KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB T2P 4B9
Tel 403-691-8000
Fax 403-691-8008
www.kpmg.ca

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Surge Energy Inc.

Opinion

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

- the statements of financial position as at December 31, 2024 and December 31, 2023
- the statements of income (loss) and comprehensive income (loss) for the years then ended
- the statements of changes in shareholders' equity for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of material accounting policy information

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2024 and December 31, 2023, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

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 "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's 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.

KPMG LLP, an Ontario limited liability partnership and member firm of the KPMG global
organization of independent member firms affiliated with KPMG International Limited, a private
English company limited by guarantee. KPMG Canada provides services to KPMG LLP.

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, 2024. 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.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Assessment of the impact of estimated proved and probable oil and gas reserves on development and production assets included in property, plant and equipment ("PP&E")

Description of the matter

We draw attention to note 2, note 3, note 4, note 5, and note 6 to the financial statements. The Entity uses estimated proved and probable oil and gas reserves to deplete its development and production assets included in PP&E, to assess for indicators of impairment or impairment reversal on each of the Entity's cash-generating units ("CGU") and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of a CGU.

The Entity has $1,206.3 million of PP&E as at December 31, 2024.

The Entity identified indicators of impairment as at December 31, 2024 for its North Central Alberta CGU and, as a result, completed an impairment test. It was determined that no further impairment charge was required to be recognized above the $52.7 million impairment charge previously recognized during the year.

The estimated recoverable amount of the North Central Alberta CGU involved significant estimates including:

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

The Entity's net carrying value of development and production assets included in PP&E 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 before royalties, taking into account estimated future development costs necessary to bring those reserves into production. Depletion on development and production assets included in PP&E was $179.8 million for the year ended December 31, 2024.

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

- Forecasted oil and gas commodity prices
- Forecasted production volumes
- Forecasted operating costs
- Forecasted royalty costs

- Forecasted future development costs.

The Entity engages an independent third party reserves evaluator to estimate the proved and probable oil and gas reserves.

Why the matter is a key audit matter

We identified the assessment of the impact of estimated proved and probable oil and gas reserves on development and production assets included in PP&E as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of proved and probable oil and gas reserves and the discount rates. Additionally, the assessment of the recoverable amount of a CGU requires the use of professionals with specialized skills and knowledge in valuation.

How the matter was addressed in the audit

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

We examined management's impairment test for the North Central Alberta CGU as at December 31, 2024 by comparing amounts to underlying source documents and performing recalculations.

With respect to the estimate of proved and probable oil and gas reserves as at December 31, 2024 for the purposes of the December 31, 2024 impairment test and depletion:

- We evaluated the competence, capabilities and objectivity of the independent third party reserves evaluator engaged by the Entity
- We compared forecasted oil and gas commodity prices to those published by other independent third party reserves evaluators
- We compared the 2024 actual production volumes, 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 to assess the Entity's ability to accurately forecast
- We evaluated the appropriateness of forecasted production volumes and forecasted operating costs, royalty costs and future development costs assumptions by comparing to 2024 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 North Central Alberta CGU 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 the North Central Alberta CGU by comparing the Entity's estimates to market metrics and other external data.

We assessed the depletion expense calculation for compliance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

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 auditor's 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 auditor's 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 IFRS Accounting Standards as issued by the International Accounting Standards Board, 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.

Auditor's 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 auditor's 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 auditor's 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 auditor's 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 auditor’s 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 auditor’s 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 auditor’s report is Jason Grodziski.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
March 5, 2025

Statements of Financial Position

Stated in thousands of Canadian dollars

As at	December 31, 2024	December 31, 2023
Assets		
Current assets		
Cash	**$ 7,594**	$ —
Accounts receivable (note 7)	**58,327**	53,354
Fair value of financial contracts (note 7)	**6,460**	4,704
Prepaid expenses and deposits	**3,233**	5,355
	75,614	63,413
Non-current assets		
Fair value of financial contracts (note 7)	**20**	83
Property, plant and equipment (note 5, 6)	**1,206,279**	1,350,258
Deferred income taxes (note 15)	**84,236**	67,009
	1,290,535	1,417,350
	$ 1,366,149	$ 1,480,763
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 95,433**	$ 85,390
Dividends payable (note 11)	**4,350**	4,013
Fair value of financial contracts (note 7)	**4,111**	2,257
Current portion of term debt (note 8)	**715**	13,699
Current portion of lease and other obligations (note 19)	**4,092**	6,693
Current portion of decommissioning obligations (note 10)	**10,000**	10,000
	118,701	122,052
Non-current liabilities		
Bank debt (note 8)	**—**	42,797
Senior unsecured notes (note 8)	**170,872**	—
Term debt (note 8)	**5,509**	165,032
Convertible debentures (note 9)	**39,401**	37,848
Decommissioning obligations (note 10)	**281,624**	252,944
Lease and other obligations (note 19)	**11,534**	16,113
	508,940	514,734
Shareholders' equity		
Share capital (note 11)	**1,767,739**	1,790,559
Equity component of convertible debentures (note 9)	**6,375**	6,375
Contributed surplus	**88,970**	67,546
Deficit	**(1,124,576)**	(1,020,503)
	738,508	843,977
Commitments (note 18)		
	$ 1,366,149	$ 1,480,763

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

Approved on behalf of the Board:

(Signed)
Allison Maher, Director

(Signed)
Paul Colborne, Director

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

Stated in thousands of Canadian dollars, except per share amounts

	Years Ended December 31,	
	2024	2023
Revenue		
Petroleum and natural gas revenue (note 12)	**$ 656,703**	$ 670,375
Processing income (note 12)	**8,592**	7,780
Royalties	**(119,919)**	(119,513)
Unrealized gain (loss) on financial contracts (note 7)	**(161)**	5,256
Realized loss on financial contracts (note 7)	**(3,493)**	(3,164)
	541,722	560,734
Expenses		
Operating	**185,638**	196,256
Transportation	**11,429**	13,755
General and administrative	**20,653**	19,158
Stock-based compensation (note 11)	**9,006**	8,773
Depletion and depreciation (note 5)	**188,480**	197,474
Impairment (note 6)	**96,495**	59,150
Finance expense (note 13)	**44,254**	48,152
(Gain) loss on disposals and acquisitions (note 5)	**48,385**	(4,028)
Transaction and other costs (note 14)	**7,762**	1,423
	612,102	540,113
Income (loss) before income taxes	**(70,380)**	20,621
Deferred income tax expense (recovery) (note 15)	**(16,664)**	4,870
Net income (loss) and comprehensive income (loss)	**$ (53,716)**	$ 15,751
Income (loss) per share (note 11)		
Basic	**$ (0.53)**	$ 0.16
Diluted	**$ (0.53)**	$ 0.16

