.

A lease modification will be accounted for as a separate lease if the modification increases the scope of the lease and if the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. For a modification that is not a separate lease or where the increase in consideration is not commensurate, at the effective date of the lease modification, the Corporation will remeasure the lease obligation using the Corporation’s incremental borrowing rate, when the rate implicit to the lease is not readily available, with a corresponding adjustment to the ROU asset. A modification that decreases the scope of the lease will be accounted for by decreasing the carrying amount of the ROU asset, and recognizing a gain or loss in net earnings that reflects the proportionate decrease in scope.

(o) Financial instruments

Trade receivables or debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Corporation becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Upon initial recognition, a financial asset is measured at: amortized cost, fair value through other comprehensive income ("FVOCI") - classified as a debt or equity investment, or fair value through profit or loss ("FVTPL").

Financial liabilities are measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative, or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in income. Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

Surge has made the following classifications:

- Cash and cash equivalents and accounts receivable are measured at amortized cost. Subsequently, they are recorded at amortized cost using the effective interest method.
- Derivative financial instruments that do not qualify as hedges, or are not designated as hedges on the statement of financial position, including risk management commodity and interest rate contracts, are classified as FVTPL and are recorded and carried at fair value. The Corporation may use derivative financial instruments to manage economic exposure to market risks relating to commodity prices and interest rates. The Corporation does not utilize derivative financial instruments for speculative purposes.
- Bank debt, term debt, the liability portion of the convertible debentures, accounts payable, accrued liabilities and dividends payable are classified as other financial liabilities and are initially measured at fair value less directly attributable transaction costs. Subsequently, they are recorded at amortized cost using the effective interest method.

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when the Corporation has a legally enforceable right to off set the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Loss allowances for trade receivables are measured at an amount equal to lifetime expected credit losses ("ECLs"). ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Corporation in accordance with the contract and the cash flows that the Corporation expects to receive). Loss allowances for financial assets measured at amortized cost, if any, are deducted from the gross carrying amount of the assets.

(p) Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all conditions associated with the grant are met. When the conditions of a grant relate to income or expense, it is recognized in the statement of loss and comprehensive loss in the period in which the expenditures are incurred or income is earned. When the conditions of a grant relate to an underlying asset, it is recognized as a reduction to the carrying amount of the related assets and amortized into income through depletion and depreciation.

4. DETERMINATION OF FAIR VALUES

A number of the Corporation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Petroleum and natural gas properties

The fair value of petroleum and natural gas properties recognized on an acquisition or for use in an impairment test is based on market values. The market value of petroleum and natural gas properties is the estimated amount for which petroleum and natural gas properties could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports.

The market value of other items of petroleum and natural gas properties is based on the quoted market prices for similar items.

(b) Cash & cash equivalents, accounts receivable, bank debt, term debt and accounts and dividends payable

The fair value of accounts receivable, bank debt, term debt and accounts and dividends payable is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2020 and December 31, 2019, the fair value of accounts receivable, accounts payable, and dividends payable approximated their carrying value due to their short term to maturity. Bank debt and term debt bear a floating rate of interest and the margins charged by the lenders are indicative of current credit spreads and therefore carrying values approximate fair value. The fair value of the convertible debentures is estimated using quoted market prices on the TSX as of the Consolidated Statement of Financial Position date.

(c) Derivatives

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 amounts and discounted using an appropriate 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.

(d) Share-based compensation

The fair value of share-based compensation awards is based on the share price of the Corporation.

5. 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		(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**

		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		(105,042)
Impairment		(628,053)
Dispositions		39,331
Balance at December 31, 2020	**$**	**(2,087,579)**

		Total
Carrying amounts		
At December 31, 2019	$	1,335,845
At December 31, 2020	**$**	**672,915**

The calculation of depletion and depreciation expense for the year ended December 31, 2020 included an estimated $839.4 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.

2020 Dispositions

During the year ended December 31, 2020, the Corporation disposed of certain non-core assets in Central Alberta for cash proceeds of $0.8 million. The assets had a carrying value of $0.4 million and an associated decommissioning liability of $2.6 million, resulting in a gain on disposal of $3.0 million.

During the year ended December 31, 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.

2019 Acquisitions and Dispositions

During the year ended December 31, 2019, the Corporation acquired a gas processing facility in Southeast Alberta for cash consideration of $12.1 million. The Corporation assumed decommissioning obligations of $0.9 million. In conjunction with the purchase, the Corporation elected to early adopt the amendments to IFRS 3 "Business Combinations" which resulted in accounting for the transaction as an asset acquisition. Additional assets were acquired during the year ended December 31, 2019 for total consideration of $2.7 million.

