

Interim Statements of Financial Position

Stated in thousands of dollars

(Unaudited)

As at	March 31, 2024	December 31, 2023
Assets		
Current assets		
Accounts receivable	\$ 62,676	\$ 53,354
Fair value of financial contracts (note 5)	437	4,704
Prepaid expenses and deposits	5,525	5,355
	68,638	63,413
Non-current assets		
Fair value of financial contracts (note 5)	—	83
Property, plant and equipment (note 4)	1,350,390	1,350,258
Deferred income taxes	68,985	67,009
	\$ 1,488,013	\$ 1,480,763
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 98,715	\$ 85,390
Dividends payable	4,023	4,013
Fair value of financial contracts (note 5)	13,343	2,257
Current portion of term debt (note 6)	47,976	13,699
Current portion of lease and other obligations	7,110	6,693
Current portion of decommissioning obligations (note 8)	10,000	10,000
	181,167	122,052
Non-current liabilities		
Fair value of financial contracts (note 5)	27	—
Bank debt (note 6)	52,501	42,797
Term debt (note 6)	122,699	165,032
Convertible debentures (note 7)	38,211	37,848
Decommissioning obligations (note 8)	247,799	252,944
Long term lease and other obligations	14,373	16,113
	475,610	514,734
Shareholders' equity		
Share capital	1,792,817	1,790,559
Equity component of convertible debentures (note 7)	6,375	6,375
Contributed surplus	68,246	67,546
Deficit	(1,036,202)	(1,020,503)
	831,236	843,977
Subsequent events (note 6, note 9)		
	\$ 1,488,013	\$ 1,480,763

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

Interim Statements of Income (Loss) and Comprehensive Income (Loss)

Stated in thousands of dollars, except per share amounts

(Unaudited)

	Three Months Ended March 31,	
	2024	2023
Revenue		
Petroleum and natural gas revenue (note 10)	\$ 158,167	\$ 161,970
Processing income (note 10)	2,504	2,534
Royalties	(30,144)	(29,042)
Unrealized gain (loss) on financial contracts	(15,054)	3,606
Realized gain (loss) on financial contracts	137	(1,995)
	115,610	137,073
Expenses		
Operating	51,937	52,892
Transportation	2,663	4,047
General and administrative	5,126	4,610
Stock-based compensation (note 9)	1,646	1,815
Depletion and depreciation (note 4)	46,837	44,357
Finance expense	11,866	11,903
Transaction and other costs	775	352
	120,850	119,976
Income (loss) before income taxes	(5,240)	17,097
Deferred income tax expense (recovery)	(1,610)	2,308
Net income (loss) and comprehensive income (loss) for the period	\$ (3,630)	\$ 14,789
Income (loss) per share (note 9)		
Basic	\$ (0.04)	\$ 0.15
Diluted	\$ (0.04)	\$ 0.15

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

Interim Statements of Changes in Shareholders' Equity

Stated in thousands of dollars, except share amounts

(Unaudited)

	Number of common shares	Share capital	Convertible debentures - equity portion	Contributed surplus	Deficit	Total equity
Balance at December 31, 2022	96,477,366	\$ 1,765,442	\$ 2,715	\$ 58,960	\$ (988,795)	\$ 838,322
Net income for the period	—	—	—	—	14,789	14,789
Share issue costs, net of tax recovery of \$0.1 million	—	(160)	—	—	—	(160)
Flow-through shares issued (note 9)	1,850,000	19,629	—	—	—	19,629
Premium on flow-through shares (note 9)	—	(2,980)	—	—	—	(2,980)
Transfer on exercise of RSAs and PSAs ⁽¹⁾ (note 9)	7,093	26	—	(26)	—	—
Stock-based compensation, net of tax recovery of \$0.1 million (note 9)	—	—	—	2,990	—	2,990
Dividends	—	—	—	—	(11,653)	(11,653)
Balance at March 31, 2023	98,334,459	\$ 1,781,957	\$ 2,715	\$ 61,924	\$ (985,659)	\$ 860,937
Balance at December 31, 2023	100,314,111	\$ 1,790,559	\$ 6,375	\$ 67,546	\$ (1,020,503)	\$ 843,977
Net loss for the period	—	—	—	—	(3,630)	(3,630)
Transfer on exercise of RSAs and PSAs ⁽¹⁾ (note 9)	266,914	2,258	—	(2,258)	—	—
Stock-based compensation, net of tax recovery of \$0.4 million (note 9)	—	—	—	2,958	—	2,958
Dividends	—	—	—	—	(12,069)	(12,069)
Balance at March 31, 2024	100,581,025	\$ 1,792,817	\$ 6,375	\$ 68,246	\$ (1,036,202)	\$ 831,236