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

Statements of Changes in Shareholders' Equity

Stated in thousands of Canadian dollars, except share amounts

	Number of common shares	Share capital	Equity component of convertible debentures	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	—	—	—	—	15,751	15,751
Share issue costs, net of tax recovery of $0.1 million	—	(349)	—	—	—	(349)
Flow-through shares issued	1,850,000	19,629	—	—	—	19,629
Premium on flow-through shares	—	(2,980)	—	—	—	(2,980)
Convertible debentures issued, net of tax of $2,013 (note 9)	—	—	6,375	—	—	6,375
Convertible debentures redeemed (note 9)	—	—	(2,715)	2,715	—	—
Transfer on exercise of RSAs and PSAs [(1)] (note 11)	1,986,745	8,817	—	(8,817)	—	—
Stock-based compensation, net of tax recovery of $0.4 million (note 11)	—	—	—	14,688	—	14,688
Dividends (note 11)	—	—	—	—	(47,459)	(47,459)
Balance at December 31, 2023	100,314,111	$ 1,790,559	$ 6,375	$ 67,546	$ (1,020,503)	$ 843,977
Net loss	—	—	—	—	(53,716)	(53,716)
Repurchase of common shares for cancellation, including tax (note 11)	(1,822,200)	(32,741)	—	21,519	—	(11,222)
Transfer on exercise of RSAs and PSAs [(1)] (note 11)	1,890,046	9,921	—	(13,761)	—	(3,840)
Stock-based compensation, net of tax recovery of $0.6 million (note 11)	—	—	—	13,666	—	13,666
Dividends (note 11)	—	—	—	—	(50,357)	(50,357)
Balance at December 31, 2024	**100,381,957**	**$ 1,767,739**	**$ 6,375**	**$ 88,970**	**$ (1,124,576)**	**$ 738,508**

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

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

Statements of Cash Flows

Stated in thousands of Canadian dollars

	Years Ended December 31,	
	2024	2023
Cash provided by (used in)		
Operating		
Net income (loss)	**$ (53,716)**	$ 15,751
(Gain) loss on disposals and acquisitions (note 5)	**48,385**	(4,028)
Unrealized (gain) loss on financial contracts (note 7)	**161**	(5,256)
Finance expense (note 13)	**44,254**	48,152
Interest expense (note 13)	**(30,040)**	(34,463)
Depletion and depreciation (note 5)	**188,480**	197,474
Impairment (note 6)	**96,495**	59,150
Decommissioning expenditures (note 10)	**(15,175)**	(15,560)
Transaction and other costs (note 14)	**270**	628
Stock-based compensation (note 11)	**9,006**	8,773
Deferred income tax expense (recovery) (note 15)	**(16,664)**	4,870
Change in non-cash working capital (note 17)	**7,191**	(9,350)
Cash flow from operating activities	**278,647**	266,141
Financing		
Bank debt (note 8)	**(42,797)**	12,200
Senior unsecured notes (note 8)	**170,595**	—
Term debt (note 8)	**(175,921)**	(79,396)
Dividends paid (note 11)	**(50,020)**	(46,822)
Convertible debentures issued (note 9)	**—**	45,952
Purchase of common shares for cancellation (note 11)	**(11,222)**	—
Issuance of flow-through shares	**—**	19,629
Payments on lease obligations (note 19)	**(4,848)**	(5,246)
Share issue costs	**—**	(400)
Convertible debentures redeemed (note 9)	**—**	(34,500)
Cash-settled stock-based compensation (note 11)	**(3,840)**	—
Cash flow used in financing activities	**(118,053)**	(88,583)
Investing		
Expenditures on property, plant and equipment (note 5)	**(195,103)**	(181,572)
Proceeds from dispositions (note 5)	**45,924**	2,570
Expenditures on acquisitions (note 5)	**(3,535)**	(4,240)
Change in non-cash working capital (note 17)	**(286)**	5,684
Cash flow used in investing activities	**(153,000)**	(177,558)
Change in cash	**7,594**	—
Cash, beginning of the year	**—**	—
Cash, end of the year	**$ 7,594**	$ —

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

NOTES TO FINANCIAL STATEMENTS

Tabular amounts are in thousands of Canadian 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

(a) Statement of compliance

The financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board.

The financial statements were authorized for issuance by the board of directors (the "Board") on March 5, 2025.

(b) Basis of measurement

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

(d) Use of estimates and judgments

The preparation of 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 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 regard to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality.

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 as determined annually by the Corporation's independent third party reserve evaluator 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 volumes, forecasted operating costs, royalties, future development costs, discount rates and other relevant assumptions.

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 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 volumes, 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. The Corporation uses estimated proved and probable oil and gas reserves to deplete its development and production assets included in property, plant and equipment ("PP&E"), to assess for indicators of impairment or impairment reversal on each of the Corporation's CGUs and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of a CGU. Reported reserves can impact the impairment of assets, the decommissioning obligations, the estimated fair value of acquired oil and gas properties, and the amounts reported for depletion of PP&E. At least annually, the 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. If required, reserves are updated or prepared by the Corporation, using methods consistent with the third party evaluators. Internally developed reserves may be necessary to update or roll forward external reserve reports for impairment assessments or acquisitions.

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, discounted at an estimated rate that reflects a market participants view of the risks associated with the cash flows.

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

Tariffs

Effective March 4, 2025, the United States imposed a 10% tariff on “energy and energy resources” from Canada and imported into the United States. These tariffs and the retaliatory measures introduced by the Canadian government in response, and any further potential tariff response strategy by either country could adversely affect, among others, the demand and market prices for Canadian energy exports, inflation rates and the global supply chain which may be further impacted by restrictions on cross-border supply chains, potential increases in tariffs or additional regulatory barriers to trade. The impact, or potential impact, of these tariffs on the Corporation’s financial results cannot be quantified at this time.

Evolving Demand for Energy

(a) Changing Regulation

Emissions, carbon and other regulations impacting climate and climate related matters are dynamic and constantly evolving. With respect to environmental, social and governance ("ESG") and climate reporting, the International Sustainability Standards Board ("ISSB") has issued an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. The Canadian Securities Administrators (“CSA”) has indicated it will consider the ISSB sustainability standards and developments in its decisions related to developing climate-related disclosure requirements for reporting issuers in Canada. The CSA will involve the Canadian Sustainability Standards Board (“CSSB”) for their combined review of the ISSB issued sustainability standards for their suitability for adoption in Canada. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 - *Disclosure of Climate-related Matters*, which is currently under review and has not yet been adopted. The cost to comply with these standards, should they be implemented, and others that may be developed or evolve over time, has not yet been quantified by the Corporation.

