FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended			Years Ended December 31,		
	Dec 31, 2017	Sep 30, 2017	% Change	**2017**	2016	% Change
Financial highlights						
Oil sales	**64,221**	50,563	27 %	**217,194**	149,701	45 %
NGL sales	**2,751**	2,158	27 %	**9,431**	4,675	102 %
Natural gas sales	**2,288**	3,704	(38)%	**14,283**	11,192	28 %
Total oil, natural gas, and NGL revenue	**69,260**	56,425	23 %	**240,908**	165,568	46 %
Adjusted funds flow[1]	**32,173**	22,985	40 %	**103,816**	70,226	48 %
Per share basic ($)	**0.14**	0.10	40 %	**0.45**	0.32	41 %
Capital expenditures - petroleum & gas properties[2]	**22,709**	26,652	(15)%	**98,466**	73,962	33 %
Capital expenditures - acquisitions & dispositions[2]	**368**	36,650	(99)%	**72,465**	(26,220)	nm
Total capital expenditures[2]	**23,077**	63,302	(64)%	**170,931**	47,742	nm
Net debt at end of period[3]	**239,718**	246,398	(3)%	**239,718**	161,735	48 %
Operating highlights						
Production:						
Oil (bbls per day)	**12,169**	11,380	7 %	**11,347**	9,605	18 %
NGLs (bbls per day)	**571**	627	(9)%	**639**	570	12 %
Natural gas (mcf per day)	**17,607**	17,997	(2)%	**17,615**	16,276	8 %
Total (boe per day) (6:1)	**15,675**	15,007	4 %	**14,922**	12,888	16 %
Average realized price (excluding hedges):						
Oil ($ per bbl)	**57.36**	48.29	19 %	**52.44**	42.58	23 %
NGL ($ per bbl)	**52.41**	37.42	40 %	**40.41**	22.42	80 %
Natural gas ($ per mcf)	**1.41**	2.24	(37)%	**2.22**	1.88	18 %
Netback ($ per boe)						
Oil, natural gas and NGL sales	**48.03**	40.87	18 %	**44.23**	35.10	26 %
Realized gain (loss) on commodity contracts	**(0.81)**	0.12	nm	**(0.74)**	0.84	nm
Royalties	**(5.62)**	(5.27)	7 %	**(5.53)**	(4.07)	36 %
Operating expenses	**(13.85)**	(13.73)	1 %	**(13.62)**	(12.22)	11 %
Transportation expenses	**(1.21)**	(1.40)	(14)%	**(1.41)**	(1.55)	(9)%
Operating netback	**26.54**	20.59	29 %	**22.93**	18.10	27 %
G&A expense	**(1.95)**	(1.94)	1 %	**(1.94)**	(1.85)	5 %
Interest expense	**(2.28)**	(2.01)	13 %	**(1.94)**	(1.37)	42 %
Corporate netback	**22.31**	16.64	34 %	**19.05**	14.88	28 %
Common shares outstanding, end of period	**232,989**	232,920	— %	**232,989**	225,755	3 %
Weighted average basic shares outstanding	**232,929**	228,309	2 %	**228,212**	222,252	3 %
Stock option dilution	**—**	—	nm	**—**	—	nm
Weighted average diluted shares	**232,929**	228,309	2 %	**228,212**	222,252	3 %

1 Management uses adjusted funds flow (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 flow 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 and the liability component of the convertible debenture 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 months and years ended December 31, 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 original oil in place ("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 flow", "adjusted funds flow 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 (loss), adjusted funds flow, 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 and cash flow from operations determined in accordance with IFRS, as an indication of Surge's performance.

Surge's method of calculating adjusted funds flow may differ from that of other companies, and, accordingly, may not be comparable to measures used by other companies. Surge determines adjusted funds flow 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 flow

($000s)	**Q4 2017**	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Cash flow from operating activities	**$ 28,640**	$ 24,589	$ 24,628	$ 15,825	$ 16,199
Change in non-cash working capital	**2,276**	(2,954)	1,110	4,212	4,129
Decommissioning expenditures	**829**	686	366	576	763
Transaction costs	**—**	138	459	558	15
Cash settled stock-based compensation	**428**	526	455	469	428
Adjusted funds flow	**$ 32,173**	$ 22,985	$ 27,018	$ 21,640	$ 21,534

Adjusted funds flow per share is calculated using the same weighted average basic and diluted shares used in calculating income (loss) 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.

The Company defines net debt as outstanding bank debt and the liability component of the convertible debentures 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 flow.

Surge's Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A. This MD&A is dated March 14, 2018.

