FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended			Nine Months Ended September 30,		
	Sep 30, 2017	June 30, 2017	% Change	**2017**	2016	% Change
Financial highlights						
Oil sales	**50,563**	54,216	(7)%	**152,973**	104,345	47 %
NGL sales	**2,158**	2,282	(5)%	**6,680**	3,391	97 %
Natural gas sales	**3,704**	4,275	(13)%	**11,995**	7,597	58 %
Total oil, natural gas, and NGL revenue	**56,425**	60,773	(7)%	**171,648**	115,333	49 %
Adjusted funds from operations[1]	**22,985**	27,018	(15)%	**71,643**	48,692	47 %
Per share basic ($)	**0.10**	0.12	(17)%	**0.32**	0.22	45 %
Capital expenditures - petroleum & gas properties[2]	**26,652**	15,064	77 %	**75,757**	50,447	50 %
Capital expenditures - acquisitions & dispositions[2]	**36,650**	35,716	3 %	**72,097**	(41,141)	nm
Total capital expenditures[2]	**63,302**	50,780	25 %	**147,854**	9,306	nm
Net debt at end of period[3]	**246,398**	208,061	18 %	**246,398**	141,155	75 %
Operating highlights						
Production:						
Oil (bbls per day)	**11,380**	11,522	(1)%	**11,071**	9,529	16 %
NGLs (bbls per day)	**627**	678	(8)%	**663**	592	12 %
Natural gas (mcf per day)	**17,997**	17,547	3 %	**17,618**	16,693	6 %
Total (boe per day) (6:1)	**15,007**	15,125	(1)%	**14,670**	12,903	14 %
Average realized price (excluding hedges):						
Oil ($ per bbl)	**48.29**	51.71	(7)%	**50.62**	39.96	27 %
NGL ($ per bbl)	**37.42**	36.99	1 %	**36.92**	20.91	77 %
Natural gas ($ per mcf)	**2.24**	2.68	(16)%	**2.49**	1.66	50 %
Netback ($ per boe)						
Oil, natural gas and NGL sales	**40.87**	44.16	(7)%	**42.86**	32.62	31 %
Realized gain (loss) on commodity contracts	**0.12**	(0.75)	nm	**(0.71)**	1.74	nm
Royalties	**(5.27)**	(5.58)	(6)%	**(5.49)**	(3.73)	47 %
Operating expenses	**(13.73)**	(12.98)	6 %	**(13.54)**	(12.06)	12 %
Transportation expenses	**(1.40)**	(1.48)	(5)%	**(1.48)**	(1.60)	(8)%
Operating netback	**20.59**	23.37	(12)%	**21.64**	16.97	28 %
G&A expense	**(1.94)**	(1.95)	(1)%	**(1.94)**	(1.87)	4 %
Interest expense	**(2.01)**	(1.79)	12 %	**(1.81)**	(1.32)	37 %
Corporate netback	**16.64**	19.63	(15)%	**17.89**	13.78	30 %
Common shares outstanding, end of period	**232,920**	225,766	3 %	**232,920**	222,278	5 %
Weighted average basic shares outstanding	**228,309**	225,766	1 %	**226,623**	221,236	2 %
Stock option dilution	**—**	3,790	nm	**6,357**	—	nm
Weighted average diluted shares	**228,309**	229,556	(1)%	**232,980**	221,236	5 %

1 Management uses adjusted funds from operations (cash flow from operating activities before changes in non-cash working capital, decommissioning expenditures, transaction costs and cash settled stock-based compensation) to analyze operating performance and leverage. Adjusted funds from operations as presented does not have any standardized meaning prescribed by IFRS and, therefore, may not be comparable with the calculation of similar measures for other entities.

2 Please see capital expenditures discussion in this MD&A.

3 The Company defines net debt as outstanding bank debt plus or minus working capital, however, excluding the fair value of financial contracts and other current obligations.

4 The Company views this change calculation as not meaningful, or “nm”.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) of the consolidated financial position and results of operations of Surge Energy Inc. ("Surge" or the "Company"), which includes its subsidiaries and partnership arrangements, is for the three and nine months ended September 30, 2017 and 2016. For a full understanding of the financial position and results of operations of the Company, the MD&A should be read in conjunction with the documents filed on SEDAR, including historical financial statements, MD&A and the Annual Information Form (AIF). These documents are available at www.sedar.com.

Surge's interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

DESCRIPTION OF BUSINESS

Surge is an E&P company positioned to provide shareholders with attractive long term sustainability by exploiting the Company's assets in a financially disciplined manner and by acquiring additional long life oil and gas assets of a similar nature. Surge's assets are comprised primarily of operated oil-weighted properties characterized by large OOIP crude oil reservoirs with low recovery factors and an extensive inventory of more than seven hundred gross low risk development drilling locations and several high quality waterflood projects. Surge will continue to identify and actively pursue strategic acquisitions with synergistic characteristics such as existing long life producing assets or opportunities with significant, low risk upside potential.

NON-IFRS MEASURES

The terms "adjusted funds from operations", "adjusted funds from operations per share", "netback", and "net debt" used in this discussion are not recognized measures under International Financial Reporting Standards (IFRS). Management believes that in addition to net income, adjusted funds from operations, netback, and net debt are useful supplemental measures as they provide an indication of the results generated by the Company's principal business activities before the consideration of how those activities are financed or how the results are taxed. Investors are cautioned, however, that these measures should not be construed as alternatives to net income determined in accordance with IFRS, as an indication of Surge's performance.

Surge's method of calculating adjusted funds from operations may differ from that of other companies, and, accordingly, may not be comparable to measures used by other companies. Surge determines adjusted funds from operations as cash flow from operating activities before changes in non-cash working capital, decommissioning expenditures, transaction costs and cash settled stock-based compensation.

Adjusted funds from Operations

($000s)	**Q3 2017**	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Cash flow from operating activities	**$ 24,589**	$ 24,628	$ 15,825	$ 16,199	$ 18,241
Change in non-cash working capital	**(2,954)**	1,110	4,212	4,129	274
Decommissioning expenditures	**686**	366	576	763	191
Transaction costs	**138**	459	558	15	—
Cash settled stock-based compensation	**526**	455	469	428	432
Adjusted funds from operations	**$ 22,985**	$ 27,018	$ 21,640	$ 21,534	$ 19,138

Adjusted funds from operations per share is calculated using the same weighted average basic and diluted shares used in calculating income per share. Operating and corporate netbacks are also presented. Operating netbacks represent Surge's revenue, realized gains or losses on financial contracts, less royalties and operating and transportation expenses. Corporate netbacks represent Surge's operating netback, less general and administrative and interest expenses, in order to determine the amount of funds generated by production. Operating and corporate netbacks have been presented on a per barrels of oil equivalent ("boe") basis. This reconciliation is shown within the MD&A. Share based consideration included in acquisition capital has been calculated using the share price on the date of announcement.