(b) Impairment and Impairment Reversal

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 and impairment reversal on its property, plant and equipment as a possible indication of impairment. The estimated recoverable amount of the Corporation's property, plant and equipment was based on proved and probable reserves, the life of which is generally less than 20 years. The ultimate period in which global energy markets can transition from carbon based sources to alternative energy is highly uncertain, however, the majority of the cash flows associated with proved and probable reserves per the 2024 reserve report should be realized prior to the elimination of carbon based energy.

The carrying amount of the net assets of the Corporation was compared to the Corporation's market capitalization. As such, climate risk, to the extent it has been factored into the trading price of the Corporation's common shares by the market, was also considered in the impairment assessment. The ultimate period in which global energy markets can transition from carbon based sources to alternative energy is highly uncertain.

(c) Reserves

The Corporation engages a third party external reserve evaluator to prepare the reserve report. The reserve report includes anticipated impacts from emissions related taxes and carbon pricing, most notably the reserve report includes the estimated carbon charge related to the Corporation's operations based on current legislated rates.

3. MATERIAL ACCOUNTING POLICIES

(a) Jointly owned assets

Many of the Corporation's oil and natural gas activities involve undivided interests in jointly owned assets. The 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.

(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 the Statement of Income (Loss) and Comprehensive Income (Loss). Foreign currency gains and losses are reported on a net basis.

(c) Cash

Cash is comprised of cash held in bank accounts.

(d) Property, plant and equipment

Development and production costs

Property, plant and equipment, which include 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; the cost to drill, complete and tie-in the well; 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 property, plant and equipment have different useful lives, then they are accounted for as separate components.

Gains and losses on disposal of property, plant and equipment, asset exchanges 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 property, plant and equipment and are recognized net in the Statement of Income (Loss) and Comprehensive Income (Loss).

Subsequent costs

The costs of replacing parts of property, plant and equipment are recognized as development and production assets only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the Statement of Income (Loss) and Comprehensive Income (Loss) as incurred. Such capitalized development and production assets 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 property, plant and equipment are recognized in the Statement of Income (Loss) and Comprehensive Income (Loss) as incurred.

Depletion and Depreciation

The net carrying value of development and production assets included in property, plant and equipment 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 before royalties, taking into account estimated future development costs necessary to bring those reserves into production. Estimated salvage value of the assets at the end of their useful lives is also taken into account. Depletion is calculated at the component level.

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 salvage values are reviewed at each reporting date.

(e) Impairment and impairment reversals

Non-financial assets

The Corporation assesses at each reporting date whether there is an indication that property, plant and equipment within the CGUs may be impaired or that historical impairment may be reversed. The estimate of proved and probable oil and gas reserves is significant to the Corporation's assessment. If any such indication exists, then the asset’s or CGUs recoverable amount is estimated.

For the purpose of impairment and impairment reversal 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 of disposal ("FVLCD").

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.

FVLCD 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 FVLCD 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 the Statement of Income (Loss) and Comprehensive Income (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.

(f) Convertible debentures

Convertible 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 convertible 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 convertible 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 convertible debentures are reclassified to share 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 the Statement of Income (Loss) and Comprehensive Income (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 deductible temporary difference and unutilized tax losses 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. 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 and deferred financing costs.

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 the Statement of Income (Loss) and Comprehensive Income (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 the Statement of Income (Loss) and Comprehensive Income (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 the Statement of Income (Loss) and Comprehensive Income (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 Statement of Income (Loss) and Comprehensive Income (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 or impairment reversals.

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 Statement of Income (Loss) and Comprehensive Income (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 income 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 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, senior unsecured notes, 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 offset 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 Income (Loss) and Comprehensive Income (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.

New Accounting Policies

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.

Future Accounting Pronouncements

In May 2024, the IASB issued amendments to IFRS 9 *Presentation and Disclosure in Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* relating to settling financial liabilities using an electronic payment system and assessing contractual cash flow characteristics of financial assets. The amendments will be effective on January 1, 2026, but are not expected to have a material impact on the Corporation's financial statements.

In April 2024, the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* ("IFRS 18"), which will replace IAS 1 and includes requirements for all entities applying IFRS Accounting Standards for the presentation and disclosure of information in the financial statements. IFRS 18 will introduce new totals, subtotals, and categories for income and expenses in the Statement of Income (Loss) and Comprehensive Income (Loss), as well as requiring disclosure about management-defined performance measures and additional requirements regarding the aggregation and disaggregation of certain information. It will be effective on January 1, 2027, with earlier adoption permitted, and it must be adopted on a retrospective basis. The Corporation is currently evaluating the impact on its financial statements.

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) Property, plant and equipment

The fair value of property, plant and equipment recognized on an acquisition or for use in an impairment test is based on market values. The market value of property, plant and equipment is the estimated amount for which property, plant and equipment 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 property, plant and equipment 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 or in certain circumstances internally developed reserve reports.

The market value of other items of property, plant and equipment is based on the quoted market prices for similar items.

(b) Cash, accounts receivable, bank debt, term debt and accounts payable

The fair value of accounts receivable, bank debt, term debt and accounts 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, 2024 and December 31, 2023, the fair value of accounts receivable and accounts payable approximated their carrying value due to their short term to maturity. Bank debt bears 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 term debt, on the portion that bears floating rates, approximates its carrying value as the rate of interest adjusts to market rates. The fair value of the term debt that bears fixed rates approximates its carrying value.

(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. PROPERTY, PLANT AND EQUIPMENT

	Total
Property, plant and equipment	
Balance at December 31, 2022	$ 3,138,328
Acquisitions	4,941
Dispositions	(1,164)
Additions	181,572
Right-of-use assets (note 19)	(746)
Change in decommissioning obligations (note 10)	8,905
Capitalized stock-based compensation (note 11)	5,489
Balance at December 31, 2023	$ 3,337,325
Acquisitions	3,560
Dispositions	(945,814)
Additions	195,103
Right-of-use assets (note 19)	(668)
Change in decommissioning obligations (note 10)	61,378
Capitalized stock-based compensation (note 11)	4,098
Balance at December 31, 2024	**$ 2,654,982**

	Total
Accumulated depletion, depreciation and impairment	
Balance at December 31, 2022	$ (1,730,443)
Depletion and depreciation expense	(187,850)
Impairment (note 6)	(59,150)
Change in decommissioning obligations	(9,624)
Balance at December 31, 2023	$ (1,987,067)
Depletion and depreciation expense	(184,998)
Impairment (note 6)	(96,495)
Dispositions	823,339
Change in decommissioning obligations	(3,482)
Balance at December 31, 2024	**$ (1,448,703)**

	Total
Carrying amounts	
At December 31, 2023	$ 1,350,258
At December 31, 2024	**$ 1,206,279**

The calculation of depletion and depreciation expense for the year ended December 31, 2024 included an estimated $724.6 million (December 31, 2023 - $1,039.4 million) for future development costs associated with proved plus probable reserves and deducted $53.3 million (December 31, 2023 - $83.4 million) for the estimated salvage value of production equipment and facilities. Depletion on development and production assets included in PP&E was $179.8 million (December 31, 2023 - $182.9 million) for the year ended December 31, 2024.