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%
Q4 2017	7.0	7.0	100%	100%
Total	**39.0**	**35.8**	**100%**	**92%**

Surge achieved a 100 percent success rate during the year ended December 31, 2017, drilling 39 gross (35.8 net) wells. During the fourth quarter of 2017, Surge drilled seven gross (7.0 net) wells, including three gross (3.0 net) wells at Shaunavon, one gross (1.0 net) well at Valhalla, and three gross (3.0 net) wells in southeast Alberta ("Sparky"). Five (5.0 net) wells were on production at December 31, 2017 with 2.0 net wells brought on production in the first quarter of 2018.

Production

	Three Months Ended			**Years Ended**	
	Dec 31, 2017	Sep 30, 2017	Dec 31, 2016	**Dec 31, 2017**	Dec 31, 2016
Oil (bbls per day)	**12,169**	11,380	9,832	**11,347**	9,605
NGL (bbls per day)	**571**	627	504	**639**	570
Oil and NGL (bbls per day)	**12,740**	12,007	10,336	**11,986**	10,175
Natural gas (mcf per day)	**17,607**	17,997	15,036	**17,615**	16,276
Total (boe per day) (6:1)	**15,675**	15,007	12,842	**14,922**	12,888
% Oil and NGL	**81%**	80%	80%	**80%**	79%

Surge achieved production of 15,675 boe per day in the fourth quarter of 2017 (81 percent oil and NGLs), a four percent increase from the average production rate in the third quarter of 2017 and a 22 percent increase from the average production rate in the same period of 2016.

During the year ended December 31, 2017, Surge achieved production of 14,922 boe per day (80 percent oil and NGLs), a 16 percent increase when compared to the same period of 2016.

The increase in production during the fourth quarter of 2017 as compared to the third quarter of 2017 is primarily the result of a successful fourth quarter drilling program. Of the 7.0 net wells drilled during the period, 5.0 net wells were on production at quarter end with 2.0 net Shaunavon wells brought on production in the first quarter of 2018. Additionally, Surge's fourth quarter production benefited from a full three month period with its latest Central Alberta acquisition, which closed September 8, 2017 and added approximately 750 boe per day as compared to approximately 200 boe per day during the course of the third quarter of 2017.

The increase in Surge's production for the three months and year ended December 31, 2017 as compared to the same periods of the prior year is primarily due to the successful 2017 drilling program combined with two asset acquisitions in Central Alberta during the year. The asset acquisitions contributed combined average production of approximately 1,500 boe per day and 750 boe per day for the three months and year ended December 31, 2017, respectively.

Revenue, Realized Prices and Benchmark Pricing

	Three Months Ended			Years Ended	
($000s except per amount)	**Dec 31, 2017**	Sep 30, 2017	Dec 31, 2016	**Dec 31, 2017**	Dec 31, 2016
Revenue					
Oil	**64,221**	50,563	45,356	**217,194**	149,701
NGL	**2,751**	2,158	1,284	**9,431**	4,675
Oil and NGL	**66,972**	52,721	46,640	**226,625**	154,376
Natural gas	**2,288**	3,704	3,595	**14,283**	11,192
Total oil, natural gas and NGL revenue	**69,260**	56,425	50,235	**240,908**	165,568
Realized Prices					
Oil ($ per bbl)	**57.36**	48.29	50.14	**52.44**	42.58
NGL ($ per bbl)	**52.41**	37.42	27.69	**40.41**	22.42
Oil and NGL ($ per bbl)	**57.14**	47.73	49.05	**51.80**	41.45
Natural gas ($ per mcf)	**1.41**	2.24	2.60	**2.22**	1.88
Total oil, natural gas, and NGL revenue before realized commodity contracts ($ per boe)	**48.03**	40.87	42.52	**44.23**	35.10
Benchmark Prices					
WTI (US$ per bbl)	**55.40**	48.20	49.29	**50.95**	43.32
CAD/USD exchange rate	**1.27**	1.25	1.33	**1.30**	1.33
WTI (C$ per bbl)	**70.36**	60.25	65.56	**66.24**	58.05
Edmonton Light Sweet (C$ per bbl)	**68.94**	56.62	61.59	**62.82**	52.90
WCS (C$ per bbl)	**54.88**	47.90	46.63	**50.54**	38.90
AECO Daily Index (C$ per mcf)	**1.69**	1.46	2.85	**2.15**	2.10

Total oil, natural gas and NGL revenue for the fourth quarter of 2017 increased 23 percent when compared to the third quarter of 2017. The increase is primarily due to the 19 percent increase in realized price per barrel of oil, along with a seven percent increase in oil production, as compared to the third quarter of 2017. This increase correlates to the 22 percent increase in Edmonton light sweet and 15 percent increase in WCS during the same period. Additionally, WTI USD per bbl during the fourth quarter of 2017 increased 15 percent compared to the immediate prior quarter, along with a comparable CAD/USD exchange rate, leading to a 17 percent increase in WTI CAD per bbl during the same periods.