During the year ended December 31, 2019, the Corporation disposed of certain non-core assets in Northwest Alberta for cash proceeds of $28.1 million. The assets had a carrying value of $36.1 million and an associated decommissioning liability of $8.0 million, resulting in no gain or loss on disposal.

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, for total cash proceeds of $29.1 million. The disposed assets had carrying value of $41.4 million resulting in a loss on disposal of $12.3 million. 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.

6. IMPAIRMENT

	For the years ended December 31,	
	2020	2019
Impairment of petroleum and natural gas properties	**628,053**	180,701

2020 Impairment

The Corporation identified six cash generating units as of December 31, 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 December 31, 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 year ended December 31, 2020, the Corporation recognized an impairment charge of $628.1 million (year ended December 31, 2019 - $180.7 million), consisting of $590.6 million for the three month period ended March 31, 2020 due to declines in forecasted oil and natural gas commodity prices, and $37.5 million for the three month period ended December 31, 2020 due to economic performance of certain assets.

The results of the Corporation's impairment tests are sensitive to changes in any of the key significant assumptions including forecasted oil and gas commodity prices, forecasted production, forecasted operating costs, royalty costs and future development costs which impact the estimate of cash flows from proved and probable oil and gas reserves, in addition to the discount rate, of which changes could decrease or increase the estimated recoverable amounts of CGUs and result in additional impairment charges or in the recovery of previously recorded impairment charges.

December 31, 2020

For the period ended December 31, 2020, due to poor economic performance of certain assets and the significant decrease in cash flows from proved and probable oil and gas reserves, the Corporation identified an indicator of potential impairment was present in its Southwest Saskatchewan CGU. 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 proved and probable oil and gas reserves as at December 31, 2020. It was determined that the carrying value of the Southwest Saskatchewan CGU exceeded the recoverable amount of $43.1 million and a $37.5 million impairment charge was recognized. The before tax discount rate applied in the value in use calculation as at December 31, 2020 was 20 percent.

For the period ended December 31, 2020, the Corporation identified a trigger for potential reversal of impairment at its Northeast Alberta and Southeast Alberta CGU's. As a result, the Corporation completed an impairment reversal test and determined that the fair values approximated the carrying values of the Northeast Alberta and Southeast Alberta CGU's so no reversal of impairment was recorded.

The following table outlines forecasted oil and gas commodity prices and exchange rates used in the impairment test at December 31, 2020. 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 reserve report also 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	54.55	43.51	2.86	55.84	29.87	19.36	—	0.77
2022	57.14	46.10	2.78	58.40	34.29	21.35	1.0	0.77
2023	63.64	52.60	2.69	64.82	39.92	24.56	2.0	0.77
2024	64.91	53.65	2.75	66.11	40.72	25.06	2.0	0.77
2025	66.21	54.72	2.80	67.44	41.53	25.56	2.0	0.77
2026	67.53	55.82	2.86	68.78	42.37	26.07	2.0	0.77
2027	68.88	56.93	2.91	70.16	43.21	26.59	2.0	0.77
2028	70.26	58.07	2.97	71.56	44.08	27.12	2.0	0.77
2029	71.66	59.23	3.03	72.99	44.96	27.66	2.0	0.77
2030	73.10	60.42	3.09	74.45	45.86	28.22	2.0	0.77
2031	74.56	61.63	3.15	75.94	46.78	28.78	2.0	0.77

The independent third party reserve evaluators also assess 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 December 31, 2020, however, it should be noted that all estimates are subject to uncertainty.

As at December 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
Southwest Saskatchewan	2,355	2,450	4,805

The Corporation determined that there were no aggregate indicators of impairment or historical impairment reversal at December 31, 2020 for the Northwest Alberta, North Central Alberta and Central Alberta CGUs and no impairment tests were required.

March 31, 2020

For the period ended March 31, 2020, due to declines in forecasted oil and natural gas commodity prices, the Corporation identified an indicator of 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 and probable oil and gas reserves as at December 31, 2019, which were updated by the internal reserve evaluators to March 31, 2020. 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 charge was recognized. The before tax discount rate applied in the value in use calculation as at March 31, 2020 was 13 - 25 percent.