The Company defines net debt as outstanding bank debt plus or minus working capital, however, excluding the fair value of financial contracts and other current long term obligations.

Surge's management is responsible for the integrity of the information contained in this report and for the consistency between the MD&A and financial statements. In the preparation of these financial statements, estimates are necessary to make a determination of future values for certain assets and liabilities. Management believes these estimates have been based on careful judgments and have been properly presented. The financial statements have been prepared using policies and procedures established by management and fairly reflect Surge's financial position, results of operations and adjusted funds from operations.

Surge's Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A. This MD&A is dated November 7, 2017.

OPERATIONS

Drilling

	Drilling		Success	Working
	Gross	Net	rate (%) net	interest (%)
Q1 2017	14.0	13.0	100%	93%
Q2 2017	5.0	4.3	100%	86%
Q3 2017	13.0	11.5	100%	88%
Total	**32.0**	**28.8**	**100%**	**90%**

Surge achieved a 100 percent success rate during the nine months ended September 30, 2017, drilling 32 gross (28.8 net) wells. During the third quarter of 2017, Surge drilled 13 gross (11.5 net) wells, including seven gross (5.5 net) wells at Shaunavon, five gross (5.0 net) at Eyehill and one gross (1.0 net) well at Valhalla. 11 (9.5 net) wells were on production at quarter end with 1.0 net Valhalla well and 1.0 net Shaunavon well to be brought on production in the fourth quarter of 2017.

Production

	Three Months Ended			**Nine Months Ended**	
	Sep 30, 2017	Jun 30, 2017	Sep 30, 2016	**Sep 30, 2017**	Sep 30, 2016
Oil (bbls per day)	**11,380**	11,522	9,807	**11,071**	9,529
NGL (bbls per day)	**627**	678	597	**663**	592
Oil and NGL (bbls per day)	**12,007**	12,200	10,404	**11,734**	10,121
Natural gas (mcf per day)	**17,997**	17,547	16,296	**17,618**	16,693
Total (boe per day) (6:1)	**15,007**	15,125	13,120	**14,670**	12,903
% Oil and NGL	**80%**	81%	79%	**80%**	78%

Surge achieved production of 15,007 boe per day in the third quarter of 2017 (80 percent oil and NGLs), a one percent decrease from the average production rate in the second quarter of 2017 and a 14 percent increase from the average production rate in the same period of 2016.

During the nine months ended September 30, 2017, Surge achieved production of 14,670 boe per day (80 percent oil and NGLs), a 14 percent increase when compared to the same period of 2016.

Surge's successful third quarter 2017 drilling program combined with an asset acquisition in Central Alberta that occurred on September 8, 2017, helped offset natural declines during the period, resulting in an average daily production rate similar to the immediately proceeding quarter. The acquired assets averaged approximately 800 boe per day, contributing approximately 200 boe per day during the third quarter of 2017. Of the 11.5 net wells drilled during the period, 9.5 net wells were on production at quarter end with 1.0 net Valhalla well and 1.0 net Shaunavon well to be brought on production in the fourth quarter of 2017.

The increase in production volumes for the three and nine months ended September 30, 2017 as compared to the same periods of 2016 is primarily due to the successful 2016 and 2017 drilling programs in addition to the asset acquisitions in the first nine months of 2017. The asset acquisitions contributed combined average production of approximately 950 boe per day and 530 boe per day for the three and nine months ended September 30, 2017, respectively.

Revenue, Realized Prices and Benchmark Pricing

	Three Months Ended			Nine Months Ended	
($000s except per amount)	**Sep 30, 2017**	Jun 30, 2017	Sep 30, 2016	**Sep 30, 2017**	Sep 30, 2016
Revenue					
Oil	**50,563**	54,216	40,656	**152,973**	104,345
NGL	**2,158**	2,282	1,255	**6,680**	3,391
Oil and NGL	**52,721**	56,498	41,911	**159,653**	107,736
Natural gas	**3,704**	4,275	3,333	**11,995**	7,597
Total oil, natural gas and NGL revenue	**56,425**	60,773	45,244	**171,648**	115,333
Realized Prices					
Oil ($ per bbl)	**48.29**	51.71	45.06	**50.62**	39.96
NGL ($ per bbl)	**37.42**	36.99	22.86	**36.92**	20.91
Oil and NGL ($ per bbl)	**47.73**	50.89	43.79	**49.84**	38.85
Natural gas ($ per mcf)	**2.24**	2.68	2.22	**2.49**	1.66
Total oil, natural gas, and NGL revenue before realized commodity contracts ($ per boe)	**40.87**	44.16	37.48	**42.86**	32.62
Benchmark Prices					
WTI (US$ per bbl)	**48.20**	48.28	44.94	**49.47**	41.33
CAD/USD exchange rate	**1.25**	1.34	1.31	**1.30**	1.32
WTI (C$ per bbl)	**60.25**	64.69	58.87	**64.31**	54.55
Edmonton Light Sweet (C$ per bbl)	**56.62**	61.83	54.67	**60.77**	50.01
WCS (C$ per bbl)	**47.90**	49.98	41.05	**49.09**	36.32
AECO Daily Index (C$ per mcf)	**1.46**	2.78	2.32	**2.31**	1.85

Total oil, natural gas and NGL revenue for the third quarter of 2017 decreased seven percent when compared to the second quarter of 2017. The decrease is primarily due to the seven percent decrease in realized price per barrel of oil as compared to the second quarter of 2017. This decrease correlates to the eight percent decrease in Edmonton light sweet and four percent decrease in WCS during the same period. Additionally, although WTI USD per bbl during the third quarter of 2017 was comparable to the immediate prior quarter, a significant change in the CAD/USD exchange rate lead to a seven percent decrease in WTI CAD per bbl during the same period. Surge's oil production was comparable to the second quarter of 2017.

Total oil, natural gas and NGL revenue for the third quarter of 2017 increased 25 percent when compared to the same period of 2016. The increase is primarily due to the 14 percent increase in production, particularly higher value oil production, which increased 16 percent compared to the third quarter of 2016. Surge also benefited from an increase in average realized price per barrel of oil during the third quarter of 2017, increasing seven percent compared to the third quarter of 2016 in addition to tightening differentials throughout the period. This compares to a four percent increase in Edmonton light sweet and 17 percent increase in WCS during the same period.

Total oil, natural gas and NGL revenue for the nine months ended September 30, 2017 increased 49 percent when compared to the same period of 2016. The increase is primarily due to a significant increase in realized oil and NGL pricing, which is, directly correlated with an increase in benchmark pricing and tightening differentials, in addition to a 14 percent increase in production. Surge's average realized price per barrel of oil during the first nine months of 2017 increased 27 percent compared to the same period of 2016. This compares to a 22 percent increase in Edmonton light sweet and 35 percent increase in WCS during the same period.