For the year ended December 31, 2024, the Corporation recorded $3.5 million (December 31, 2023 - $9.6 million) to depletion expense related to changes in the discounted carrying value of estimated decommissioning obligations in respect of properties that had a nil carrying value ascribed.

2024 Dispositions

Effective May 29, 2024, the Corporation disposed of certain assets in its Central Alberta CGU and all remaining assets in its Southwest Saskatchewan CGU for cash proceeds of $37.0 million. The assets disposed of had a carrying value of $83.8 million and an associated decommissioning obligation of $18.0 million, resulting in a loss on disposal of $28.8 million.

Effective December 19, 2024, the Corporation disposed of all remaining assets in its Northwest Alberta CGU for cash proceeds of $9.5 million. The assets disposed of had a carrying value of $38.7 million and an associated decommissioning obligation of $8.0 million and lease liability of $1.7 million, resulting in a loss on disposal of $19.5 million. This loss was in addition to a $43.8 million impairment charge previously recognized in the Northwest Alberta CGU during the year ended December 31, 2024.

6. IMPAIRMENT

	Years ended December 31,	
	2024	2023
Impairment of property, plant and equipment [1]	**$ 96,495**	$ 59,150

[1] The year ended December 31, 2024 amount includes an impairment charge of $43.8 million on the Corporation's Northwest Alberta CGU as detailed in note 5, "Property, plant and equipment."

2024 Impairment

The Corporation identified four CGUs as of December 31, 2024, 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, 2024 were geographically labeled North Central Alberta, Central Alberta, Southeast Alberta and Southeast Saskatchewan.

At December 31, 2024, indicators of impairment for the Corporation's North Central Alberta CGU were identified. As a result, an impairment test was performed. The recoverable value was estimated at fair value less costs of disposal based on before tax discounted cash flows from proved and probable oil and gas reserves discounted at 20-35 percent, based on the underlying composition of reserve categories (level 3 inputs).

At December 31, 2024, it was determined that no further impairment charge was required to be recognized above the $52.7 million impairment charge previously recognized during the year.

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 volumes, 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.

The following table outlines forecasted oil and gas commodity prices and exchange rates used in the impairment test at December 31, 2024. The forecasted oil and gas commodity prices are consistent with those used by the Corporation's external reserve evaluator and are a significant assumption in assessing the recoverable amount. The reserve report also includes significant financial assumptions regarding forecasted production volumes, 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.

Year	Medium and Light Crude Oil		Natural Gas	NGL			Inflation rates (%/Yr)	Exchange rate ($US/$Cdn)
	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)		
2025	97.14	83.57	2.29	98.57	50.71	33.47	—	0.70
2026	100.69	87.59	3.42	102.07	52.41	34.59	2.0	0.73
2027	97.33	84.67	3.31	98.61	50.67	33.20	2.0	0.75
2028	99.28	86.36	3.35	100.59	51.68	33.86	2.0	0.75
2029	101.27	88.09	3.41	102.60	52.71	34.54	2.0	0.75
2030	103.29	89.85	3.48	104.65	53.77	35.23	2.0	0.75
2031	105.36	91.65	3.55	106.74	54.84	35.93	2.0	0.75
2032	107.46	93.48	3.62	108.88	55.94	36.65	2.0	0.75
2033	109.61	95.35	3.69	111.05	57.06	37.38	2.0	0.75
2034	111.81	97.26	3.77	113.28	58.20	38.13	2.0	0.75

The independent third party reserve evaluator also assesses many other financial assumptions regarding forecasted royalty rates, operating costs and future development costs along with several other non-financial assumptions that affect reserve volumes. Management considered these assumptions for the impairment test at December 31, 2024, however, it should be noted that all estimates are subject to uncertainty.

As at December 31, 2024, a one percent increase in the assumed discount rate and/or a five percent decrease in the forecast operating cash flows would have the following change on the estimated recoverable amount:

	One percent increase in discount rate	Five percent decrease in cash flows	One percent increase in discount rate and five percent decrease in cash flows
North Central Alberta	2,858	4,332	7,190

As at December 31, 2024, the Corporation determined that there were no indicators of impairment or historical impairment reversal for its remaining CGUs and no impairment tests were required.

2023 Impairment

The Corporation identified six cash-generating units as of December 31, 2023 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, 2023 were geographically labeled Northwest Alberta, North Central Alberta, Central Alberta, Southeast Alberta, Southwest Saskatchewan and Southeast Saskatchewan.

For the year ended December 31, 2023, due to decreases in forward natural gas prices and the significant decrease in cash flows from proved and probable oil and gas reserves, the Corporation identified an indicator of impairment in its Northwest Alberta CGU. As a result, the Corporation completed an impairment test. Recoverable value was estimated at fair value less costs of disposal based on before tax discounted cash flows from proved plus probable oil and gas reserves.

It was determined that the carrying value of the Northwest Alberta CGU exceeded the recoverable amount of $79.7 million and a $59.2 million impairment charge was recognized. The before tax discount rate applied in the calculation as at December 31, 2023 was 22 percent.

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 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 counterparty 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, 2024, the Corporation's receivables consisted of $55.8 million (December 31, 2023 - $46.8 million) due from petroleum and natural gas marketers, $2.5 million (December 31, 2023 - $6.6 million) 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 $1.1 million (December 31, 2023 - $1.0 million) at December 31, 2024, which is being applied against outstanding receivables.

As at December 31, 2024, 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, 2024	**$ 58,327**	**$ 58,024**	**$ 303**
	100 %	**99 %**	**1 %**
December 31, 2023	$ 53,354	$ 53,346	$ 8
	100 %	100 %	— %

(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 8 "Debt" for additional information on liquidity risk.

Accounts payable is considered due to suppliers in one year or less while bank debt, which is subject to a renewal on or before May 29, 2025, could be potentially due in May 2026 if the facility is not renewed for a further 364-day period. Financial contracts are also due to be settled with the counterparties 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.