The following table outlines forecasted oil and gas commodity prices and exchange rates used in the Corporation's CGU impairment tests at March 31, 2020. The forecasted oil and gas commodity prices are based on the average price forecasts from the three independent third party reserve evaluators and are a significant assumption in assessing the recoverable amount. The reserve report also includes 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)
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 reserve evaluators also assess 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 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**

2019 Impairment

For the year ended December 31, 2019, due to declines in forecasted oil and natural gas commodity prices and poor economic performance of certain assets, the Corporation identified and indicator of impairment was present in its North Central Alberta, Northwest Alberta, Southwest Saskatchewan and Central Alberta 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 proved and probable oil and gas reserves as at December 31, 2019. It was determined that the carrying value of the North Central Alberta CGU exceeded the recoverable amount of $206.9 million, the carrying value of the Southwest Saskatchewan CGU exceeded the recoverable amount of $185.6 million, and the carrying value of the Central Alberta CGU exceeded the recoverable amount of $46.7 million and a $180.7 million impairment charge was recognized. The before tax discount rate applied in the value in use calculation as at December 31, 2019 was 13 - 25 percent.

The following table outlines forecasted oil and gas commodity prices and exchange rates used in the Corporation’s CGU impairment tests at December 31, 2019. The forecasted oil and gas commodity prices are consistent with those used by the Corporation’s independent third party evaluator and are a significant assumption in assessing the recoverable amount. The reserve evaluators also include 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 by Management.

	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	73.84	59.81	2.04	76.32	37.72	25.07	—	0.76
2021	78.51	63.98	2.27	80.52	43.90	31.84	1.0	0.77
2022	78.73	63.77	2.81	80.00	47.74	32.43	2.0	0.80
2023	80.30	65.04	2.89	81.68	48.69	33.26	2.0	0.80
2024	81.91	66.34	2.98	83.38	49.67	34.12	2.0	0.80
2025	83.54	67.67	3.06	85.13	50.66	34.99	2.0	0.80
2026	85.21	69.02	3.15	86.90	51.67	35.88	2.0	0.80
2027	86.92	70.40	3.24	88.72	52.71	36.78	2.0	0.80
2028	88.66	71.81	3.33	90.57	53.76	37.71	2.0	0.80
2029	90.43	73.25	3.42	92.45	54.84	38.65	2.0	0.80
2030	92.24	74.71	3.51	94.38	55.93	39.61	2.0	0.80

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.

7. RISK MANAGEMENT

The Corporation has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives, policies and processes for measuring and managing risk, and the Corporation's management of capital. Further quantitative disclosures are included throughout these financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Board has implemented and monitors compliance with risk management policies. The Corporation's risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Corporation's activities.

(a) Credit Risk

Credit risk is the risk of financial loss to the Corporation if a customer or counter-party to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's receivables from joint venture partners and petroleum and natural gas marketers. As at December 31, 2020, the Corporation's receivables consisted of $26.8 million ($37.1 million - December 31, 2019) due from petroleum and natural gas marketers, $3.0 million ($4.4 million - December 31, 2019) due from joint venture partners and other receivables consisting primarily of settlements receivable on commodity contracts. These amounts are presented net of the allowance for doubtful accounts.

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Corporation attempts to mitigate credit risk by establishing marketing relationships with a variety of purchasers.

Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Corporation attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to the expenditure. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint venture partners as disagreements occasionally arise that increase the potential for non-collection. The Corporation obtains collateral from significant petroleum and natural gas marketers on an as needed basis, typically in the form of a letter of credit and the Corporation may have the ability to withhold production from joint venture partners in the event of non-payment.

The carrying value of accounts receivable and fair value of financial contracts when outstanding represent the maximum credit exposure. The Corporation has an allowance for doubtful accounts of $1.0 million ($0.1 million - December 31, 2019) at December 31, 2020, which is being applied against outstanding receivables.

The Corporation's most significant customers are three oil and natural gas marketers, accounting for approximately 84 percent of the Corporation's 2020 revenue.

As at December 31, 2020, the Corporation estimates its total accounts receivables, net of the allowance for doubtful accounts, to be aged as follows:

Years ended	Total receivables	Current	Past due > 90 days
December 31, 2020	**$ 29,796**	**$ 28,757**	**$ 1,039**
	100 %	**97 %**	**3 %**
December 31, 2019	$ 41,486	$ 40,560	$ 926
	100 %	98 %	2 %

(b) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation actively manages its liquidity through cost control, debt and equity management policies. Such strategies include continuously monitoring forecast and actual cash flows, financing activities and available credit under existing lending arrangements. The nature of the oil and gas industry is very capital intensive. As a result, the Corporation prepares annual capital expenditure budgets and utilizes authorizations for expenditures for projects to manage capital expenditures. Please refer to note 2 "Basis of Preparation" and note 8 "Debt" for additional information on liquidity risk.