ROYALTIES

	Three Months Ended			Nine Months Ended	
($000s except per boe)	**Sep 30, 2017**	Jun 30, 2017	Sep 30, 2016	**Sep 30, 2017**	Sep 30, 2016
Royalties	**7,276**	7,680	5,745	**21,993**	13,201
% of Revenue	**13%**	13%	13%	**13%**	11%
$ per boe	**5.27**	5.58	4.76	**5.49**	3.73

As royalties are sensitive to both commodity prices and production levels, the corporate royalty rates will fluctuate with commodity prices, well production rates, production decline of existing wells, and performance and location of new wells drilled.

Royalties as a percentage of revenue were consistent for the third quarter of 2017 in comparison to the second quarter of 2017 and the same period of 2016. The increase in royalties as a percentage of revenue for the nine months ended September 30, 2017 as compared to the same period of 2016 is primarily due to a favourable gas cost allowance ("GCA") adjustment of approximately $1.0 million recognized in the second quarter of 2016.

OPERATING EXPENSES

	Three Months Ended			Nine Months Ended	
($000s except per boe)	**Sep 30, 2017**	Jun 30, 2017	Sep 30, 2016	**Sep 30, 2017**	Sep 30, 2016
Operating expenses	**18,950**	17,866	13,609	**54,221**	42,635
$ per boe	**13.73**	12.98	11.27	**13.54**	12.06

Operating expenses per boe during the third quarter of 2017 increased six percent when compared to the second quarter of 2017 and increased 22 percent as compared to the third quarter of 2016. The increase in operating expenses and operating expenses per boe is primarily attributable to properties acquired in Central Alberta during the second and third quarters of 2017 with higher operating expenses per boe than the Company's average. Additionally, operating expenses during the third quarter of 2016 were positively impacted by a favourable 13-month adjustment in the amount of $0.8 million. Operating expenses per boe are expected to decrease as the acquired assets are developed and field operations are optimized. Surge currently expects operating expenses per boe for the remainder of 2017 and into the first half of 2018 to average $13.45.

Operating expenses per boe during the first nine months of 2017 increased 12 percent as compared to the same period of 2016. In addition to the acquisition of high operating cost assets throughout 2017, the Company incurred higher than normal operating expenses during the first quarter of 2017, focusing on reactivations and workovers during the period as crude oil pricing had reached levels to incentivize the expenditure.

TRANSPORTATION EXPENSES

	Three Months Ended			Nine Months Ended	
($000s except per boe)	**Sep 30, 2017**	Jun 30, 2017	Sep 30, 2016	**Sep 30, 2017**	Sep 30, 2016
Transportation expenses	**1,939**	2,033	1,541	**5,930**	5,672
$ per boe	**1.40**	1.48	1.28	**1.48**	1.60

Transportation expenses per boe for the third quarter of 2017 decreased five percent compared to the second quarter of 2017 and is primarily a result of recently acquired production in Central Alberta being pipeline connected.

Transportation expenses per boe for the third quarter of 2017 increased nine percent compared to the same period of 2016. The increase is primarily due to incremental production in the Eyehill area, as a result of the Company’s capital expenditure focus in the area. Production from Eyehill is trucked to nearby third-party facilities for blending purposes, in order to optimize its received price.

The decrease in transportation expenses per boe in the first nine months of 2017 as compared to the same period of 2016 is primarily due to a one-time reclassification of trucking costs in the same period of 2016. Excluding that adjustment, transportation expenses during the nine months ended September 30, 2016 would have been approximately $1.46 which is in line with the current period and historical levels.

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

	Three Months Ended			Nine Months Ended	
($000s except per boe)	**Sep 30, 2017**	Jun 30, 2017	Sep 30, 2016	**Sep 30, 2017**	Sep 30, 2016
G&A expenses	**3,833**	3,929	3,277	**11,454**	9,884
Recoveries and capitalized amounts	**(1,160)**	(1,249)	(1,268)	**(3,692)**	(3,287)
Net G&A expenses	**2,673**	2,680	2,009	**7,762**	6,597
Net G&A expenses $ per boe	**1.94**	1.95	1.66	**1.94**	1.87

Net G&A expenses per boe of $1.94 for the third quarter of 2017 were one percent lower than the second quarter of 2017 and 17 percent higher as compared to the same period of the prior year. After several historical quarters of realizing positive reductions, net G&A expenses have stabilized and net G&A expenses per boe have consistently remained in the $1.80 - $2.00 range throughout 2016 and 2017.

TRANSACTION COSTS

	Three Months Ended			Nine Months Ended	
($000s except per boe)	**Sep 30, 2017**	Jun 30, 2017	Sep 30, 2016	**Sep 30, 2017**	Sep 30, 2016
Transaction costs	**138**	459	—	**1,155**	230
$ per boe	**0.10**	0.33	—	**0.29**	0.07

For the nine months ended September 30, 2017, the Company incurred transaction costs of $0.29 per boe related to the acquisitions and disposals conducted in the period. The Company incurred $0.07 per boe during the same period of 2016 related to acquisitions and disposals.

FINANCE EXPENSES

	Three Months Ended			Nine Months Ended	
($000s except per boe)	**Sep 30, 2017**	Jun 30, 2017	Sep 30, 2016	**Sep 30, 2017**	Sep 30, 2016
Interest expense on credit facility	**2,649**	2,344	1,547	**6,882**	4,679
$ per boe	**1.92**	1.70	1.28	**1.72**	1.32
Interest expense on finance lease	**122**	123	—	**367**	—
$ per boe	**0.09**	0.09	—	**0.09**	—
Accretion expense	**1,085**	920	710	**2,789**	2,216
$ per boe	**0.79**	0.67	0.59	**0.70**	0.63
Finance expenses	**3,856**	3,387	2,257	**10,038**	6,895
$ per boe	**2.79**	2.46	1.87	**2.51**	1.95

The increase in interest expense during the third quarter of 2017 as compared to the second quarter of 2017 is primarily due to higher debt levels as a result of the third quarter 2017 asset acquisition.

The increase in interest expense for the three and nine months ended September 30, 2017 as compared to the same periods of 2016 is primarily due to higher debt levels as a result of the second and third quarter 2017 asset acquisitions, the 2017 capital expenditures program, and a higher effective interest rate of prime plus approximately 1.9% compared to prime plus 1.5% in the same periods of 2016. Additionally, $0.4 million of interest expense related to finance lease obligations was incurred during the first nine months of 2017 (2016 - $nil).

In the fourth quarter of 2016, the Company entered into two finance lease contracts with total combined obligations of $6.1 million and 20 year terms. A portion of the $0.1 million monthly payment is recorded as interest expense on the finance lease, with the remaining portion reducing the obligation.

Accretion represents the change in the time value of the decommissioning liability as well as a firm transportation agreement. Accretion expense increased in the third quarter of 2017 as compared to the second quarter of 2017 and third quarter of 2016 primarily due to an increase in the decommissioning liability resulting from an unfavorable change in estimate and additional liability associated with assets acquired during the second and third quarters of 2017.