Total oil, natural gas and NGL revenue for the fourth quarter of 2017 increased 38 percent when compared to the same period of 2016. The increase is primarily due to the 22 percent increase in production, particularly higher value oil production, which increased 24 percent compared to the fourth quarter of 2016. Surge also benefited from an increase in average realized price per barrel of oil during the fourth quarter of 2017, increasing 14 percent compared to the fourth quarter of 2016 and tightening differentials throughout the period. This compares to a 12 percent increase in Edmonton light sweet and 18 percent increase in WCS during the same period.

Total oil, natural gas and NGL revenue for the year ended December 31, 2017 increased 46 percent when compared to the same period of 2016. The increase is primarily due to a 16 percent increase in production, 75 percent of which was oil production.

Additionally, Surge's average realized price per barrel of oil during the year ended December 31, 2017 increased 23 percent compared to the same period of 2016. This compares to a 19 percent increase in Edmonton light sweet and 30 percent increase in WCS during the same period.

ROYALTIES

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2017**	Sep 30, 2017	Dec 31, 2016	**Dec 31, 2017**	Dec 31, 2016
Royalties	**8,106**	7,276	5,996	**30,099**	19,197
% of Revenue	**12%**	13%	12%	**12%**	12%
$ per boe	**5.62**	5.27	5.08	**5.53**	4.07

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 three months and year ended December 31, 2017 when compared to the same periods of 2016. Surge's royalty rate remained consistent during the increasing crude oil pricing environment throughout 2017 in part because of lower royalties on new production that qualified for various royalty incentives under the Alberta Modernized Royalty Framework.

OPERATING EXPENSES

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2017**	Sep 30, 2017	Dec 31, 2016	**Dec 31, 2017**	Dec 31, 2016
Operating expenses	**19,974**	18,950	14,995	**74,195**	57,630
$ per boe	**13.85**	13.73	12.69	**13.62**	12.22

Operating expenses per boe during the fourth quarter of 2017 was comparable to the third quarter of 2017 and increased nine percent as compared to the fourth quarter of 2016. The increase in operating expenses and operating expenses per boe when compared to the same period of the prior year 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. 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 first half of 2018 to average $13.45 - $13.95.

Operating expenses per boe for the year ended December 31, 2017 increased 11 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 expenditures.

TRANSPORTATION EXPENSES

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2017**	Sep 30, 2017	Dec 31, 2016	**Dec 31, 2017**	Dec 31, 2016
Transportation expenses	**1,740**	1,939	1,630	**7,670**	7,302
$ per boe	**1.21**	1.40	1.38	**1.41**	1.55

Transportation expenses per boe for the fourth quarter of 2017 decreased 14 percent compared to the third quarter of 2017 and 12 percent compared to the fourth quarter of 2016. This decrease is primarily the result of a favourable Alberta Petroleum Marketing Commission ("APMC") credit received during the fourth quarter of 2017 in the amount of approximately $0.3 million.

Excluding the APMC adjustment, transportation expenses per boe for the fourth quarter of 2017 would have been comparable to the immediate preceding quarter and same period of the prior year.

The nine percent decrease in transportation expenses per boe for the year ended December 31, 2017 as compared to the same period of 2016 is due to the APMC credit received during the fourth quarter of 2017 in addition to a one-time reclassification of trucking costs in the fourth quarter of 2016 and pipeline connected production acquired during the year.

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2017**	Sep 30, 2017	Dec 31, 2016	**Dec 31, 2017**	Dec 31, 2016
G&A expenses	**4,028**	3,833	3,526	**15,482**	13,410
Recoveries and capitalized amounts	**(1,215)**	(1,160)	(1,415)	**(4,907)**	(4,702)
Net G&A expenses	**2,813**	2,673	2,111	**10,575**	8,708
Net G&A expenses $ per boe	**1.95**	1.94	1.79	**1.94**	1.85

Net G&A expenses per boe of $1.95 for the fourth quarter of 2017 were comparable to the third quarter of 2017 and nine percent higher when compared to the same period of the prior year. Net G&A expenses per boe for the year ended December 31, 2017 increased five percent compared to the same period of 2016.

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			Years Ended	
($000s except per boe)	**Dec 31, 2017**	Sep 30, 2017	Dec 31, 2016	**Dec 31, 2017**	Dec 31, 2016
Transaction costs	**—**	138	15	**1,155**	245
$ per boe	**—**	0.10	0.01	**0.21**	0.05

For the year ended December 31, 2017, the Company incurred transaction costs of $0.21 per boe related to the acquisitions and disposals conducted in the year. The Company incurred $0.05 per boe during the same period of 2016 related to minor acquisitions and disposals.