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.

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 a risk-free interest rate (based on published government rates and considering counterparty 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, 2024, the following risk management contracts were outstanding with an asset fair market value of $6.5 million and a liability fair market value of $4.1 million (December 31, 2023 - asset of $4.8 million and liability of $2.3 million):

West Texas Intermediate Crude Oil Derivative Contracts (WTI)

	Swaps		Collars			Bought Put		Sold Put	
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 Price (CAD/bbl)	Volumes (bbls/d)	Average Price (CAD/bbl)
Qtr. 1 2025	1,500	$113.01	947	$93.45	$118.93	4,204	$93.45	—	—
Qtr. 2 2025	—	—	3,500	$95.50	$134.01	1,500	$107.82	1,500	$87.70
Qtr. 3 2025	—	—	4,500	$100.64	$115.01	—	—	—	—

Western Canadian Select Differential Derivative Contracts (WCS)

	Swaps	
Period	**Volumes (bbls/d)**	**Average Price (CAD/bbl)**
Qtr. 1 2025	4,500	$(20.26)
Qtr. 2 2025	3,500	$(19.87)
Qtr. 3 2025	3,500	$(19.87)
Qtr. 4 2025	3,500	$(19.87)

Mixed Sweet Blend Differential Derivative Contracts (MSW)

	Swaps	
Period	**Volumes (bbls/d)**	**Average Price (CAD/bbl)**
Qtr. 1 2025	3,000	$(5.25)
Qtr. 2 2025	3,000	$(5.25)
Qtr. 3 2025	3,000	$(5.25)
Qtr. 4 2025	2,000	$(5.64)

Natural Gas Derivative Contracts

	AECO Swaps		NYMEX Collars			NYMEX - AECO Basis Swaps	
Period	**Volumes (GJ/d)**	**Average Price (CAD/GJ)**	**Volumes (MMBtu/d)**	**Average Bought Put (CAD/MMBtu)**	**Average Sold Call (CAD/MMBtu)**	**Volumes (MMBtu/d)**	**Average Price (CAD/MMBtu)**
Qtr. 1 2025	2,000	$5.97	3,000	$5.03	$8.05	5,000	$(1.68)
Qtr. 2 2025	1,700	$4.65	3,300	$4.31	$5.03	5,000	$(1.50)
Qtr. 3 2025	1,700	$4.65	3,300	$4.31	$5.03	5,000	$(1.50)
Qtr. 4 2025	3,888	$3.40	1,112	$4.31	$5.03	1,685	$(1.50)
Qtr. 1 2026	5,000	$3.18	—	—	—	—	—

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.

Foreign Currency Exchange Derivative Contracts

Type	Term	Notional Amount (USD)	Floor	Ceiling	Forward Rate
Average Rate Collar	Jan 2025 - Dec 2025	$5,000,000	1.3300	1.4050	—
Average Rate Swap	Jan 2025 - Jun 2025	$5,000,000	—	—	1.3816

The following table summarizes the sensitivity of the fair value of the Corporation's market risk management positions to fluctuations in natural gas prices, crude oil prices and foreign exchange 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 income (loss):

Net income (loss) impact for the year ended December 31, 2024	Increase	Decrease
Crude Oil - Change of +/- $1.00 per bbl	$ (2,917)	$ 2,917
Natural Gas - Change of +/- $0.10 per GJ or MMBtu	$ (288)	$ 288
Foreign Exchange - Change of +/- $0.01	$ 76	$ (76)

A reconciliation of the financial contracts gain (loss) reflected within these financial statements is provided below:

	December 31, 2024	December 31, 2023
Financial contracts gain (loss)		
Unrealized gain (loss) on financial contracts	**$ (161)**	$ 5,256
Realized loss on financial contracts	**(3,493)**	(3,164)
Total financial contracts gain (loss)	**$ (3,654)**	$ 2,092

As at December 31, 2024, the Corporation's net fair value of financial contracts is as follows:

	Financial contracts	Interest contracts	Foreign exchange contracts	Total
Net financial contracts asset, December 31, 2023	$ (162)	$ 705	$ 1,987	$ 2,530
Unrealized change in fair value	6,187	(705)	(5,643)	(161)
Net financial contracts asset, December 31, 2024	**$ 6,025**	**$ —**	**$ (3,656)**	**$ 2,369**

(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' equity of $738.5 million (2023 - $844.0 million), bank debt of nil (2023 - $42.8 million), term debt of $6.2 million (2023 - $178.7 million), convertible debentures of $39.4 million (2023 - $37.8 million), senior unsecured notes of $170.9 million (2023 - nil) and an adjusted working capital deficit of $30.6 million (2023 - deficit of $30.7 million). Adjusted working capital is calculated as current assets less current liabilities but excludes the fair value of financial contracts, current portion of term debt, current portion of lease and other obligations and current portion of decommissioning obligations. 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, senior unsecured notes 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.

(e) Fair value of financial instruments

The Corporation's financial instruments as at December 31, 2024 and 2023 include cash, accounts receivable, accounts payable and accrued liabilities, dividends payable, the fair value of financial contracts, bank debt, senior unsecured notes, term debt and convertible debentures. The fair value of cash, 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. Based on quoted market prices on the TSX, the fair value of the convertible debentures at December 31, 2024 was $48.8 million (December 31, 2023 - $49.3 million). 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 financial contracts, bank debt, senior unsecured notes and term debt are considered level 2 in the fair value hierarchy.

8. DEBT

Bank Debt

As at December 31, 2024, the Corporation had a total commitment of $250 million, being the aggregate of a committed revolving first-lien term facility of $200 million and an operating loan facility of $50 million (the "Facilities"), 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 Facilities are available on a revolving basis until May 29, 2025. On May 29, 2025, at the Corporation's discretion, the Facilities are available on a non-revolving basis for a one-year period, at the end of which time the Facilities 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 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 Facilities and the decreases could be material. Interest rates vary depending on the ratio of Senior Debt to EBITDA (as defined in the lending agreement). As at December 31, 2024, the Corporation had an effective interest rate of prime plus 1.75 percent on the Facilities (December 31, 2023 - prime plus 1.75 percent).

The Facilities are secured by a general assignment of book debts, debentures of $0.8 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.

As at December 31, 2024, the Corporation had $2.6 million of outstanding letters of credit (December 31, 2023 - $0.9 million), all of which is under the $50 million operating loan facility and reduces the lending capacity available.