NETBACKS

	Three Months Ended			**Nine Months Ended**	
($ per boe, except production)	**Sept 30, 2017**	Jun 30, 2017	Sept 30, 2016	**Sept 30, 2017**	Sept 30, 2016
Average production (boe per day)	**15,007**	15,125	13,120	**14,670**	12,903
Revenue	**40.87**	44.16	37.48	**42.86**	32.62
Realized gain (loss) on commodity contracts	**0.12**	(0.75)	(1.38)	**(0.71)**	1.74
Royalties	**(5.27)**	(5.58)	(4.76)	**(5.49)**	(3.73)
Operating costs	**(13.73)**	(12.98)	(11.27)	**(13.54)**	(12.06)
Transportation costs	**(1.40)**	(1.48)	(1.28)	**(1.48)**	(1.60)
Operating netback	**20.59**	23.37	18.79	**21.64**	16.97
G&A expense	**(1.94)**	(1.95)	(1.66)	**(1.94)**	(1.87)
Interest expense	**(2.01)**	(1.79)	(1.28)	**(1.81)**	(1.32)
Corporate netback	**16.64**	19.63	15.85	**17.89**	13.78

Surge's operating netback for the third quarter of 2017 decreased 12 percent compared to the second quarter of 2017 and increased 10 percent compared to the same period of 2016. The decrease in Surge's operating netback as compared to the second quarter of 2017 is primarily attributable to a decrease in revenue per boe and an increase in operating costs per boe, offset by a gain on commodity contracts of $0.12 per boe as compared to a loss of $0.75 in the second quarter of 2017. The corporate netback was further impacted by a 12 percent increase in interest expense per boe as compared to the second quarter of 2017.

The increase in Surge's operating netback as compared to the third quarter of 2016 is primarily attributable to an increase in revenue per boe and a gain on commodity contracts of $0.12 per boe as compared to a loss of $1.38 in the third quarter of 2016, slightly offset by an increase in operating costs per boe. The corporate netback was further impacted by an 57 percent increase in interest expense per boe as compared to the second quarter of 2017.

Surge's operating netback for the first nine months of 2017 increased 28 percent when compared to the same period of 2016. The increase in Surge's operating netback is primarily attributable to an increase in revenue per boe, offset by an increase in royalties and operating costs per boe and a loss on commodity contracts of $0.71 per boe as compared to a gain on commodity contracts of $1.74 in the same period of 2016. The corporate netback was further impacted by an increase in interest expense per boe.

ADJUSTED FUNDS FROM OPERATIONS AND CASH FLOW FROM OPERATING ACTIVITIES

	Three Months Ended			Nine Months Ended	
($000s except per share and per boe)	**Sept 30, 2017**	Jun 30, 2017	Sept 30, 2016	**Sept 30, 2017**	Sept 30, 2016
Adjusted funds from operations	**22,985**	27,018	19,138	**71,643**	48,692
Per share - basic ($)	**0.10**	0.12	0.09	**0.32**	0.22
Per share - diluted ($)	**0.10**	0.12	0.09	**0.31**	0.22
$ per boe	**16.65**	19.63	15.86	**17.89**	13.78
Cash flow from operating activities	**24,589**	24,628	18,241	**65,042**	39,121

Adjusted funds from operations for the third quarter of 2017 decreased 15 percent compared to the second quarter of 2017 and increased 21 percent when compared to the third quarter of 2017. On a per basic share basis, adjusted funds from operations decreased 17 percent compared to the same second quarter of 2017 and increased 11 percent compared to the third quarter of 2016.

Adjusted funds from operations for the nine months ended September 30, 2017 increased 47 percent compared to the same period of 2016 and 45 percent on a per basic share basis.

Cash flow from operating activities differs from adjusted funds from operations principally due to the inclusion of changes in non-cash working capital. Included in cash flow from operating activities is a increase in non-cash working capital of $3.0 million in the third quarter of 2017.

STOCK-BASED COMPENSATION

	Three Months Ended			Nine Months Ended	
($000s except per boe)	**Sept 30, 2017**	Jun 30, 2017	Sept 30, 2016	**Sept 30, 2017**	Sept 30, 2016
Stock-based compensation	**6,322**	2,151	3,674	**10,121**	11,293
Capitalized stock-based compensation	**(3,359)**	(1,656)	(1,830)	**(6,613)**	(5,162)
Net stock-based compensation	**2,963**	495	1,844	**3,508**	6,131
Net stock-based compensation $ per boe	**2.15**	0.36	1.53	**0.88**	1.73

Net stock-based compensation expense for the third quarter of 2017 increased $2.5 million as compared to the immediate preceding quarter and increased $1.1 million as compared to the same period of 2016. The increase in net stock-based compensation is primarily the result of a $1.6 million PSA performance multiplier adjustment for awards that vested in the third quarter of 2017 in addition to a $0.1 million expense related to SARs recorded in the third quarter of 2017 as compared to a $0.9 million recovery during the second quarter of 2017 and $nil during the third quarter of 2016.

Net stock-based compensation expense for the nine months ended September 30, 2017 decreased $2.6 million as compared to the same period of 2016, primarily a result of the $2.3 million recovery related to SARs in the current period as compared to a $1.0 million expense in the same period of 2016. The decrease resulting from SARs was partially offset by the PSA performance multiplier adjustment for awards that vested in the third quarter of 2017.

The stock-based compensation recorded in the three and nine months ended September 30, 2017 primarily relates to the stock appreciation rights ("SARs"), restricted share awards ("RSAs") and performance share awards ("PSAs") grants. Subject to terms and conditions of the plan, each RSA entitles the holder to an award value not limited to, but typically paid as to one-third on each of the first, second and third anniversaries of 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. An estimated forfeiture rate of 15% was used to value all awards granted for the period ended September 30, 2017. The weighted average fair value of awards granted for the nine months ended September 30, 2017 is $2.02 per PSA and $2.03 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 Company relative to pre-defined corporate performance measures for a particular period.

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

	Number of restricted share awards	Number of performance share awards
Balance at January 1, 2017	3,602,528	4,809,052
Granted	2,309,961	2,568,496
Reinvested [1]	102,762	143,118
Added by performance factor	—	535,847
Exercised	(1,703,707)	(1,250,311)
Forfeited	(98,098)	(22,292)
Balance at September 30, 2017	**4,213,446**	**6,783,910**

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

DEPLETION AND DEPRECIATION

	Three Months Ended			Nine Months Ended	
($000s except per boe)	**Sept 30, 2017**	Jun 30, 2017	Sept 30, 2016	**Sept 30, 2017**	Sept 30, 2016
Depletion and depreciation expense	**22,261**	22,475	22,510	**65,461**	63,374
$ per boe	**16.12**	16.33	18.65	**16.35**	17.93

Depletion and depreciation are calculated based upon capital expenditures, production rates and proved plus probable reserves. Deducted from the Company’s third quarter of 2017 depletion and depreciation calculation are costs associated with salvage values of $125.1 million. Future development costs for proved and probable reserves of $412.9 million have been included in the depletion calculation.