FINANCE EXPENSES

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2017**	Sep 30, 2017	Dec 31, 2016	**Dec 31, 2017**	Dec 31, 2016
Interest on bank debt	**2,840**	2,649	1,789	**9,722**	6,468
$ per boe	**1.97**	1.92	1.51	**1.78**	1.37
Interest on convertible debentures	**330**	—	—	**330**	—
$ per boe	**0.23**	—	—	**0.06**	—
Interest on finance lease	**121**	122	—	**488**	—
$ per boe	**0.08**	0.09	—	**0.09**	—
Total interest expense	**3,291**	2,771	1,789	**10,540**	6,468
$ per boe	**2.28**	2.01	1.51	**1.94**	1.37
Accretion expense	**1,189**	1,085	842	**3,978**	3,058
$ per boe	**0.82**	0.79	0.72	**0.73**	0.65
Total finance expense	**4,480**	3,856	2,631	**14,518**	9,526
$ per boe	**3.11**	2.79	2.23	**2.67**	2.02

The increase in interest expense during the fourth quarter of 2017 as compared to the third quarter of 2017 is primarily due to higher debt levels (bank debt plus convertible debentures) as a result of the third quarter 2017 asset acquisition.

The increase in interest expense for the three months and year ended December 31, 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 in addition to a higher effective interest rate of prime plus approximately 1.90% compared to prime plus 1.75% in the same periods of 2016. Additionally, the Company incurred $0.5 million of interest expense related to finance lease obligations and $0.3 million of accrued interest expense related to convertible debentures in 2017 (2016 - $nil).

Accretion represents the change in the time value of the decommissioning liability, the convertible debenture and firm transportation agreements. Accretion expense increased in the fourth quarter of 2017 as compared to the third quarter of 2017 primarily due to the issuance of convertible debentures and subsequent non-cash accretion expense during the period. The increase in accretion expense for the three months and year ended December 31, 2017 as compared to the same periods of 2016 is primarily due to the asset acquisitions and associated decommissioning liabilities during the second and third quarters of 2017.

NETBACKS

	Three Months Ended			Years Ended	
($ per boe, except production)	**Dec 31, 2017**	Sep 30, 2017	Dec 31, 2016	**Dec 31, 2017**	Dec 31, 2016
Average production (boe per day)	**15,675**	15,007	12,842	**14,922**	12,888
Revenue	**48.03**	40.87	42.52	**44.23**	35.10
Realized gain (loss) on commodity contracts	**(0.81)**	0.12	(1.85)	**(0.74)**	0.84
Royalties	**(5.62)**	(5.27)	(5.08)	**(5.53)**	(4.07)
Operating costs	**(13.85)**	(13.73)	(12.69)	**(13.62)**	(12.22)
Transportation costs	**(1.21)**	(1.40)	(1.38)	**(1.41)**	(1.55)
Operating netback	**26.54**	20.59	21.52	**22.93**	18.10
G&A expense	**(1.95)**	(1.94)	(1.79)	**(1.94)**	(1.85)
Interest expense	**(2.28)**	(2.01)	(1.51)	**(1.94)**	(1.37)
Corporate netback	**22.31**	16.64	18.22	**19.05**	14.88

Surge's operating netback for the fourth quarter of 2017 increased 29 percent compared to the third quarter of 2017 and increased 23 percent compared to the same period of 2016.

The increase in Surge's operating netback as compared to the third quarter of 2017 is primarily attributable to an increase in revenue per boe, offset by a loss on commodity contracts of $0.81 per boe as compared to a gain of $0.12 per boe in the third quarter of 2017. The corporate netback was further impacted by a 13 percent increase in interest expense per boe as compared to the third quarter of 2017.

The increase in Surge's operating netback as compared to the fourth quarter of 2016 is primarily attributable to a 13 percent increase in revenue per boe, slightly offset by an increase in operating costs per boe. The corporate netback was further impacted by a 51 percent increase in interest expense per boe as compared to the third quarter of 2017.

Surge's operating netback for the year ended December 31, 2017 increased 27 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 $0.74 per boe as compared to a gain on commodity contracts of $0.84 in the same period of 2016. The corporate netback was further impacted by an increase in interest expense per boe.

ADJUSTED FUNDS FLOW AND CASH FLOW FROM OPERATING ACTIVITIES

	Three Months Ended			Years Ended	
($000s except per share and per boe)	**Dec 31, 2017**	Sep 30, 2017	Dec 31, 2016	**Dec 31, 2017**	Dec 31, 2016
Adjusted funds flow	**32,173**	22,985	21,534	**103,816**	70,226
Per share - basic ($)	**0.14**	0.10	0.10	**0.45**	0.32
Per share - diluted ($)	**0.14**	0.10	0.10	**0.45**	0.32
$ per boe	**22.31**	16.65	18.23	**19.06**	14.90
Cash flow from operating activities	**28,640**	24,589	16,199	**93,682**	55,320

Adjusted funds flow for the fourth quarter of 2017 increased 40 percent compared to the third quarter of 2017 and increased 49 percent when compared to the fourth quarter of 2016. On a per basic share basis, adjusted funds flow increased 40 percent compared to the third quarter of 2017 and increased 40 percent compared to the fourth quarter of 2016.