Senior Unsecured Notes

On September 5, 2024, the Corporation issued $175.0 million of senior unsecured notes (the "Notes"). The Notes bear interest at a fixed rate of 8.500% per annum, payable semi-annually, with a due date of September 5, 2029, and rank equally with all other present unsecured and subordinated debt of the Corporation. The Notes were priced at 100% of par to yield 8.500% per annum.

The Notes are non-callable by the Corporation prior to September 5, 2026. On or after September 5, 2026, the Corporation may redeem all or part of the Notes at the redemption prices set forth below, plus any accrued and unpaid interest, for the twelve month period beginning on:

i. September 5, 2026: 104.250%

ii. September 5, 2027: 102.125%

iii. September 5, 2028 and thereafter: 100.000%

Term Debt

During the period ended September 30, 2024, the Corporation repaid in full all amounts owing under the non-revolving second-lien term loan (Term Facility A). Prior to the maturity date of December 9, 2026, the Corporation repaid the remaining $122.5 million in principal outstanding, inclusive of $2.1 million of unamortized issue costs which were accelerated during the period, on its non-revolving second-lien term loan commitment of $160.0 million. In addition, the Corporation incurred $3.2 million related to accrued and unpaid interest, $0.8 million related to restructuring costs and $4.5 million related to early repayment fees, which have been allocated between finance expenses and transaction and other costs.

During the period ended June 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, along with all accrued and unpaid interest, of its non-revolving second-lien term loan commitment of $40.0 million, prior to the maturity date of April 30, 2025.

Emissions Reduction Fund

During the period ended December 31, 2021, the Corporation assumed two five-year, interest free term loans with the Federal Government of Canada via the Emissions Reduction Fund (“ERF”) administered by the Department of Natural Resources.

As at December 31, 2024, the ERF has provided Surge with $10.9 million (December 31, 2023 - $10.4 million) for the Corporation’s planned gas emission reduction program which will see the Corporation build infrastructure to eliminate greenhouse gas emissions in specific operating areas. A portion of the financial assistance received is non-repayable while the repayable portion of the loan repayments will begin on March 31, 2025, when 10.0 percent of the repayable portion will be repaid, followed by 33.3 percent on March 31, 2026 and the remaining 56.7 percent on March 31, 2027. The Corporation accounts for the non-repayable portion and benefit of the interest-free period of the financial assistance as a government grant. The Corporation recognized $0.6 million as an offset to PP&E for the year ended December 31, 2024 (December 31, 2023 - nil).

As at December 31, 2024, the Corporation had a $6.2 million (December 31, 2023 - $7.6 million) loan repayable relating to the ERF, which is included as term debt within these financial statements. As a result of 10.0 percent of the repayable portion falling due on March 31, 2025, $0.7 million (December 31, 2023 - nil) of the loan repayable has been reflected as current term debt.

During the period ended December 31, 2024, the Corporation repaid $1.7 million (December 31, 2023 - nil) of the funds received following the disposition of one of the Corporation's non-core assets in Southwest Saskatchewan (refer to note 5).

A summary of outstanding debt is as follows:

	Bank debt	Senior unsecured notes	Term debt	Total
Balance at December 31, 2022	$ 30,597	$ —	$ 256,033	$ 286,630
Proceeds	12,200	—	—	12,200
Repayment	—	—	(79,396)	(79,396)
Accretion	—	—	2,094	2,094
Balance at December 31, 2023	$ 42,797	$ —	$ 178,731	$ 221,528
Proceeds	—	175,000	—	175,000
Issue costs	—	(4,405)	—	(4,405)
Repayment	(42,797)	—	(175,921)	(218,718)
Accretion	—	277	3,972	4,249
Other (non-repayable portion)	—	—	(558)	(558)
Balance at December 31, 2024	**$ —**	**$ 170,872**	**$ 6,224**	**$ 177,096**
Current liabilities	**$ —**	**$ —**	**$ 715**	**$ 715**
Non-current liabilities	**$ —**	**$ 170,872**	**$ 5,509**	**$ 176,381**

At December 31, 2024, the Corporation's contractual payments mature as follows:

2025	$ 715
2026	2,381
2027	4,053
Thereafter [1]	223,300
	$ 230,449

[1] Inclusive of convertible debentures disclosed in note 9 "Convertible Debentures".

9. 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	—	1,553	—
Balance at December 31, 2024	**48,300**	**$ 39,401**	**$ 6,375**

In 2023, the Corporation issued $48.3 million principal amount of convertible subordinated unsecured debentures (the "2023 Debentures") at a price of $1,000 per debenture ("the Offering"), on a "bought deal" basis. The 2023 Debentures have a liability and equity component, with the liability component calculated by discounting the future cash flows (interest and principal) at the rate of a similar debt instrument without a conversion option and the value of the equity component is a residual calculation which assumes the share option value is equal to the difference between the total issue proceeds and liability component.

The 2023 Debentures will mature and be repayable on December 31, 2028 and will accrue interest at the rate of 8.50 percent per annum payable semi annually in arrears on December 31 and June 30 of each year, with the first such payment to be made June 30, 2024. At the holder's option, the 2023 Debentures may 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, iii) if called for repurchase in the event of a change of control, the payment date, at a conversion price of $13.25 per share, subject to adjustment in certain events. This represents a conversion rate of approximately 75.4717 Common Shares for each $1,000 principal amount of 2023 Debentures, subject to the operation of certain anti-dilution provisions. Holders who convert their 2023 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. In the event of a change of control of the Corporation, holders of 2023 Debentures will be entitled to convert their 2023 Debentures and 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 2023 Debentures.

The 2023 Debentures will be direct, subordinated unsecured obligations of the Corporation, subordinated to any senior indebtedness of the Corporation and ranking equally with one another and with all other existing and future subordinated unsecured indebtedness of the Corporation to the extent subordinated on the same terms.

The 2023 Debentures may not be redeemed by the Corporation prior to December 31, 2026. On or after December 31, 2026 and prior to December 31, 2027, the 2023 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, up to but excluding the date set for redemption, provided that 95 percent of 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 not less than 125 percent of the Conversion Price.

On or after December 31, 2027 and prior to the maturity date, the 2023 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, up to but excluding the date set for redemption.

Subject to certain conditions, the Corporation will have the option to satisfy its obligation to repay the principal amount of the 2023 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 2023 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.

The fair value of the convertible debentures at December 31, 2024 was $48.8 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 $425.8 million (December 31, 2023 - $355.4 million). These payments are expected to be made between 2025 and 2080. A risk free rate of 3.33 percent (December 31, 2023 - 3.02 percent) and an inflation rate of 1.82 percent (December 31, 2023 - 1.62 percent) was used to calculate the decommissioning obligations.