Depletion and depreciation expense for the three months ended September 30, 2017 decreased as compared to the second quarter of 2017 due to lower production and as compared to the same period of 2016 due to incremental reserve additions over the period. Depletion and depreciation expense for the nine months ended September 30, 2017 increased due to higher production levels and a larger depletable base resulting from the Company's 2016 and 2017 drilling programs and recent acquisitions.

NET INCOME (LOSS)

	Three Months Ended			Nine Months Ended	
($000s except per share)	**Sept 30, 2017**	Jun 30, 2017	Sept 30, 2016	**Sept 30, 2017**	Sept 30, 2016
Net income (loss)	**(8,188)**	6,926	(3,840)	**6,405**	(15,605)
Per share - basic ($)	**(0.04)**	0.03	(0.02)	**0.03**	(0.07)
Per share - diluted ($)	**(0.04)**	0.03	(0.02)	**0.03**	(0.07)

Net loss and net loss per basic share for the three months ended September 30, 2017 increased as compared to the same period of 2016 primarily due to the extent of realized and unrealized gains and losses on commodity contracts in each of the periods.

Net income and net income per basic share for the nine months ended September 30, 2017 increased as compared to the net loss and net loss per basic share during same period of 2016 primarily due to the extent of realized and unrealized gains and losses on commodity contracts in each of the periods.

CAPITAL EXPENDITURES

Capital Expenditure Summary

($000s)	Q1 2017	Q2 2017	Q3 2017	**2017 YTD**	2016 YTD	% Change
Land	1,464	400	1,425	**3,289**	1,219	170 %
Seismic	(6)	442	1,486	**1,922**	135	nm
Drilling and completions	26,176	9,527	19,330	**55,033**	33,691	63 %
Facilities, equipment and pipelines	4,788	3,202	3,161	**11,151**	12,175	(8)%
Other	1,619	1,493	1,250	**4,362**	3,227	35 %
Total exploration and development	34,041	15,064	26,652	**75,757**	50,447	50 %
Acquisitions - cash consideration	—	35,992	36,650	**72,642**	2,037	nm
Property dispositions	(269)	(276)	—	**(545)**	(43,178)	nm
Total acquisitions & dispositions	(269)	35,716	36,650	**72,097**	(41,141)	nm
Total capital expenditures	33,772	50,780	63,302	**147,854**	9,306	nm

During the three and nine months ended September 30, 2017, Surge invested a total of $26.7 million and $75.8 million, respectively, excluding acquisitions and dispositions.

During the third quarter of 2017, Surge invested $19.3 million to drill 13 gross (11.5 net) wells. This reflects an average of approximately $1.2 million per Shaunavon well, $1.1 million per Eyehill well drilled during the period and $2.3 million to drill one Valhalla well that will be completed in the fourth quarter of 2017. The Company also invested $1.2 million to complete 1.8 net Eyehill wells, $1.0 million to complete 2.0 net Shaunavon wells that were drilled in the second quarter of 2017 and $2.6 million on well-site optimizations. In addition, the Company invested $3.2 million in facilities and pipelines, waterflood expansions and pilots, and $4.2 million in land and seismic acquisitions and other capital items, including $1.0 million to acquire 7.5 sections of Crown land in Central Alberta and $1.4 million on a seismic shoot in Central Alberta.

On September 8, 2017, Surge acquired core area assets in Central Alberta for $36.7 million, adding approximately 800 boe per day (95 percent oil and NGLs). On April 12, 2017, Surge acquired core area assets in central Alberta for $36.0 million, adding approximately 750 boe per day (97 percent oil and NGLs). The Company also disposed of non-core assets during the nine months ended September 2017 for total proceeds of $0.5 million.

FACTORS THAT HAVE CAUSED VARIATIONS OVER THE QUARTERS

The fluctuations in Surge's revenue and net earnings from quarter to quarter are primarily caused by changes in production volumes, changes in realized commodity prices and the related impact on royalties, and realized and unrealized gains or losses on derivative instruments. The change in production from the fourth quarter of 2015 through the current quarter is due to Surge's successful drilling program and asset acquisitions over that period. Please refer to the Financial and Operating Results section and other sections of this MD&A for detailed discussions on variations during the comparative quarters and to Surge's previously issued interim and annual MD&A for changes in prior quarters.

Share Capital and Option Activity

	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Weighted common shares	**228,309,427**	225,766,393	225,763,917	225,277,907
Dilutive instruments (treasury method)	**—**	3,790,055	3,427,489	—
Weighted average diluted shares outstanding	**228,309,427**	229,556,448	229,191,406	225,277,907

	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Weighted common shares	221,615,072	221,046,752	221,042,468	221,000,807
Dilutive instruments (treasury method)	—	—	—	—
Weighted average diluted shares outstanding	221,615,072	221,046,752	221,042,468	221,000,807

On November 7, 2017, Surge had 232,920,477 common shares, 1,400,560 warrants, 2,000,000 SAR's, 6,777,058 PSAs, 4,162,707 RSAs, and 7,500 stock options outstanding.

Quarterly Financial Information

	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Oil, Natural gas & NGL sales	**56,425**	60,773	54,450	50,235
Net earnings (loss)	**(8,188)**	6,926	7,667	(14,816)
Net earnings (loss) per share ($):				
Basic	**(0.04)**	0.03	0.03	(0.07)
Diluted	**(0.04)**	0.03	0.03	(0.07)
Adjusted funds from operations	**22,985**	27,018	21,640	21,534
Adjusted funds from operations per share ($):				
Basic	**0.10**	0.12	0.10	0.10
Diluted	**0.10**	0.12	0.09	0.10
Average daily sales				
Oil (bbls/d)	**11,380**	11,522	10,298	9,832
NGL (bbls/d)	**627**	678	684	504
Natural gas (mcf/d)	**17,997**	17,547	17,302	15,036
Barrels of oil equivalent (boe per day) (6:1)	**15,007**	15,125	13,866	12,842
Average sales price				
Natural gas ($/mcf)	**2.24**	2.68	2.58	2.60
Oil ($/bbl)	**48.29**	51.71	52.00	50.14
NGL ($/bbl)	**37.42**	36.99	36.39	27.69
Barrels of oil equivalent ($/boe)	**40.87**	44.16	43.63	42.52