Adjusted funds flow for the year ended December 31, 2017 increased 48 percent compared to the same period of 2016 and 41 percent on a per basic share basis.

Cash flow from operating activities differs from adjusted funds flow principally due to the inclusion of changes in non-cash working capital. Included in cash flow from operating activities is a decrease in non-cash working capital of $2.3 million in the fourth quarter of 2017.

STOCK-BASED COMPENSATION

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2017**	Sep 30, 2017	Dec 31, 2016	**Dec 31, 2017**	Dec 31, 2016
Stock-based compensation	**1,592**	6,322	6,831	**11,713**	18,124
Capitalized stock-based compensation	**(774)**	(3,359)	(3,135)	**(7,387)**	(8,297)
Net stock-based compensation	**818**	2,963	3,696	**4,326**	9,827
Net stock-based compensation $ per boe	**0.57**	2.15	3.13	**0.79**	2.08

Net stock-based compensation expense for the fourth quarter of 2017 decreased $2.1 million as compared to the immediate preceding quarter and decreased $2.9 million as compared to the same period of 2016.

The decrease in net stock-based compensation when compared to the immediate preceding quarter and fourth quarter of the prior year is primarily the result of a $1.6 million PSA performance multiplier adjustment for awards that vested in the third quarter of 2017 and a $1.8 million PSA performance multiplier adjustment for awards that vested in the fourth quarter of 2016. Additionally, the Company recorded a $0.4 million recovery related to SARs in the fourth quarter of 2017 as compared to a $0.1 million expense during the third quarter of 2017 and $0.8 million expense during the fourth quarter of 2016.

Net stock-based compensation expense for the year ended December 31, 2017 decreased $5.5 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 $1.8 million expense in the same period of 2016.

The stock-based compensation recorded in the three months and year ended December 31, 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 year ended December 31, 2017. The weighted average fair value of awards granted for the year ended December 31, 2017 is $2.03 per PSA and $2.04 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	2,434,962	2,583,496
Reinvested [1]	149,855	220,646
Added by performance factor	—	535,847
Exercised	(1,772,729)	(1,250,311)
Forfeited	(405,773)	(734,748)
Balance at December 31, 2017	**4,008,843**	**6,163,982**

[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			Years Ended	
($000s except per boe)	**Dec 31, 2017**	Sep 30, 2017	Dec 31, 2016	**Dec 31, 2017**	Dec 31, 2016
Depletion and depreciation expense	**23,095**	22,261	20,498	**88,556**	83,872
$ per boe	**16.02**	16.12	17.35	**16.26**	17.79

Depletion and depreciation are calculated based upon capital expenditures, production rates and proved plus probable reserves. Deducted from the Company's fourth quarter of 2017 depletion and depreciation calculation are costs associated with salvage values of $125.3 million. Future development costs for proved and probable reserves of $485.5 million have been included in the depletion calculation.

Depletion and depreciation expense for the three months and year ended December 31, 2017 increased as compared to the third quarter of 2017 and same periods of 2016 primarily due to an increase in production and a larger depletable base resulting from the Company's 2016 and 2017 drilling programs and asset acquisitions.

IMPAIRMENT

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2017**	Sep 30, 2017	Dec 31, 2016	**Dec 31, 2017**	Dec 31, 2016
Impairment	**23,643**	—	3,358	**24,124**	3,459
$ per boe	**16.40**	—	2.84	**4.43**	0.73

The Company identified five cash generating units as of December 31, 2017 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 asset acquisitions in the current year were integrated into existing CGUs based on geographic location. The Company's CGUs at December 31, 2017 were geographically labeled Northwest Alberta, Northeast Alberta, Central Alberta, Southeast Alberta and Southwest Saskatchewan.

For the year ended December 31, 2017, due to declines in forward oil and natural gas prices and poor economic performance of certain assets, the Company determined an indication of potential impairment was present in its Central Alberta CGU. As a result, the Company completed an impairment test. Recoverable value was estimated at value in use based on before tax discounted cash flows from oil and gas proved plus probable reserves estimated by the Company's third party reserve evaluators. It was determined that the carrying value of the Central Alberta CGU exceeded the recoverable amount and a $36.7 million impairment was recognized.

Due to positive drilling results throughout 2017 and an associated increase in reserves, a test for impairment reversal was completed on the Southeast Alberta CGU. It was determined that the recoverable amount of the Southeast Alberta CGU exceeded the carrying value and previous impairment, net of depletion, of $26.4 million was reversed. The before tax discount rate applied in the value in use calculations as at December 31, 2017 ranged from 14 percent to 16 percent.