A reconciliation of the decommissioning obligations is provided below:

	December 31, 2024	December 31, 2023
Balance, beginning of year	**$ 262,944**	$ 263,642
Liabilities related to acquisitions	**25**	272
Liabilities related to dispositions (note 5)	**(25,959)**	(2,417)
Change in estimate [1]	**52,784**	6,249
Liabilities incurred	**8,593**	2,878
Accretion expense (note 13)	**8,412**	7,880
Decommissioning expenditures	**(15,175)**	(15,560)
Balance, end of year	**$ 291,624**	$ 262,944
Expected to be incurred within one year	**10,000**	10,000
Expected to be incurred beyond one year	**$ 281,624**	$ 252,944

[1] The change in estimate was primarily the result of the change in abandonment cost estimates, timing, discount rates and inflation rates.

11. SHARE CAPITAL

(a) Restricted and Performance Share Award Incentive Plan

The Corporation has a Stock Incentive Plan which authorizes the Board 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 5.1% (2023 - 6.1%) for PSAs and 5.9% (2023 - 6.6%) for RSAs was used to value all awards granted for the period ended December 31, 2024. The weighted average fair value of awards granted for the period ended December 31, 2024 is $6.78 (2023 - $8.37) per PSA granted and $6.77 (2023 - $8.62) 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.

During the period ended December 31, 2024, the Corporation settled the tax withholdings on certain exercised awards amounting to 342,723 PSAs and 232,971 RSAs (2023 - nil) for $3.8 million in cash.

The total number of shares reserved for issuance under the stock incentive plan cannot exceed 8.9 percent of the issued and outstanding shares of the Corporation.

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

	Number of restricted share awards	Number of performance share awards
Balance at December 31, 2023	1,707,543	2,222,763
Granted	859,383	1,081,826
Reinvested	113,729	163,079
Exercised	(1,066,490)	(1,399,251)
Forfeited	(126,790)	(67,077)
Balance at December 31, 2024	**1,487,375**	**2,001,340**

(b) Normal Course Issuer Bid ("NCIB") Share Repurchases

On June 14, 2024, the Toronto Stock Exchange ("TSX") approved the renewal of the Corporation's NCIB. Pursuant to the NCIB, the Corporation will purchase for cancellation, from time to time, as it considers advisable, up to a maximum of 9,781,079 common shares of the Corporation. The NCIB became effective on June 19, 2024, and will terminate on June 18, 2025 or such earlier time as the NCIB is completed or terminated at the option of the Corporation.

For the year ended December 31, 2024, the Corporation repurchased for cancellation 1,822,200 common shares under its NCIB at a weighted average price of $6.02 per share for a total cost of $11.0 million. For the year ended December 31, 2024, share capital was further reduced by $21.5 million, reflecting the average carrying value of $17.83 per share. Contributed surplus was increased by the same amount for the repurchase price of shares below the carrying value.

Effective January 1, 2024, the Government of Canada introduced a 2% federal tax on equity repurchases. During the year ended December 31, 2024, the Corporation recorded a $0.2 million liability, charged to share capital, related to the federal tax on equity repurchases.

(c) Stock-based compensation

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

	Years Ended December 31,	
	2024	2023
Stock-based compensation on PSAs and RSAs	**$ 13,104**	$ 14,262
Capitalized stock-based compensation (note 5)	**(4,098)**	(5,489)
Total stock-based compensation expense	**$ 9,006**	$ 8,773

(d) Per share amounts

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

	Years Ended December 31,	
	2024	2023
Weighted average number of shares - basic	**100,831,649**	98,790,383
Effect of dilutive instruments	**—**	2,226,910
Weighted average number of shares - diluted	**100,831,649**	101,017,293

In computing diluted per share amounts at December 31, 2024, all RSAs and PSAs (December 31, 2023 - 7,834 RSAs and 14,027 PSAs) were excluded from the calculation as their effect was anti-dilutive. The common shares potentially issuable on the conversion of the convertible debentures were also excluded as they were determined to be anti-dilutive.

(e) Dividend

The Board declared a dividend of $0.04 per share for the months of January through June 2024, $0.043 per share for the month of July 2024, and $0.043333 per share for the months of August through December 2024, a total of $0.50 per share for the year (January through December 2023 - $0.04 per share, $0.48 per share for the year). Dividends of $0.043333 per share were declared and outstanding at December 31, 2024 and were paid in January 2025. Dividends for the month of January 2025 have been declared and paid at $0.043333 per share. Dividends for the month of February 2025 have been declared at $0.043333 per share.

12. REVENUE

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

	Years Ended December 31,	
	2024	2023
Oil	**$ 635,618**	$ 640,389
Natural gas liquids	**14,218**	13,052
Natural gas	**6,867**	16,934
Total petroleum and natural gas revenue	**$ 656,703**	$ 670,375
Processing	**8,592**	7,780
Total petroleum, natural gas and processing revenue	**$ 665,295**	$ 678,155

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.

13. FINANCE EXPENSE

	Years ended December 31,	
	2024	2023
Interest on bank debt and term debt	**$ 20,133**	$ 31,041
Interest on senior unsecured notes	**4,778**	—
Interest on convertible debentures	**4,084**	2,889
Interest on lease and other obligations	**1,929**	2,373
Realized gain on interest contracts	**(884)**	(1,840)
Total interest expense	**$ 30,040**	$ 34,463
Other finance expenses	**—**	870
Accretion of term loan (note 8)	**3,972**	2,094
Accretion of decommissioning obligations (note 10)	**8,412**	7,880
Accretion of convertible debentures (note 9)	**1,553**	1,423
Accretion of senior unsecured notes (note 8)	**277**	—
Unrealized loss on interest contracts	**—**	1,422
Total finance expense	**$ 44,254**	$ 48,152

14. TRANSACTION AND OTHER COSTS

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

	Years Ended December 31,	
	2024	2023
Transaction costs related to acquisitions and disposals	**$ 401**	$ 362
Debt settlement and restructuring costs (note 8)	**6,571**	101
Other costs	**520**	332
Bad debt provision	**270**	628
Total transaction and other costs	**$ 7,762**	$ 1,423

15. 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. Given the significant increase in commodity prices and various other factors, the Corporation determined it probable that future taxable profits will be available to utilize the deferred tax asset. Accordingly, the Corporation recognized a deferred income tax asset of approximately $84.2 million as at December 31, 2024.

(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 income (loss) before income taxes.