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

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

Interim Statements of Cash Flows

Stated in thousands of dollars

(Unaudited)

	Three Months Ended March 31,	
	2024	2023
Cash provided by (used in)		
Operating		
Net income (loss)	\$ (3,630)	\$ 14,789
Unrealized (gain) loss on financial contracts	15,054	(3,606)
Finance expense	11,866	11,903
Interest expense	(8,451)	(8,587)
Depletion and depreciation (note 4)	46,837	44,357
Decommissioning expenditures (note 8)	(3,928)	(3,249)
Transaction and other costs	48	221
Stock-based compensation (note 9)	1,646	1,815
Deferred income tax expense (recovery)	(1,610)	2,308
Change in non-cash working capital	8,953	(5,445)
Cash flow from operating activities	66,785	54,506
Financing		
Bank debt (note 6)	9,704	(3,252)
Term debt (note 6)	(8,546)	(8,827)
Dividends paid	(12,059)	(11,095)
Issuance of flow-through shares	—	19,629
Payments on lease obligations	(1,322)	(1,310)
Share issue costs	—	(211)
Cash flow used in financing activities	(12,223)	(5,066)
Investing		
Expenditures on property, plant and equipment (note 4)	(49,400)	(45,733)
Proceeds from dispositions (note 4)	8	678
Change in non-cash working capital	(5,170)	(4,385)
Cash flow used in investing activities	(54,562)	(49,440)
Change in cash	—	—
Cash, beginning of the period	—	—
Cash, end of the period	\$ —	\$ —

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

NOTES TO FINANCIAL STATEMENTS

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

1. REPORTING ENTITY

Surge Energy Inc. (the "Corporation" or "Surge") is a corporation existing under the laws of Alberta. Surge's business consists of the exploration, development and production of oil and gas from properties in western Canada. Surge's common shares are traded on the Toronto Stock Exchange ("TSX") under the symbol SGY. The address of Surge's registered office is 1200, 520-3rd Avenue SW, Calgary, Alberta, Canada, T2P 0R3.

2. BASIS OF PREPARATION

Statement of compliance

These interim financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standard Board and using the accounting policies outlined by the Corporation in its annual financial statements for the year ended December 31, 2023. These interim financial statements do not include all of the information required for full annual financial statements. These interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2023.

The interim financial statements were authorized for issuance by the Board of Directors on May 8, 2024.

3. MATERIAL ACCOUNTING POLICIES

These interim financial statements at March 31, 2024 have been prepared following the same accounting policies as the financial statements as at December 31, 2023.

On January 1, 2024, the Corporation adopted amendments to IAS 1 *Presentation of financial statements* regarding classification of liabilities as current or non-current. The amendment clarifies that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. These amendments to IAS 1 did not have a material impact on the Corporation's financial statements.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment

	Total
Balance at December 31, 2022	\$ 3,138,328
Acquisitions	4,941
Dispositions	(1,164)
Additions	181,572
Right-of-use assets	(746)
Change in decommissioning obligations	8,905
Capitalized stock-based compensation (note 9)	5,489
Balance at December 31, 2023	\$ 3,337,325
Dispositions	(8)
Additions	49,400
Change in decommissioning obligations	(3,370)
Capitalized stock-based compensation (note 9)	947
Balance at March 31, 2024	\$ 3,384,294
	Total
Accumulated depletion and depreciation	
Balance at December 31, 2022	\$ (1,730,443)
Depletion and depreciation expense	(187,850)
Impairment	(59,150)
Change in decommissioning obligations	(9,624)
Balance at December 31, 2023	\$ (1,987,067)
Depletion and depreciation expense	(47,331)
Change in decommissioning obligations	494
Balance at March 31, 2024	\$ (2,033,904)
	Total
Carrying amounts	
At December 31, 2023	\$ 1,350,258
At March 31, 2024	\$ 1,350,390