Accounts payable is considered due to suppliers in one year and bank debt is subject to a renewal on or before June 30, 2021, could be potentially due by December 31, 2021 if the facility is not renewed. Financial contracts are also due to be settled with the counter-parties at the estimated fair value on the statement of financial position.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Corporation's net income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Corporation utilizes financial derivative contracts to manage market risks. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

i. Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices.

The nature of the Corporation's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices and initiates instruments to manage exposure to these risks when it deems appropriate. As a means of managing commodity price volatility, the Corporation enters into various derivative financial instrument agreements and physical contracts.

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 December 31, 2020, the following risk management contracts were outstanding with an asset fair market value of nil and a liability fair market value of $22.7 million (December 31, 2019 – asset of $1.3 million and liability of $3.9 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. 1 2021	5,550	$52.25	200	$53.00	$63.30	2,000	$40.41	$51.86	$60.96
Qtr. 2 2021	6,167	$53.40	950	$53.53	$60.41	500	$39.45	$49.64	$64.91
Qtr. 3 2021	4,684	$55.03	1,700	$53.59	$61.55	250	$44.54	$54.73	$64.91
Qtr. 4 2021	4,534	$55.33	1,450	$53.34	$61.64	250	$44.54	$54.73	$64.91

Western Canadian Select Derivative Contracts (WCS)

	Swaps	
Period	Volumes (bbls/d)	Average Price (CAD/bbl)
Qtr. 1 2021	6,000	$(17.69)
Qtr. 2 2021	6,000	$(17.69)
Qtr. 3 2021	4,500	$(17.59)
Qtr. 4 2021	500	$(19.60)

Mixed Sweet Blend Derivative Contracts (MSW)

	Swaps	
Period	Volumes (bbls/d)	Average Price (CAD/bbl)
Qtr. 1 2021	2,000	$(6.81)
Qtr. 2 2021	2,000	$(6.81)
Qtr. 3 2021	2,000	$(6.69)
Qtr. 4 2021	1,500	$(6.62)

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. 1 2021	3,000	$3.21	3,000	$2.74	$3.69	6,000	$2.37
Qtr. 2 2021	3,000	$3.21	3,000	$2.74	$3.69	4,000	$2.40
Qtr. 3 2021	3,000	$3.21	3,000	$2.74	$3.69	2,000	$2.12
Qtr. 4 2021	1,011	$3.21	1,011	$2.74	$3.69	3,326	$2.40
Qtr. 1 2022						2,000	$2.83

ii. Foreign currency exchange risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange risks. All of the Corporation's petroleum and natural gas sales are denominated in Canadian dollars. However, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar.

iii. Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate fluctuations on its bank debt which bears a floating rate of interest. Average bank debt outstanding during the year ending December 31, 2020 was $288.7 million (2019 - $362.5 million). For the year ended December 31, 2020, a 1.0 percent change to the effective interest rate would have a $2.2 million impact on net loss (2019 - $2.7 million) based on the average bank debt outstanding during the year. The Corporation has a fixed interest rate on its term debt for one year, then is subject to interest rate risk up to a certain limit thereafter. Please refer to note 8 "Debt" for additional information on interest rate risk.

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 1. Beginning at 1.786% 2. Ending at 2.714% 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 year ended December 31, 2020	Increase	Decrease
Crude Oil - Change of +/- $1.00	(3,603)	3,603
Natural Gas - Change of +/- $0.10	(255)	255
Interest rate - Change of +/- 100 points	1,125	(1,125)

(d) Capital management

The Corporation's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and sustain the future development of the business. The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Corporation considers its capital structure to include Shareholders' deficit of $66.2 million (2019 - surplus $671.3 million), bank debt of $260.9 million (2019 - $316.4 million), term debt of $32.7 million (2019 - nil), convertible debentures of $71.2 million (2019 - $68.7 million), and a working capital deficit of $16.2 million (2019 - surplus $2.8 million). In order to maintain or adjust capital structure, the Corporation may from time to time issue shares and adjust its capital spending to manage current and projected debt levels.