Quarterly Financial Information

	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Oil, Natural gas & NGL sales	45,244	40,943	29,146	40,942
Net loss	(3,840)	(8,084)	(3,681)	(64,597)
Net loss per share ($):				
Basic	(0.02)	(0.04)	(0.02)	(0.29)
Diluted	(0.02)	(0.04)	(0.02)	(0.29)
Adjusted funds from operations	19,138	22,063	7,491	15,302
Adjusted funds from operations per share ($):				
Basic	0.09	0.10	0.03	0.07
Diluted	0.09	0.10	0.03	0.07
Average daily sales				
Oil (bbls/d)	9,807	8,958	9,821	10,297
NGL (bbls/d)	597	564	615	795
Natural gas (mcf/d)	16,296	15,959	17,829	18,570
Barrels of oil equivalent (boe per day) (6:1)	13,120	12,182	13,408	14,187
Average sales price				
Natural gas ($/mcf)	2.22	1.41	1.36	1.86
Oil ($/bbl)	45.06	46.03	29.28	38.54
NGL ($/bbl)	22.86	26.64	13.75	17.08
Barrels of oil equivalent ($/boe)	37.48	36.94	23.89	31.37

LIQUIDITY AND CAPITAL RESOURCES

On September 30, 2017, Surge had $247.8 million drawn on its credit facility with total net debt of $246.4 million, an increase in total net debt of 74 percent as compared to the same date in 2016. At September 30, 2017, Surge had approximately $37.2 million of borrowing capacity in relation to the $285 million credit facility. Subsequent to the quarter, on October 26, 2017, Surge announced that it had entered into a $40 million financing of five-year convertible debentures (see "Subsequent Events" for details of financing). The net proceeds from the financing will be used to pay down a portion of the outstanding indebtedness under the credit facility, providing Surge financial flexibility through the remainder of 2017. The following table sets forth the consolidated capitalization of Surge before and after giving effect to the convertible debenture financing:

($000s)	Outstanding as at September 30, 2017 before giving effect to the financing	Outstanding as at September 30, 2017 after giving effect to the financing(1)
Shareholder Equity		
Share capital	1,295,851	1,295,851
Common shares outstanding	232,920	232,920
Debentures - equity	N/A	3,190
Debt		
Credit Facilities		
Authorized	285,000	285,000
Amount drawn	247,774	209,824
Debentures - liability	N/A	33,491

(1) After deducting the estimated transaction costs of $2.1 million.

Surge monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives. Given the extreme volatility, significant downward pressure and uncertainty of world oil prices beginning in the fourth quarter of 2014 and through to the third quarter of 2017, the Company reduced drilling and capital spending in 2015 and 2016 in order to protect the Company's financial position.

Surge anticipates that the future capital requirements will be funded through a combination of internal cash flow, divestitures, debt and/or equity financing. Furthermore, Surge's flexible capital program and unused bank line further add to Surge's ability to fund future capital requirements. There is no assurance that debt and equity financing will be available on terms acceptable to the Company to meet its capital requirements.

Additionally, Surge reduced the Company's dividend from $0.05 per share per month to $0.025 per share per month beginning with the January 2015 declared dividend as a further measure to protect the Company's financial position and further reduced the Company's dividend to $0.0125 per share per month beginning in November 2015 and $0.00625 per share per month beginning in April 2016. As crude oil pricing began to stabilize, effective February 2017, Surge increased the Company's dividend to $0.00708 per share per month and following a core area acquisition in April 2017, effective May 2017, the dividend was increased to $0.007917 per share per month. Surge's management and Board will continue to assess market conditions regularly until a sustainable recovery in world crude oil prices is realized.

The Company defines net debt as outstanding bank debt plus or minus working capital, however, excluding the fair value of financial contracts and other current obligations as follows.

Net Debt

($000s)	
Bank debt	(247,774)
Accounts receivable	31,104
Prepaid expenses and deposits	4,068
Accounts payable and accrued liabilities	(31,952)
Dividends payable	(1,844)
Total	**(246,398)**

As at September 30, 2017, the Company had an extendible, revolving term credit facility of $285 million with a syndicate of Canadian banks bearing interest at bank rates.

The facility is available on a revolving basis until May 28, 2018. On May 28, 2018, at the Company's discretion, the facility is available on a non-revolving basis for a one-year period, at the end of which time the facility would be due and payable. Alternatively, the facilities may be extended for a further 364-day period at the request of the Company 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 Company's reserves and future commodity prices, there can be no assurance that the amount of the available facilities will not decrease at the next scheduled review. Interest rates vary depending on the ratio of net debt to cash flow. The facility had an effective interest rate of prime plus 1.90 percent as at September 30, 2017 (December 31, 2016 – prime plus 1.75 percent).

Surge's facility is secured by a general assignment of book debts, debentures of $1.5 billion with a floating charge over all assets of the Company 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.

RELATED-PARTY AND OFF-BALANCE-SHEET TRANSACTIONS

Surge was not involved in any off-balance-sheet transactions or related party transactions during the three and nine months ended September 30, 2017.

CONTRACTUAL OBLIGATIONS

The Company is contractually obligated under its debt agreements as outlined under liquidity and capital resources.

As at September 30, 2017, Surge had future minimum payments relating to its operating lease and firm transport commitments totaling $62.7 million, as summarized below:

Commitments

($000s)		
2017	$	4,467
2018		14,216
2019		9,536
2020		9,140
2021		7,508
2022+		17,797
Total	**$**	**62,664**

FINANCIAL INSTRUMENTS

As a means of managing commodity price, interest rate, and foreign exchange volatility, the Company enters into various derivative financial instrument agreements and physical contracts. The fair value of forward contracts and swaps is determined by discounting the difference between the contracted prices and published forward price curves as at the statement of financial position date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates). 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.

The following table summarizes the Company's financial derivatives as at November 7, 2017 by period and by product.

Commodity Contracts

WTI Oil Hedges

Type	Term	bbl/d	Currency	Floor (per bbl)	Ceiling (per bbl)	Swap Price (per bbl)
WTI	2H 2017(1)	1,500	CAD	$60.00	$78.33	—
WTI	Apr-Dec 2017	1,250	USD	—	—	$55.18
WTI	2H 2017	1,000	USD	$47.00	—	—
WTI	2H 2017	800	USD	—	$59.38	—
WTI	1H 2018	1,000	USD	$47.50	—	—
WTI	2018	750	USD	$45.00	$58.00	—
WTI	2018	500	CAD	$60.00	$68.91	—
WTI	2018(2)	500	USD	—	$57.45	—
WTI	1H 2018	600	USD	—	$63.19	—
WTI	1H 2018	1,500	USD	$50.00	$60.87	—
WTI	2H 2018	1,500	USD	$50.00	—	—

Oil Differential Hedges

Type	Term	bbl/d	Currency	Floor (per bbl)	Ceiling (per bbl)	Swap Price (per bbl)
WCS Swap	2017	500	USD	—	—	US$WTI less $22.00
WCS Swap	Apr-Dec 2017	500	USD	—	—	US$WTI less $14.50
WCS Collar	1H 2018	1,500	USD	US$WTI less $13.00	US$WTI less $18.00	—
MSW (EDM) Swap	2017	2,000	USD	—	—	US$WTI less $3.18