The calculation of depletion and depreciation expense as at March 31, 2024 included an estimated \$1,014.4 million (December 31, 2023 - \$1,039.4 million) for future development costs associated with proved plus probable reserves.

As at March 31, 2024, the Corporation determined that there were no indicators of impairment or historical impairment reversals required.

5. RISK MANAGEMENT

At March 31, 2024, the following risk management contracts were outstanding with an asset fair market value of \$0.4 million and a liability fair market value of \$13.4 million (December 31, 2023 – asset of \$4.8 million and liability of \$2.3 million):

West Texas Intermediate Crude Oil Derivative Contracts (WTI)

Period	Bought Put		Collars			Swaps	
	Volumes (bbls/d)	Average Price (CAD/bbl)	Volumes (bbls/d)	Average Bought Put (CAD/bbl)	Average Sold Call (CAD/bbl)	Volumes (bbls/d)	Average Price (CAD/bbl)
Qtr. 2 2024	2,599	\$85.01	2,600	\$84.89	\$118.52	1,500	\$109.16
Qtr. 3 2024	2,766	\$83.51	2,433	\$83.54	\$124.17	168	\$108.56
Qtr. 4 2024	2,500	\$88.04	2,750	\$88.04	\$135.45	—	—
Qtr. 1 2025	4,204	\$88.04	947	\$88.04	\$112.05	—	—

Western Canadian Select Derivative Contracts (WCS)

Period	Bought Put		Collars		
	Volumes (bbls/d)	Average Price (CAD/bbl)	Volumes (bbls/d)	Average Bought Put (CAD/bbl)	Average Sold Call (CAD/bbl)
Qtr. 2 2024	2,700	\$(19.42)	1,000	\$(14.90)	\$(24.11)
Qtr. 3 2024	3,700	\$(17.87)	1,000	\$(14.90)	\$(24.11)
Qtr. 4 2024	2,000	\$(18.35)	1,000	\$(14.90)	\$(24.11)

Mixed Sweet Blend Derivative Contracts (MSW)

Period	Swaps	
	Volumes (bbls/d)	Average Price (CAD/bbl)
Qtr. 2 2024	4,000	\$(4.06)
Qtr. 3 2024	4,000	\$(4.06)
Qtr. 4 2024	4,000	\$(4.06)

Natural Gas Derivative Contracts

Period	NYMEX Collars			NYMEX - AECO Basis Swaps		AECO Swaps	
	Volumes (MMBtu/d)	Average Bought Put (CAD/MMBtu)	Average Sold Call (CAD/MMBtu)	Volumes (MMBtu/d)	Average Price (CAD/MMBtu)	Volumes (GJ/d)	Average Price (CAD/GJ)
Qtr. 2 2024	5,000	\$4.06	\$6.77	5,000	\$(1.54)	—	—
Qtr. 3 2024	5,000	\$4.06	\$6.77	5,000	\$(1.54)	—	—
Qtr. 4 2024	3,674	\$4.43	\$7.21	5,000	\$(1.57)	1,326	\$5.63
Qtr. 1 2025	3,000	\$4.74	\$7.59	5,000	\$(1.58)	2,000	\$5.63
Qtr. 2 2025	—	—	—	5,000	\$(1.42)	1,700	\$4.38
Qtr. 3 2025	—	—	—	5,000	\$(1.42)	1,700	\$4.38
Qtr. 4 2025	—	—	—	1,685	\$(1.42)	573	\$4.38

Foreign Currency Exchange Derivative Contracts

Type	Term	Notional Amount (USD)	Floor	Ceiling
Average Rate Collar	Jan 2024 - Dec 2024	\$10,000,000	1.3225	1.4040