The Corporation monitors its capital based on the ratio of forecast net debt to forecast adjusted funds flow. Net debt is defined as outstanding bank debt, term debt, dividends payable plus the liability component of the convertible debentures plus or minus working capital, however, excluding the fair value of financial contracts, decommissioning obligations and lease and other obligations. Adjusted funds flow is defined as cash flow from operating activities before changes in non-cash working capital, decommissioning expenditures and cash settled transaction and other costs. The Corporation's strategy is to maintain a one year forward looking forecast debt to forecast adjusted funds flow ratio of less than two to one. This ratio may increase at certain times as a result of acquisitions, changes in commodity prices, or capital spending. In order to facilitate the management of this ratio, the Corporation prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast prices, successful capital deployment and general industry conditions. The annual budget is approved by the Board of Directors.

Due to the COVID-19 outbreak and decreases in global commodity prices, Surge adjusted its capital management to focus on creating additional liquidity and managing bank debt. In March of 2020, the Corporation announced it had suspended its previously announced 2020 capital expenditure budget. In November 2020, Surge announced that it had secured a $40.0 million Term Facility under the BDC's BCAP Mid-Market Financing Program to fund a capital expenditure program to return production to near pre-COVID-19 levels.

(e) Fair value of financial instruments

The Corporation's financial instruments as at December 31, 2020 and 2019 include accounts receivable, accounts payable and accrued liabilities, dividends payable, the fair value of financial contracts, convertible debentures, term debt and bank debt. The fair value of accounts receivable, accounts payable, accrued liabilities and dividends payable approximate their carrying amounts due to their short-terms to maturity.

Bank debt bears interest at a floating market rate and the margins charged by lenders are indicative of current credit spreads and accordingly the fair market value approximates the carrying value. The fair value of term debt approximates its carrying amounts as the debt was issued in the fourth quarter of 2020. The fair value of the convertible debentures at December 31, 2020 was $48.9 million based on quoted market prices on the TSX.

The Corporation classifies its financial instruments recorded at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

- Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The liability portion of the Corporation's convertible debentures are considered level 1 and the fair value of derivative contracts, term debt and bank debt are considered level 2 in the fair value hierarchy.

8. DEBT

Bank Debt

As at December 31, 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 June 30, 2021. 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 December 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 December 31, 2020, the Corporation had an effective interest rate of prime plus 4.50 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 7.50 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.

Term Debt

As at December 31, 2020, the Corporation had a term loan with Business Development Bank of Canada, for a four year, non-revolving second lien term facility of $40 million, maturing on November 17, 2024. At December 31, 2020, the Corporation had $32.5 million drawn on its term facility with $7.5 million of available borrowing capacity. 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 December 31, 2020, the Corporation had an effective interest rate of 5.0 percent on the non-revolving term facility (December 31, 2019 - not applicable).

As at December 31, 2020, the Corporation was compliant with all restrictions in its first and second lien credit agreements.

9. 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	—	2,482	—
Balance at December 31, 2020	**79,000**	**71,181**	**6,266**

In 2019, the Corporation issued $34.5 million principal amount of convertible subordinated unsecured debentures (the "2019 Debentures") at a price of $1,000 per debenture ("the Offering").

The 2019 Debentures will mature and be repayable on June 30, 2024 and will accrue interest at the rate of 6.75 percent per annum payable semi annually in arrears on December 31 and June 30 of each year. At the holder's option, the 2019 Debentures will be convertible into Common Shares at any time prior to the close of business on the earlier of the business day immediately preceding (i) the maturity date, or (ii) if called for redemption, the date fixed for redemption by the Corporation, at a conversion price of $2.25 per Common Share, subject to adjustment in certain events. This represents a conversion rate of approximately 444.4444 Common Shares for each $1,000 principal amount of 2019 Debentures, subject to the operation of certain anti-dilution provisions. In the event of a change of control of the Corporation, subject to certain terms and conditions, holders of 2019 Debentures will be entitled to convert their 2019 Debentures and, subject to certain limitations, receive, in addition to the number of Common Shares they would otherwise be entitled to receive, an additional number of Common Shares per $1,000 principal amount of 2019 Debentures.

The 2019 Debentures can not be redeemed by the Corporation prior to June 30, 2022. On or after June 30, 2022 and prior to June 30, 2023, the 2019 Debentures can be redeemable by the Corporation, in whole or in part, from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, provided that the volume weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days prior to the date on which notice of redemption is provided is not less than 125 percent of the Conversion Price. On or after June 30, 2023 and prior to the maturity date, the 2019 Debentures can be redeemed by the Corporation, in whole or in part, from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any. Subject to certain conditions, the Corporation will have the option to satisfy its obligation to repay the principal amount of the 2019 Debentures, in whole or in part, due upon redemption, by delivering that number of freely tradable Common Shares obtained by dividing the principal amount of the 2019 Debentures by 95 percent of the volume weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date of redemption.