This difference results from the following items:

	Years ended December 31,	
	2024	2023
Income (loss) before income taxes	**$ (70,380)**	$ 20,621
Combined federal and provincial statutory rate	**24.1 %**	24.1 %
Expected income tax expense (recovery)	**$ (16,962)**	$ 4,970
Difference resulting from:		
Flow through shares	**—**	1,734
Non-deductible items, rate changes & other	**298**	(1,834)
Income tax expense (recovery)	**$ (16,664)**	$ 4,870

(b) Deferred income tax asset

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

	Years ended December 31,	
	2024	2023
Property, plant and equipment	**$ (126,060)**	$ (149,538)
Decommissioning obligations	**70,294**	63,487
Convertible debentures	**(2,145)**	(2,524)
Fair value of financial contracts	**(571)**	(611)
Non-capital losses	**133,097**	145,605
Share issue costs	**604**	953
Lease and other obligations	**3,767**	5,337
Other	**5,250**	4,300
	$ 84,236	$ 67,009

The Corporation has $562.3 million in non-capital losses that begin expiring in the year 2034.

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

	January 1, 2024	Recognized in SOICI [(1)]	Recognized in equity	December 31, 2024
Property, plant and equipment	$ (149,538)	$ 23,478	$ —	**$ (126,060)**
Decommissioning obligations	63,487	6,807	—	**70,294**
Convertible debentures	(2,524)	379	—	**(2,145)**
Fair value of financial contracts	(611)	40	—	**(571)**
Non-capital losses	145,605	(12,508)	—	**133,097**
Share issue costs	953	(357)	8	**604**
Lease and other obligations	5,337	(1,570)	—	**3,767**
Other	4,300	395	555	**5,250**
	$ 67,009	$ 16,664	$ 563	**$ 84,236**

	January 1, 2023	Recognized in SOICI [(1)]	Recognized in equity	Other	December 31, 2023
Property, plant and equipment	$ (151,529)	$ 4,970	$ —	$ (2,979)	**$ (149,538)**
Decommissioning obligations	63,288	199	—	—	**63,487**
Convertible debentures	981	(1,492)	(2,013)	—	**(2,524)**
Fair value of financial contracts	313	(924)	—	—	**(611)**
Non-capital losses	150,784	(5,179)	—	—	**145,605**
Share issue costs	1,228	(326)	51	—	**953**
Lease and other obligations	6,913	(1,576)	—	—	**5,337**
Other	4,417	(542)	418	7	**4,300**
	$ 76,395	$ (4,870)	$ (1,544)	$ (2,972)	**$ 67,009**

[(1)] SOICI defined as Statement of Income (Loss) and Comprehensive Income (Loss).

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

	Years Ended December 31, 2024	2023
Property, plant and equipment	**$ 26,228**	$ 25,751

16. KEY MANAGEMENT PERSONNEL COMPENSATION

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

	Years ended December 31, 2024	2023
Salaries and wages	**$ 3,924**	$ 3,904
Short-term employee benefits	**160**	154
Stock-based compensation [(1)]	**6,660**	7,013
	$ 10,744	$ 11,071

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

17. SUPPLEMENTAL INFORMATION

(a) Changes in Non-Cash Working Capital Items

	Years ended December 31,	
	2024	2023
Accounts receivable	**$ (5,243)**	$ 6,641
Prepaid expenses and deposits	**2,122**	(2,323)
Accounts payable and accrued liabilities	**10,043**	(7,984)
Working capital on disposal and other	**(17)**	—
Change in non-cash working capital	**$ 6,905**	$ (3,666)
These changes relate to the following activities		
Operating	**$ 7,191**	$ (9,350)
Investing	**(286)**	5,684
	$ 6,905	$ (3,666)

(b) Income Statement Presentation

The Corporation's Statement of Income (Loss) and Comprehensive Income (Loss) is prepared according to the nature of each expense, with the exception of employee compensation costs which are included in the operating expense, general and administrative expense, and transaction and other costs line items. For 2024, employee compensation costs of $0.7 million (2023 - $0.7 million) were included in operating expenses, $18.4 million (2023 - $16.8 million) were included in general and administrative expenses and $0.5 million (2023 - nil) were included in transaction and other costs on a gross basis.

18. COMMITMENTS

Future minimum payments relating to variable office rent payments and firm transport commitments, except lease payments included in note 19 "Leases", at December 31, 2024 are as follows:

Less than 1 year	$ 5,070
1 - 3 years	6,298
3 - 5 years	2,743
5+ years	4,250
Total commitments	**$ 18,361**

19. LEASES

The Corporation has recognized the following lease and other obligations:

		Total
Lease and other obligations at December 31, 2022	$	28,799
Dispositions		(786)
Additions		40
Interest expense		2,373
Principal payments		(7,620)
Lease and other obligations at December 31, 2023	$	22,806
Dispositions		(3,578)
Additions		1,246
Interest expense		1,929
Principal payments		(6,777)
Lease and other obligations at December 31, 2024 [(1)]	**$**	**15,626**
Current portion	**$**	**4,092**
Long term portion	**$**	**11,534**

[(1)] Inclusive of an other obligation of $4.0 million (December 31, 2023 - $6.0 million).

The Corporation has recognized the following right-of-use assets, included in note 5, "Property, Plant and Equipment":

		Total
Right-of-use assets at December 31, 2022	$	19,545
Dispositions		(786)
Additions		40
Depreciation		(3,560)
Right-of-use assets at December 31, 2023	$	15,239
Dispositions		(1,914)
Additions		1,246
Impairment allocation (note 6)		(2,867)
Depreciation		(3,434)
Right-of-use assets at December 31, 2024	**$**	**8,270**

On December 19, 2024, the Corporation cancelled the term of an existing lease resulting in a derecognition of a nil right-of-use asset and a $1.7 million lease obligation, resulting in a gain on derecognition of $1.7 million. This is inclusive of the overall loss on disposal of certain assets in Northwest Alberta. Please refer to note 5 "Property, Plant and Equipment".

During the year ended December 31, 2024, as a result of lease incentives from an office lease, the Corporation derecognized a $1.9 million right-of-use asset and lease obligation.

During the year ended December 31, 2024, the Corporation extended the term of existing leases resulting in the recognition of an incremental $1.2 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, 2024, the Corporation recognized $3.4 million (2023 - $3.6 million) of depreciation, $2.9 million of impairment on right-of-use assets (2023 - nil) and $6.8 million (2023 - $7.6 million) of lease payments, of which $1.9 million (2023 - $2.4 million) has been recorded as interest expense.

Future minimum payments relating to lease and other obligations at December 31, 2024 are as follows:

Less than 1 year	$	5,360
1 - 3 years		5,715
3+ years		7,263
Lease and other obligation payments	**$**	**18,338**