Interest Rate Derivative Contracts

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

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

Net earnings (loss) impact for the period ended March 31, 2024	Increase	Decrease
Crude Oil - Change of +/- \$1.00	\$ (6,972)	\$ 6,972
Natural Gas - Change of +/- \$0.10	\$ (773)	\$ 773
Foreign Exchange - Change of +/- \$0.01	\$ 76	\$ (76)
Interest rate - Change of +/- 100 points	\$ 380	\$ (380)

6. DEBT

Bank Debt

As at March 31, 2024, the Corporation had a total commitment of \$150 million, being the aggregate of a committed revolving first-lien term facility of \$120 million and an operating loan facility of \$30 million, with a syndicate of banks. A review and redetermination of the borrowing base is scheduled to occur semi-annually on or before May 31 and November 30 of each year. The facility is available on a revolving basis until May 30, 2024. On May 30, 2024, at the Corporation’s discretion, the facility is available on a non-revolving basis for a one-year period, at the end of which time the facility would be due and payable. Alternatively, the facilities may be extended for a further 364-day period at the request of the Corporation and subject to the approval of the syndicate.

As at March 31, 2024, the Corporation had \$0.9 million of outstanding letters of credit (December 31, 2023 - \$0.9 million), all of which is under the \$30 million operating loan facility.

Subsequent to March 31, 2024, on April 30, 2024, the Corporation expanded its revolving first-lien credit facility by \$60 million, from \$150 million to \$210 million. The total commitment of \$210 million is the aggregate of a committed revolving term facility of \$180 million and an operating loan facility of \$30 million, with a syndicate of banks.

A summary of outstanding bank debt is as follows:

	As at March 31, 2024	As at December 31, 2023
Credit Facilities		
Total Commitment	\$ 150,000	\$ 150,000
Amount drawn	52,501	42,797

Term Debt

As at March 31, 2024, the Corporation had a non-revolving second-lien term loan commitment of \$200 million, being the aggregate of two term facilities of \$160 million, maturing on December 9, 2026 (Term Facility A) and \$40 million, maturing on April 30, 2025 (Term Facility B). As at March 31, 2024, the Corporation had \$164.7 million, excluding unamortized issue costs of \$5.5 million, drawn on these facilities, of which \$46.2 million was reflected as current term debt.

The principal amounts are repayable in scheduled quarterly repayments, which commenced on December 31, 2022 for Term Facility A and March 31, 2023 for Term Facility B.

Under Term Facility A, the Corporation is required to make an additional principal repayment of \$0.8 million in each calendar month in which a shareholder distribution is paid.

Subsequent to March 31, 2024, on April 30, 2024, the Corporation elected to exercise a one-time option for early repayment of a portion of its non-revolving second-lien term loan (Term Facility B). The Corporation repaid the remaining \$36.0 million in principal outstanding prior to the maturity date of April 30, 2025.

Emissions Reduction Fund

As at March 31, 2024, the Corporation had a \$7.8 million (December 31, 2023 - \$7.6 million) loan repayable relating to the Government of Canada Emissions Reduction Fund ("ERF"), which is included as term debt within these financial statements. As at March 31, 2024, the Corporation had received \$10.4 million (December 31, 2023 - \$10.4 million) of funds from ERF for the Corporation's planned gas emissions reduction program. Loan repayments will begin on March 31, 2025, when 10.0 percent of the repayable portion will be repaid. As a result, \$0.8 million (December 31, 2023 - nil) of the loan repayable has been reflected as current term debt within these financial statements.

A summary of outstanding term debt is as follows:

	As at March 31, 2024	As at December 31, 2023
Term Facilities		
Total Commitment	\$ 200,000	\$ 200,000
Amount drawn	164,677	173,222
Amount drawn, net of unamortized issue costs	159,145	167,691
Emissions Reduction Fund and other	11,530	11,040
Total term debt, net of unamortized issue costs	170,675	178,731
Less: Current portion	(47,976)	(13,699)
Long term portion	122,699	165,032

Financial Covenants

The Corporation is subject to certain financial covenants under the first-lien and second-lien facilities. As at March 31, 2024, the Corporation was compliant with all restrictions and covenants in its first and second-lien credit agreements.