Natural Gas Hedges

Type	Term	Volume	Currency	Swap Price
Chicago Swap(3)	Jan-Oct 2017	10,000 mcf/d	CAD	$3.63 per mcf
AECO Swap	Nov 2017-Oct 2018	2,000 gj/d	CAD	$2.30 per gj

CAD/USD FX Hedges

Type	Term	Monthly Notional Amount (US$)	Total Notional Amount (US$)	Swap Rate (CAD$ per USD$)
Avg Rate Forward	Apr-Dec 2017	$2,000,000	$18,000,000	$1.33
Avg Rate Forward	2018	$2,000,000	$24,000,000	$1.30

(1) If market prices settle at or below CAD$50 WTI, the Company will receive a locked-in cash settlement of the market price plus CAD$10 per bbl on 1,500 bbl/d in 2H 2017.
(2) Surge purchased a call at USD$57.45/bbld, allowing the Company the return to participation in rising crude oil prices above US$57 WTI.
(3) Surge entered into a Chicago-priced swap as the Company's firm transport contracts settle against the Chicago index.

SUBSEQUENT EVENTS

Subsequent to September 30, 2017, the Company entered into an agreement with a syndicate of underwriters (the "Underwriters"), led by National Bank Financial Inc. pursuant to which the Underwriters will purchase $40.0 million principal amount of convertible subordinated unsecured debentures (the "Debentures") at a price of $1,000 per Debenture (the "Offering"), on a "bought deal" basis.

Net proceeds from the Offering will be used to pay down a portion of the outstanding indebtedness under the Company's revolving term credit facility, which has been used in the normal course of business and operations in connection with asset acquisitions, capital and other expenditures made by the Company, including the Southeast Alberta acquisition completed in the third quarter of 2017.

The Debentures will mature and be repayable on December 31, 2022 (the "Maturity Date") and will accrue interest at the rate of 5.75 percent per annum payable semi-annually in arrears on December 31 and June 30 of each year (each an "Interest Payment Date"), with the first such payment to be made June 30, 2018. At the holder's option, the Debentures may be converted into common shares of the Company at any time prior to the close of business on the earlier of the business day immediately preceding (i) the Maturity Date, (ii) if called for redemption, the date fixed for redemption by the Company, or (iii) if called for repurchase in the event of a change of control, the payment date, at a conversion price of $2.75 per share, subject to adjustment in certain events (the "Conversion Price"). This represents a conversion rate of approximately 363.6364 common shares for each $1,000 principal amount of Debentures, subject to certain anti-dilution provisions. Holders who convert their Debentures will receive accrued and unpaid interest for the period from the date of the latest Interest Payment Date immediately prior to the date of conversion.

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

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

CONTROLS AND PROCEDURES

The Chief Executive Officer and Chief Financial Officer are responsible for designing internal controls over financial reporting ("ICFR") or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") 2013 framework provides the basis for management's design of internal controls over financial reporting. Management and the Board work to mitigate the risk of a material misstatement in financial reporting; however, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met and it should not be expected that the disclosure and internal control procedures will prevent all errors or fraud.

There were no changes in the Company's ICFR during the quarter ended September 30, 2017 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Disclosure Controls

Disclosure controls and procedures have been designed to ensure that information to be disclosed by the Company is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosures.

The President and Chief Executive Officer and the Chief Financial Officer of Surge evaluated the design of the Company's disclosure controls and procedures ("DC&P"). Based on that evaluation, the officers concluded that Surge's DC&P were designed properly as at September 30, 2017.

Internal Controls over Financial Reporting

Internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with IFRS.

Under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, Surge conducted an evaluation of the design of the Company's ICFR as at September 30, 2017 based on the COSO framework. Based on this evaluation, the officers concluded that as of September 30, 2017, Surge's ICFR was properly designed.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to make certain judgments and estimates. Due to the timing of when activities occur compared to the reporting of those activities, management must estimate and accrue operating results and capital spending. Changes in these judgments and estimates could have a material impact on our financial results and financial condition.

Reserves

The process of estimating reserves is critical to several accounting estimates. It requires significant judgments based on available geological, geophysical, engineering and economic data. These estimates may change substantially as data from ongoing development and production activities becomes available, and as economic conditions impacting oil and gas prices, operating costs and royalty burdens change. Reserve estimates impact net income through depletion, the determination of decommissioning liabilities and the application of impairment tests.

Revisions or changes in reserve estimates can have either a positive or a negative impact on net income.

Forecasted Commodity Prices

Management's estimates of future crude oil and natural gas prices are critical as these prices are used to determine the carrying amount of PP&E, assess impairment and determine the change in fair value of financial contracts. Management's estimates of prices are based on the price forecast from our reserve engineers and the current forward market.

Business Combinations

Management makes various assumptions in determining the fair values of any acquired company's assets and liabilities in a business combination. The most significant assumptions and judgments made relate to the estimation of the fair value of the oil and gas properties. To determine the fair value of these properties, we estimate (a) oil and gas reserves in accordance with National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities (''NI 51-101'') and (b) future prices of oil and gas.

Decommissioning Liability

Management calculates the decommissioning liability based on estimated costs to abandon and reclaim its net ownership interest in all wells and facilities and the estimated timing of the costs to be incurred in future periods. The fair value estimate is capitalized to PP&E as part of the cost of the related asset and amortized over its useful life. There are uncertainties related to decommissioning liabilities and the impact on the financial statements could be material as the eventual timing and costs for the obligations could differ from our estimates. Factors that could cause our estimates to differ include any changes to laws or regulations, reserve estimates, costs and technology.

Derivative Financial Instruments

We utilize derivative financial instruments to manage our exposure to market risks relating to commodity prices, foreign currency exchange rates and interest rates. Fair values of derivative contracts fluctuate depending on the underlying estimate of future commodity prices, foreign currency exchange rates, interest rates and counterparty credit risk.

Stock-based Compensation

Management makes various assumptions in determining the value of stock based compensation. This includes estimating the forfeiture rate, the expected volatility of the underlying security, interest rates and expected life.

Deferred Income Taxes

Management makes various assumptions in determining the value of stock deferred income tax provision, including (but not limited to) future tax rates, accessibility of tax pools and future cash flows.