Additionally, during the fourth quarter of 2017, the Company executed a letter of intent accepting a third party's offer to purchase petroleum and natural gas assets in the Windfall area of Alberta. Upon execution of the letter of intent, the Windfall assets were classified as held for sale and a test for impairment using fair value less costs to sell was performed, resulting in $7.8 million of E&E impairment and $6.0 million of the PP&E impairment losses. The Windfall area assets were subsequently disposed of on January 4, 2018.

The following table outlines forecast commodity prices and exchange rates used in the Company's CGU impairment tests at December 31, 2017. The forecast commodity prices are consistent with those used by the Company's external reserve evaluators and are a key assumption in assessing the recoverable amount. The reserve evaluators also include financial assumptions regarding royalty rates, operating costs, and future development capital that can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities by Management.

Year	Medium and Light Crude Oil: Canadian Light Sweet Crude 40˚ API ($/bbl)	Medium and Light Crude Oil: Western Canadian Select 20.5˚ API ($/bbl)	Natural Gas: AECO Gas Price ($/MMBtu)	NGL: Edmonton Condensate ($/bbl)	NGL: Edmonton Butane ($/bbl)	NGL: Edmonton Propane ($/bbl)	Inflation rates (%/Yr)	Exchange rate ($US/$Cdn)
2018	65.44	51.05	2.85	67.72	48.73	26.06	—	0.79
2019	74.51	59.61	3.11	75.61	55.49	32.84	—	0.82
2020	78.24	64.94	3.65	78.82	57.65	35.41	1.5	0.85
2021	82.45	68.43	3.80	82.35	60.12	37.85	1.5	0.85
2022	84.10	69.80	3.95	84.07	61.32	39.29	1.5	0.85
2023	85.78	71.20	4.05	85.82	62.55	40.25	1.5	0.85
2024	87.49	72.62	4.15	87.61	63.80	41.23	1.5	0.85
2025	89.24	74.07	4.25	89.43	65.07	42.23	1.5	0.85
2026	91.03	75.55	4.36	91.29	66.37	43.26	1.5	0.85
2027	92.85	77.06	4.46	93.19	67.70	44.30	1.5	0.85
2028	94.71	78.61	4.57	95.12	69.06	45.36	1.5	0.85

NET LOSS

	Three Months Ended			**Years Ended**	
($000s except per share)	**Dec 31, 2017**	Sep 30, 2017	Dec 31, 2016	**Dec 31, 2017**	Dec 31, 2016
Net loss	**(13,078)**	(8,188)	(14,816)	**(6,673)**	(30,421)
Per share - basic ($)	**(0.06)**	(0.04)	(0.07)	**(0.03)**	(0.14)
Per share - diluted ($)	**(0.06)**	(0.04)	(0.07)	**(0.03)**	(0.14)

Net loss and net loss per basic share for the fourth quarter of 2017 increased as compared to the third quarter of 2017 and same period of 2016 primarily due to impairment expense incurred during the fourth quarter of 2017 and the extent of realized and unrealized gains and losses on commodity contracts in each of the periods.

Net loss and net loss per basic share for the year ended December 31, 2017 decreased 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, partially offset by impairment expense incurred in the fourth quarter of 2017.

INCOME TAXES

The estimated tax pools in place at December 31, 2017 are as follows:

($000s)	Total
Canadian oil and gas property expenses	**302,920**
Canadian development expenses	**161,478**
Canadian exploration expenses	**23,199**
Undepreciated capital cost	**117,654**
Non-capital losses	**502,901**
Other	**3,631**
	1,111,783

CAPITAL EXPENDITURES

Capital Expenditure Summary

($000s)	Q1 2017	Q2 2017	Q3 2017	**Q4 2017**	**2017 YTD**	2016 YTD	% Change
Land	1,464	400	1,425	**468**	**3,757**	1,840	nm
Seismic	(6)	442	1,486	**919**	**2,841**	161	nm
Drilling and completions	26,176	9,527	19,330	**16,528**	**71,561**	50,759	41 %
Facilities, equipment and pipelines	4,788	3,202	3,161	**3,121**	**14,272**	16,768	(15)%
Other	1,619	1,493	1,250	**1,673**	**6,035**	4,434	36 %
Total exploration and development	34,041	15,064	26,652	**22,709**	**98,466**	73,962	33 %
Acquisitions - cash consideration	—	35,992	36,650	**368**	**73,010**	16,958	nm
Property dispositions	(269)	(276)	—	**—**	**(545)**	(43,178)	(99)%
Total acquisitions & dispositions	(269)	35,716	36,650	**368**	**72,465**	(26,220)	nm
Total capital expenditures	33,772	50,780	63,302	**23,077**	**170,931**	47,742	nm

During the three months and year ended December 31, 2017, Surge invested a total of $22.7 million and $98.5 million, respectively, excluding acquisitions and dispositions.