7. CONVERTIBLE DEBENTURES

	Number of convertible debentures	Liability Component	Equity Component
Balance at December 31, 2022	34,500	32,491	2,715
Issuance of convertible debentures	48,300	39,484	8,816
Issue costs	—	(1,920)	(428)
Deferred income tax liability	—	—	(2,013)
Accretion of discount	—	1,423	—
Other finance expenses	—	870	—
Redeemed	(34,500)	(34,500)	(2,715)
Balance at December 31, 2023	48,300	37,848	6,375
Accretion of discount	—	363	—
Balance at March 31, 2024	48,300	\$ 38,211	\$ 6,375

The fair value of the convertible debentures at March 31, 2024 was \$49.4 million using quoted market prices on the TSX (level 1 fair value).

8. DECOMMISSIONING OBLIGATIONS

The Corporation's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Corporation estimates the total uninflated and undiscounted amount of cash flows required to settle its decommissioning obligations is approximately \$354.1 million (December 31, 2023 – \$355.4 million). These payments are expected to be made between 2024 and 2058. A risk free rate of 3.34 percent (December 31, 2023 – 3.02 percent) and an implied inflation rate of 1.84 percent (December 31, 2023 – 1.62 percent) was used to calculate the decommissioning obligations.

A reconciliation of the decommissioning obligations is provided below:

	March 31, 2024	December 31, 2023
Balance, beginning of year	\$ 262,944	\$ 263,642
Liabilities related to acquisitions	—	272
Liabilities related to dispositions	—	(2,417)
Change in estimate ⁽¹⁾	(4,155)	6,249
Liabilities incurred	785	2,878
Accretion expense	2,153	7,880
Decommissioning expenditures	(3,928)	(15,560)
Balance, end of period	\$ 257,799	\$ 262,944
Expected to be incurred within one year	10,000	10,000
Expected to be incurred beyond one year	\$ 247,799	\$ 252,944

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

9. SHARE CAPITAL

(a) Restricted and Performance Share Award Incentive Plan

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

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

	Number of restricted share awards	Number of performance share awards
Balance at December 31, 2023	1,707,543	2,222,763
Granted	21,234	3,984
Reinvested	28,639	41,432
Exercised	(266,914)	—
Forfeited	(28,185)	(17,784)
Balance at March 31, 2024	1,462,317	2,250,395

The weighted average fair value of awards granted for the period ended March 31, 2024 is \$6.61 (2023 - nil) for PSAs and \$6.40 (2023 - \$9.00) 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.

(b) Stock-based compensation

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

	Three Months Ended March 31,	
	2024	2023
Stock-based compensation on PSAs and RSAs	\$ 2,593	\$ 2,868
Capitalized stock-based compensation (note 4)	(947)	(1,053)
Total stock-based compensation expense	\$ 1,646	\$ 1,815

(c) Per share amounts

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

	Three Months Ended March 31,	
	2024	2023
Weighted average number of shares - basic	100,529,046	97,086,527
Effect of dilutive instruments	—	2,296,200
Weighted average number of shares - basic and diluted	100,529,046	99,382,727

In computing diluted per share amounts for the three months ended March 31, 2024, all RSAs and PSAs (2023 - 2,522 RSAs and 5,917 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.

(d) Dividend

The Board of Directors declared a dividend of \$0.04 per share for the months of January through March 2024 (January - March 2023 - \$0.04 per share). Dividends of \$0.04 per share were declared and outstanding at March 31, 2024 and were paid in April 2024. Dividends for the month of April 2024 have been declared at \$0.04 per share.

10. REVENUE

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

	Three Months Ended March 31,	
	2024	2023
Oil	\$ 150,716	\$ 152,664
Natural gas liquids	3,935	3,618
Natural gas	3,516	5,688
Total petroleum and natural gas revenue	\$ 158,167	\$ 161,970
Processing	2,504	2,534
Total petroleum, natural gas and processing revenue	\$ 160,671	\$ 164,504

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