On November 15, 2017, the Corporation issued $44.5 million principal amount of convertible subordinated unsecured debentures (the "2017 Debentures") at a price of $1,000 per debenture.

The 2017 Debentures will mature and be repayable on December 31, 2022 and will accrue interest at the rate of 5.75 percent per annum payable semi annually in arrears on December 31 and June 30 of each year. At the holder's option, the 2017 Debentures may be converted into common shares of the Corporation at any time prior to the close of the business on the earlier of the business day immediately preceding (i) the maturity date; (ii) if called for redemption, the date fixed for redemption by the Corporation; or (iii) if called for repurchase in the event of a change of control, the payment date, at a conversion price of $2.75 per share, subject to adjustment in certain events ("the Conversion Price"). This represents a conversion rate of approximately 363.6364 common shares for each $1,000 principal amount of Debentures, subject to certain anti-dilution provisions. Holders who convert their 2017 Debentures will receive accrued and unpaid interest for the period from the date of the latest Interest Payment Date immediately prior to the date of conversion.

The 2017 Debentures may not be redeemed by the Corporation prior to December 31, 2020. On and after December 31, 2020 and prior to December 31, 2021, the 2017 Debentures may be redeemed by the Corporation, in whole or in part, from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption, provided that the volume weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending five trading days prior to the date on which notice of redemption is provided is at least 125 percent of the Conversion Price. On or after December 31, 2021 and prior to the Maturity Date, the 2017 Debentures may be redeemed by the Corporation, in whole or in part, from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption.

The fair value of the convertible debentures at December 31, 2020 was $48.9 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 $279.7 million (December 31, 2019 – $293.7 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 1.00 percent (December 31, 2019 – 1.76 percent) and an inflation rate of 1.28 percent (December 31, 2019 – 1.50 percent) was used to calculate the decommissioning obligations.

A reconciliation of the decommissioning obligations is provided below:

	December 31, 2020	December 31, 2019
Balance, beginning of year	**$ 275,339**	$ 229,213
Liabilities related to acquisitions	**—**	874
Liabilities related to dispositions	**(5,757)**	(7,997)
Change in estimate [(1)]	**28,809**	51,823
Liabilities incurred	**2,092**	2,188
Accretion expense	**3,425**	4,760
Site rehabilitation program grant	**(4,948)**	—
Decommissioning expenditures	**(4,305)**	(5,522)
Balance, end of year	**$ 294,655**	$ 275,339
Expected to be incurred within one year	**$ 4,000**	$ 6,000
Expected to be incurred beyond one year	**$ 290,655**	$ 269,339

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

During the year ended December 31, 2020, approximately $4.9 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) Authorized

Unlimited number of voting common shares.

Unlimited number of preferred shares, issuable in series.

(b) 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 December 31, 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 December 31, 2020, the Corporation had incurred $0.1 million of the qualifying exploration expenditures, with the remaining commitment to be spent in 2021 based on an extension to flow through share commitments issued by the Federal Government in December of 2020.

(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 8% (2019 - 7%) for PSAs and 6% (2019 - 8%) for RSAs was used to value all awards granted for the period ended December 31, 2020. The weighted average fair value of awards granted for the year ended December 31, 2020 is $0.33 (2019 - $1.04) per PSA granted and $0.33 (2019 - $1.05) 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 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	7,316,630	6,538,409
Reinvested [1]	242,971	320,027
Exercised	(2,669,765)	(2,046,058)
Forfeited	(677,796)	(487,363)
Balance at December 31, 2020	**9,987,634**	**11,927,348**

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

(d) Stock-based compensation

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

	Years Ended December 31,	
	2020	2019
Stock-based compensation on PSAs and RSAs	**6,894**	10,582
Capitalized stock-based compensation	**(1,170)**	(4,303)
Total stock-based compensation expense	**$ 5,724**	$ 6,279

(e) Per share amounts

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

	Years Ended December 31,	
	2020	2019
Weighted average number of shares - basic and diluted	**336,052,416**	316,638,542

In computing diluted per share amounts at December 31, 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.

(f) Dividends

In 2020, The Board of Directors declared cumulative dividends of $0.0175 per share (January - December 2019 - $0.1000 per share). Effective April 14, 2020, the Corporation suspended all dividends.