FUTURE ACCOUNTING POLICY CHANGES

In future accounting periods, the Company will adopt the following IFRS:

- IFRS 15 "Revenue From Contracts with Customers" - IFRS 15 was issued in May 2014 and replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The standard is required to be adopted either retrospectively or using a modified transaction approach. In September 2015, the IASB amended IFRS 15, deferring the effective date of the standard by one year to annual periods beginning on or after January 1, 2018 with early adoption still permitted. IFRS 15 will be adopted by the Company on January 1, 2018. The Company is currently finalizing the review of its sales contracts with customers and does not expect IFRS 15 to have a material impact on the consolidated financial statements.
- IFRS 9 "Financial Instruments"- IFRS 9 was amended in July 2014 to include guidance to assess and recognize impairment losses on financial assets based on an expected loss model. The amendments are effective for fiscal years beginning on or after January 1, 2018 with earlier adoption permitted. This amendment will be adopted by the Company on January 1, 2018 and the Company does not expect the amendment to have a material impact on the valuation of its financial assets.
- IFRS 16 "Leases" - IFRS 16 was issued January 2016 and replaces IAS 17 Leases. The standard introduces a single lessee accounting model for leases with required recognition of assets and liabilities for most leases. The standard is effective

for fiscal years beginning on or after January 1, 2019 with early adoption permitted if the Company is also applying IFRS 15 Revenue from Contracts with Customers. IFRS 16 will be adopted by the Company on January 1, 2019 and the Company is currently reviewing contracts that are currently identified as leases and evaluating the impact of the standard on the consolidated financial statements.

RISK FACTORS

Additional risk factors can be found under "Risk Factors" in the Company's Annual Information Form for the year ended December 31, 2016, which can be found on www.sedar.com. Many risks are discussed below and in the Annual Information Form, but these risk factors should not be construed as exhaustive. There are numerous factors, both known and unknown, that could cause actual results or events to differ materially from forecast results.

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Surge depends on its ability to find, acquire, develop, and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves Surge may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in Surge's reserves will depend not only on the Company's ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that further commercial quantities of oil and natural gas will be discovered or acquired by Surge.

Surge's principal risks include finding and developing economic hydrocarbon reserves efficiently and being able to fund the capital program. The Company's need for capital is both short-term and long-term in nature. Short-term working capital will be required to finance accounts receivable, drilling deposits and other similar short-term assets, while the acquisition and development of oil and natural gas properties requires large amounts of long-term capital. Surge anticipates that future capital requirements will be funded through a combination of internal adjusted funds from operations, debt and/or equity financing. There is no assurance that debt and equity financing will be available on terms acceptable to the Company to meet its capital requirements. If any components of the Company's business plan are missing, the Company may not be able to execute the entire business plan.

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial, and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil, or water may give rise to liabilities to governments and third parties and may require Surge's operating entities to incur costs to remedy such discharge. Although Surge believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environment laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect Surge's financial condition, results of operations or prospects.

Surge's involvement in the exploration for and development of oil and natural gas properties may result in Surge becoming subject to liability for pollution, blowouts, property damage, personal injury or other hazards. Although, prior to drilling, Surge will obtain insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liability. In addition, such risks may not, in all circumstances, be insurable or, in certain circumstances, Surge may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to Surge. The occurrence of a significant event that was not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on Surge's financial position, results of operations or prospects and will reduce income otherwise used to fund operations.

The Company's financial performance and condition are substantially dependent on the prevailing prices of oil and natural gas which are unstable and subject to fluctuation. Fluctuations in oil or natural gas prices could have an adverse effect on the Company's operations and financial condition and the value and amount of its reserves. Prices for crude oil fluctuate in response to global supply of and demand for oil, market performance and uncertainty and a variety of other factors which are outside the control of the Company including, but not limited, to the world economy and the Organization of the Petroleum Exporting Countries' ability to adjust supply to world demand, government regulation, political stability and the availability of alternative fuel sources. Natural gas prices are influenced primarily by factors within North America, including North American supply and demand, economic performance, weather conditions and availability and pricing of alternative fuel sources.

Decreases in oil and natural gas prices typically result in a reduction of the Company's net production revenue and may change the economics of producing from some wells, which could result in a reduction in the volume of the Company's reserves. Any further substantial declines in the prices of crude oil or natural gas could also result in delay or cancellation of existing or future drilling, development or construction programs or the curtailment of production. All of these factors could result in a material decrease in the Company's net production revenue, cash flows and profitability causing a reduction in its oil and gas acquisition and development activities. In addition, bank borrowings available to the Company will in part be determined by the Company's borrowing base. A sustained material decline in prices from historical average prices could further reduce such borrowing base, therefore reducing the bank credit available and could require that a portion of its bank debt be repaid.

The Company utilizes financial derivatives contracts to manage market risk. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

BOE PRESENTATION

All amounts are expressed in Canadian dollars unless otherwise noted. Oil, natural gas and natural gas liquids reserves and volumes are converted to a common unit of measure, referred to as a barrel of oil equivalent (boe), on the basis of 6,000 cubic feet of natural gas being equal to one barrel of oil. This conversion ratio is based on an energy equivalency conversion method, primarily applicable at the burner tip and does not necessarily represent a value equivalency at the wellhead. It should be noted that the use of boe might be misleading, particularly if used in isolation.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

More particularly, this MD&A contains statements concerning: sustainability of production; forecast commodity prices, inflation rates and currency prices; the Company's long term prospects; strategic acquisitions; drilling locations; enhanced recovery activities; operating expenses of acquired assets; operating, interest and G&A expense trends; the availability of Surge's bank line to fund Surge's future capital requirements; future development costs for proved and probable reserves; Surge's financial flexibility; the expected sources of funding of future capital expenditures; expected forfeiture rates of RSAs and PSAs granted under the Company's Stock Incentive Plan; expectations as to the payout multiplier for PSAs granted under the Company's Stock Incentive Plan; estimations of the fair value of acquired assets; expectations with respect to its underlying decommissioning liabilities; expectations with respect to environmental legislation; expectations on corporate royalty rates applicable to the Company; expectations with respect to transportation expense; and expectations with respect to the Company's ability to operate and succeed in the current commodity price environment.

The forward-looking statements are based on certain key expectations and assumptions made by Surge, including expectations and assumptions concerning the performance of existing wells and success obtained in drilling new wells, anticipated expenses, cash flow and capital expenditures, the application of regulatory and royalty regimes, prevailing commodity prices and economic conditions, development and completion activities and the costs relating thereto, the performance of new wells, the successful implementation of waterflood programs, the availability of and performance of facilities and pipelines, the geological characteristics of Surge's properties, the successful application of drilling, completion and seismic technology, the successful completion of the convertible debenture financing, the determination of decommissioning liabilities, prevailing weather conditions, exchange rates, licensing requirements, the impact of completed facilities on operating costs and the availability, costs of capital, labour and services, and the creditworthiness of industry partners.

Although Surge believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Surge can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), commodity price and exchange rate fluctuations and constraint in the availability of services, adverse weather or break-up conditions, uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures or failure to obtain the continued support of the lenders under Surge's bank line. Certain of these risks are set out in more detail in this MD&A under the heading 'Risk Factors' and in Surge's Annual Information Form dated March 15, 2017 which has been filed on SEDAR and can be accessed at www.sedar.com.

The forward-looking statements contained in this MD&A are made as of the date hereof and Surge undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.