During the fourth quarter of 2017, Surge invested $16.5 million to drill seven gross (7.0 net) wells and complete 1.0 net well that was drilled in the third quarter of 2017. Two of the seven wells drilled during the fourth quarter were completed and brought onto production subsequent to December 31, 2017. In addition, the Company invested $3.1 million in facilities and pipelines, waterflood expansions and pilots, and $3.1 million in land and seismic acquisitions and other capital items.

In addition to the drilling activity throughout 2017, on September 8, 2017, Surge acquired core Sparky area assets in Alberta for $36.7 million, adding approximately 800 boe per day (95 percent oil and NGLs) and on April 12, 2017, Surge acquired core Sparky area assets in Alberta for $36.3 million, adding approximately 750 boe per day (97 percent oil and NGLs). The Company also disposed of non-core assets during the year ended December 31, 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 first quarter of 2016 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

	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Weighted common shares	**232,928,730**	228,309,427	225,766,393	225,763,917
Dilutive instruments (treasury method)	**—**	—	3,790,055	3,427,489
Weighted average diluted shares outstanding	**232,928,730**	228,309,427	229,556,448	229,191,406

	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Weighted common shares	225,277,907	221,615,072	221,046,752	221,042,468
Dilutive instruments (treasury method)	—	—	—	—
Weighted average diluted shares outstanding	225,277,907	221,615,072	221,046,752	221,042,468

On March 14, 2018, Surge had 232,970,865 common shares, 1,400,560 warrants, 2,000,000 SARs, 5,304,461 PSAs, and 3,765,818 RSAs outstanding.

Quarterly Financial Information

	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Oil, Natural gas & NGL sales	**69,260**	56,425	60,773	54,450
Net earnings (loss)	**(13,078)**	(8,188)	6,926	7,667
Net earnings (loss) per share ($):				
Basic	**(0.06)**	(0.04)	0.03	0.03
Diluted	**(0.06)**	(0.04)	0.03	0.03
Adjusted funds flow	**32,173**	22,985	27,018	21,640
Adjusted funds flow per share ($):				
Basic	**0.14**	0.10	0.12	0.10
Diluted	**0.14**	0.10	0.12	0.09
Average daily sales				
Oil (bbls/d)	**12,169**	11,380	11,522	10,298
NGL (bbls/d)	**571**	627	678	684
Natural gas (mcf/d)	**17,607**	17,997	17,547	17,302
Barrels of oil equivalent (boe per day) (6:1)	**15,675**	15,007	15,125	13,866
Average sales price				
Natural gas ($/mcf)	**1.41**	2.24	2.68	2.58
Oil ($/bbl)	**57.36**	48.29	51.71	52.00
NGL ($/bbl)	**52.41**	37.42	36.99	36.39
Barrels of oil equivalent ($/boe)	**48.03**	40.87	44.16	43.63

Quarterly Financial Information

	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Oil, Natural gas & NGL sales	50,235	45,244	40,943	29,146
Net loss	(14,816)	(3,840)	(8,084)	(3,681)
Net loss per share ($):				
Basic	(0.07)	(0.02)	(0.04)	(0.02)
Diluted	(0.07)	(0.02)	(0.04)	(0.02)
Adjusted funds flow	21,534	19,138	22,063	7,491
Adjusted funds flow per share ($):				
Basic	0.10	0.09	0.10	0.03
Diluted	0.10	0.09	0.10	0.03
Average daily sales				
Oil (bbls/d)	9,832	9,807	8,958	9,821
NGL (bbls/d)	504	597	564	615
Natural gas (mcf/d)	15,036	16,296	15,959	17,829
Barrels of oil equivalent (boe per day) (6:1)	12,842	13,120	12,182	13,408
Average sales price				
Natural gas ($/mcf)	2.60	2.22	1.41	1.36
Oil ($/bbl)	50.14	45.06	46.03	29.28
NGL ($/bbl)	27.69	22.86	26.64	13.75
Barrels of oil equivalent ($/boe)	42.52	37.48	36.94	23.89

LIQUIDITY AND CAPITAL RESOURCES

On December 31, 2017, Surge had $209.2 million drawn on its credit facility, convertible subordinated unsecured debentures ("Debentures") at a 5.75 percent interest rate, and total net debt of $239.7 million, an increase in total net debt of 48 percent as compared to the same date in 2016. At December 31, 2017, Surge had approximately $95.8 million of borrowing capacity in relation to the $305 million credit facility, providing Surge financial flexibility through 2018. The following tables set forth the consolidated capitalization of Surge and the change in the components of the convertible debentures:

($000s)	Outstanding as at December 31, 2017
Shareholder Equity	
Share capital	1,295,961
Common shares outstanding	232,989
Debentures - equity	3,551
Debt	
Credit Facilities	
Authorized	305,000
Amount drawn	209,231
Debentures - liability	36,715