12. REVENUE

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

	Years Ended December 31,	
	2020	**2019**
Oil	**$ 199,208**	$ 376,238
Natural gas liquids	**4,613**	8,109
Natural gas	**7,228**	10,002
Total petroleum and natural gas revenue	**$ 211,049**	$ 394,349
Processing	**4,772**	4,303
Total petroleum, natural gas and processing revenue	**$ 215,821**	$ 398,652

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 $178.1 million for the year ended December 31, 2020 (2019 - $333.7 million).

13. FINANCE EXPENSE

	Years ended December 31,	
	2020	2019
Interest on bank debt, convertible debentures, lease obligations and realized loss on interest contracts	**$ 27,658**	$ 26,657
Accretion of decommissioning obligations	**3,425**	4,760
Accretion of other long term liabilities	**—**	39
Accretion of convertible debentures	**2,482**	1,951
Unrealized loss on interest contracts	**4,993**	1,556
Paid in kind interest on term debt	**218**	—
Total finance expense	**$ 38,776**	$ 34,963

14. INCOME TAXES

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 $205.2 million as at December 31, 2020.

Effective July 1, 2020, the Government of Alberta accelerated a reduction in the provincial corporate tax rate from 12 percent to eight percent.

(a) Deferred income tax expense (recovery)

The provision for income tax expense (recovery) in the financial statements differs from the result which would have been obtained by applying the combined federal and provincial income tax rate to the Corporation's loss before income taxes. This difference results from the following items:

	Years ended December 31,	
	2020	2019
Loss before income taxes	**$ (706,330)**	$ (200,518)
Combined federal and provincial statutory rate	**24.3 %**	26.6 %
Expected income tax recovery	**$ (171,638)**	$ (53,338)
Difference resulting from:		
Issuance of flow through shares	**1,062**	2,316
Change in unrecognized tax assets	**205,232**	—
Non-deductible items, rate changes & other	**6,311**	9,168
Income tax expense (recovery)	**$ 40,967**	$ (41,854)

(b) Deferred income tax asset

The components of the Corporation's net deferred income tax asset are as follows:

	Years ended December 31, 2020	2019
Property, plant and equipment	**$ (17,204)**	$ (149,817)
Decommissioning obligations	**13,268**	65,137
Convertible debentures	**(1,417)**	(1,834)
Fair value of financial contracts	**5,353**	690
Partnership deferral	**—**	(28,435)
Non-capital losses	**—**	145,122
Share issue costs	**—**	108
Lease and other obligations	**—**	11,640
Other	**—**	(221)
	$ —	$ 42,390

The Corporation has $502.4 million in non-capital losses that begin expiring in the year 2028.

The following table provides a continuity of the deferred income tax asset:

	January 1, 2020	Recognized in profit or loss	Recognized in equity	Other	December 31, 2020
Property, plant and equipment	$ (149,817)	$ 134,065	$ —	$ (1,452)	**$ (17,204)**
Decommissioning obligations	65,137	(51,869)	—	—	**13,268**
Convertible debentures	(1,834)	417	—	—	**(1,417)**
Fair value of financial contracts	690	4,663	—	—	**5,353**
Partnership deferral	(28,435)	28,435	—	—	**—**
Non-capital losses	145,122	(145,122)	—	—	**—**
Share issue costs	108	(137)	29	—	**—**
Lease and other obligations	11,640	(11,640)	—	—	**—**
Other	(221)	221	—	—	**—**
	$ 42,390	$ (40,967)	$ 29	$ (1,452)	**$ —**

	January 1, 2019	Recognized in profit or loss	Recognized in equity	Other	December 31, 2019
Property, plant and equipment	$ (192,188)	$ 43,770	$ —	$ (1,399)	**$ (149,817)**
Decommissioning obligations	61,888	3,249	—	—	**65,137**
Convertible debentures	(1,264)	434	(1,004)	—	**(1,834)**
Fair value of financial contracts	(279)	969	—	—	**690**
Partnership deferral	(17,418)	(11,017)	—	—	**(28,435)**
Non-capital losses	148,797	(3,675)	—	—	**145,122**
Share issue costs	99	(32)	41	—	**108**
Lease and other obligations	2,053	9,587	—	—	**11,640**
Other	1,210	(1,431)	—	—	**(221)**
	$ 2,898	$ 41,854	$ (963)	$ (1,399)	**$ 42,390**

The Corporation's unrecognized deductible temporary differences are as follows:

	Years Ended December 31,	
	2020	2019
Decommissioning obligations	**238,489**	—
Partnership deferral	**84,670**	—
Non-capital losses	**502,435**	—
Share issue costs	**396**	—
Lease and other obligations	**40,792**	—
Other	**2,019**	—

15. KEY MANAGEMENT PERSONNEL COMPENSATION

Key Management Personnel includes the Board of Directors, President and Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Senior Vice President - Land and Business Development, Senior Vice President - Geosciences, and Controller.

	Years ended December 31,	
	2020	2019
Salaries and wages	**$ 2,060**	$ 3,405
Short-term employee benefits	**160**	140
Stock-based payments [1]	**4,084**	6,368
	$ 6,304	$ 9,913

[1] Represents the amortization of stock-based compensation associated with PSAs and RSAs granted to key management personnel as recorded in the financial statements.

16. CASHFLOW INFORMATION

	Years ended December 31,	
	2020	2019
Accounts receivable	**$ 11,690**	$ (20,402)
Prepaid expenses and deposits	**(378)**	4,347
Accounts payable and accrued liabilities	**10,417**	(1,502)
Bad debt provision	**(951)**	(210)
Flow through shares	**14**	(154)
Other long-term liabilities	**(2)**	(464)
Change in non-cash working capital	**$ 20,790**	$ (18,385)
These changes relate to the following activities		
Operating	**$ 16,721**	$ (16,569)
Investing	**4,069**	(1,816)
	$ 20,790	$ (18,385)

17. OTHER COSTS (INCOME)

The following table presents the Corporation's Other costs (income):

	Years Ended December 31,	
	2020	**2019**
Bad debt provision	$ **951**	210
Site rehabilitation program grant income	**(4,948)**	—
Total other costs (income)	$ **(3,997)**	$ 210

18. COMMITMENTS

Future minimum payments relating to variable office rent payments and firm transport commitments at December 31, 2020 are as follows:

	December 31, 2020
Less than 1 year	$ **9,861**
1 - 3 years	**7,081**
3 - 5 years	**4,842**
5+ years	**3,109**
Total commitments	$ **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.

19. LEASES

The Corporation has recognized the following lease and other obligations:

	Total
Lease obligations at December 31, 2018	$ 5,871
Additions upon adoption of IFRS 16 at January 1, 2019	29,886
Lease modifications	5,643
Interest expense	2,100
Payments	(8,910)
Other obligations	12,094
Lease and other obligations at December 31, 2019	$ 46,684
Additions	2,209
Interest expense	3,325
Payments	(11,425)
Lease and other obligations at December 31, 2020	$ **40,792**
Current portion	**8,796**
Long term portion	**31,996**

During the year ended December 31, 2020, the Corporation extended the term of a existing leases resulting in the recognition of an incremental $2.2 million right-of-use asset and lease obligation. The incremental borrowing rate used to revalue the lease was adjusted to reflect changes in market conditions and the revised lease term.

During the year ended December 31, 2020, the Corporation recognized $4.3 million (2019 - $7.3 million) of depreciation and $13.9 million (2019 - nil) of impairment charges on ROU assets and $11.4 million (2019 - $8.9 million) of lease payments, of which $3.3 million (2019 - $2.1 million) has been recorded as interest expense.

Future minimum payments relating to lease and other obligations at December 31, 2020 are as follows:

	December 31, 2020
Less than 1 year	$ 11,658
1 - 3 years	20,848
3 - 5 years	15,372
5+ years	1,875
Lease and other obligation payments	**$ 49,753**

20. SUBSEQUENT EVENTS

Subsequent to December 31, 2020, the Corporation executed a binding purchase and sale agreement for the disposition of certain core assets in Northeast Alberta and Southeast Alberta for cash proceeds of $106 million, subject to standard closing adjustments. The sale is set to close on or before March 25, 2021.

In combination with the Sale, the Corporation has reached an agreement in principle with its respective lender syndicates to re-determine its first and second lien credit facilities. At the closing of the Sale, Surge anticipates the first lien credit facilities will be re-determined at $215 million, with the Corporation’s next bank review scheduled on or before November 30, 2021. The Corporation's total commitment of $215.0 million, will be the aggregate of a committed revolving term facility of $120.0 million, a committed non-revolving term facility of $75.0 million, and an operating loan facility of $20.0 million.

Subsequent to December 31, 2020, the Corporation borrowed the remaining $7.5 million available on its $40 million BDC term loan.