Convertible Debentures

	Number of convertible debentures	Liability Component ($000s)	Equity Component ($000s)
Balance at December 31, 2016	—	—	—
Issuance of convertible debentures	44,500	39,273	5,227
Issue costs	—	(2,713)	(362)
Deferred income tax liability	—	—	(1,314)
Accretion of discount	—	155	—
Balance at December 31, 2017	**44,500**	**36,715**	**3,551**

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 present day, 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 and the liability component of the convertible debenture plus or minus working capital, however, excluding the fair value of financial contracts and other current obligations as follows:

Net Debt

($000s)	
Bank debt	(209,231)
Accounts receivable	36,291
Prepaid expenses and deposits	2,889
Convertible debentures	(36,715)
Accounts payable and accrued liabilities	(31,107)
Dividends payable	(1,845)
Total	**(239,718)**

As at December 31, 2017, the Company had an extendible, revolving term credit facility of $305 million with a syndicate of Canadian banks bearing interest at bank rates. This is an increase in the available credit facility of $20 million when compared to the third quarter of 2017.

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 December 31, 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 months or year ended December 31, 2017.

CONTRACTUAL OBLIGATIONS

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

As at December 31, 2017, Surge had future minimum payments relating to its operating lease and firm transport commitments totaling $58.1 million, as summarized below:

Commitments

($000s)	
2018	14,048
2019	9,543
2020	9,156
2021	7,573
2022	5,002
2023+	12,782
Total	**58,104**

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 March 14, 2018 by period and by product.

Commodity Contracts

WTI Oil Hedges

Type	Term	bbl/d	Currency	Put Sold (per bbl)	Put Acquired (per bbl)	Call Sold (per bbl)	Call Acquired (per bbl)	Swap Price (per bbl)
WTI	1H 2018	1,000	USD	—	$47.50	—	—	—
WTI	1H 2018	600	USD	—	—	$63.19	—	—
WTI	2018	750	USD	—	$45.00	$58.00	—	—
WTI	2018	500	CAD	—	$60.00	$68.91	—	—
WTI	2018	500	USD	—	—	—	$57.45	—
WTI	1H 2018	1,500	USD	—	$50.00	$60.87	—	—
WTI	Q1 2018	1,000	USD	$47.75	$53.00	—	—	—
WTI	Q1 2018	1,000	USD	—	$53.00	—	—	—
WTI	Mar-Jun 2018	1,000	USD	—	—	—	—	$60.00
WTI	2H 2018	1,500	USD	—	$50.00	—	—	—
WTI	2H 2018	1,000	USD	$55.00	$60.00	—	—	—
WTI	1H 2019	500	CAD	$50.00	$60.00	$73.34	—	—

Oil Differential Hedges

Type	Term	bbl/d	Currency	Floor (per bbl)	Ceiling (per bbl)	Swap Price (per bbl)
WCS Collar	1H 2018	1,500	USD	US$WTI less $13.00	US$WTI less $18.00	—

Natural Gas Hedges

Type	Term	GJ/d	Currency	Swap Price (per GJ)
AECO Swap	Nov 2017-Oct 2018	2,000	CAD	$2.30

CAD/USD FX Hedges

Type	Term	Monthly Notional Amount (US$)	Total Notional Amount (US$)	Swap Rate (CAD$ per USD$)
Avg Rate Forward	2018	$4,000,000	$48,000,000	$1.2879
Avg Rate Forward	2019	$1,000,000	$12,000,000	$1.2726

Interest Rate Hedges

Type	Term	Notional Amount (CAD$)	Surge Receives	Surge Pays	Fixed Rate SGY Receives
Fixed-to-Floating Rate Swap	Feb 2018-Feb 2023	$100,000,000	Floating Rate	Fixed Rate	Semi-Annual Step Up • Beginning at 1.786% • Ending at 2.714% • Averaging 2.479%

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 December 31, 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 and operating effectiveness of the Company's disclosure controls and procedures ("DC&P"). Based on that evaluation, the officers concluded that Surge's DC&P were effective as at December 31, 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 December 31, 2017 based on the COSO framework. Based on this evaluation, the officers concluded that as of December 31, 2017, Surge's ICFR was properly designed and operating effectively.

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 has completed its review of sales contracts with customers and has determined that there will be no material change to the consolidated financial statements other than enhanced disclosures.
- 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 has completed its review of financial instruments has determined that there will be no material change to the consolidated financial statements other than enhanced disclosures.
- 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, 2017, 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 flow, 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; funding of future capital requirements through internal cash flow, divestitures, debt and/or equity financing; 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; potential impairments of cash generating units; 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; inability of Surge to fund its future capital requirements; 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 14, 2018 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.