FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended			Six Months Ended June 30,		
	Jun 30, 2022	Mar 31, 2022	% Change	**2022**	2021	% Change
Financial highlights						
Oil sales	**196,470**	157,440	25 %	**353,910**	146,367	142 %
NGL sales	**4,939**	4,053	22 %	**8,992**	3,775	138 %
Natural gas sales	**11,590**	7,631	52 %	**19,221**	11,436	68 %
Total oil, natural gas, and NGL revenue	**212,999**	169,124	26 %	**382,123**	161,578	136 %
Cash flow from operating activities	**75,798**	52,182	45 %	**127,980**	23,804	438 %
Per share - basic ($)	**0.91**	0.63	44 %	**1.54**	0.58	166 %
Per share - diluted ($)	**0.88**	0.63	40 %	**1.49**	0.56	166 %
Adjusted funds flow[1]	**78,561**	62,893	25 %	**141,454**	29,314	383 %
Per share - basic ($)[1]	**0.94**	0.75	25 %	**1.70**	0.71	139 %
Per share - diluted ($)	**0.91**	0.75	21 %	**1.64**	0.69	138 %
Net income (loss)[3]	**72,027**	(21,868)	nm[2]	**50,159**	297,128	nm
Per share - basic ($)	**0.86**	(0.26)	nm.	**0.60**	7.21	nm
Per share - diluted ($)	**0.83**	(0.26)	nm	**0.58**	7.03	nm
Expenditures on property, plant and equipment	**36,890**	42,968	(14)%	**79,858**	47,398	68 %
Net acquisitions and dispositions	**(32)**	—	nm	**(32)**	(102,591)	nm
Net capital expenditures	**36,858**	42,968	(14)%	**79,826**	(55,193)	nm
Net debt[1], end of period	**280,131**	315,770	(11)%	**280,131**	292,806	(4)%
Operating highlights						
Production:						
Oil (bbls per day)	**17,110**	16,760	2 %	**16,936**	12,809	32 %
NGLs (bbls per day)	**799**	691	16 %	**745**	552	35 %
Natural gas (mcf per day)	**18,565**	18,592	— %	**18,579**	14,956	24 %
Total (boe per day) (6:1)	**21,003**	20,550	2 %	**20,778**	15,854	31 %
Average realized price (excluding hedges):						
Oil ($ per bbl)	**126.19**	104.38	21 %	**115.45**	63.13	83 %
NGL ($ per bbl)	**67.95**	65.17	4 %	**66.67**	37.79	76 %
Natural gas ($ per mcf)	**6.86**	4.56	50 %	**5.72**	4.22	36 %
Netback ($ per boe)						
Petroleum and natural gas revenue	**111.44**	91.45	22 %	**101.61**	56.31	80 %
Realized loss on commodity and FX contracts	**(24.05)**	(15.58)	54 %	**(19.88)**	(13.15)	51 %
Royalties	**(19.74)**	(15.36)	29 %	**(17.59)**	(6.81)	158 %
Net operating expenses[1]	**(19.16)**	(19.28)	(1)%	**(19.22)**	(17.98)	7 %
Transportation expenses	**(1.62)**	(1.50)	8 %	**(1.56)**	(0.99)	58 %
Operating netback[1]	**46.87**	39.73	18 %	**43.36**	17.38	149 %
G&A expense	**(2.19)**	(2.18)	— %	**(2.19)**	(2.09)	5 %
Interest expense	**(3.58)**	(3.55)	1 %	**(3.56)**	(5.07)	(30)%
Adjusted funds flow[1]	**41.10**	34.00	21 %	**37.61**	10.22	268 %
Common shares outstanding, end of period	**83,357**	83,357	— %	**83,357**	44,658	87 %
Weighted average basic shares outstanding	**83,357**	83,357	— %	**83,357**	41,216	102 %
Stock-based compensation dilution	**2,917**	—	— %	**2,666**	1,078	147 %
Weighted average diluted shares outstanding	**86,274**	83,357	3 %	**86,023**	42,294	103 %

1 This is a non-GAAP and other financial measure which is defined in the Non-GAAP and Other Financial Measures section of this document.
2 The Company views this change calculation as not meaningful, or "nm".
3 The three and six months ended June 30, 2021 include a non-cash impairment reversal of $323.6 million.

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, is for the three and six months ended June 30, 2022 and 2021. 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 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 and results of operations. Surge's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Surge's Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A. This MD&A is dated July 27, 2022.

DESCRIPTION OF BUSINESS

Surge is a Calgary based company that is engaged in the exploration, development and production of oil and gas from properties in western Canada. Surge's common shares are traded on the Toronto Stock Exchange ("TSX") under the symbol SGY.

CASH FLOW FROM OPERATING ACTIVITIES AND ADJUSTED FUNDS FLOW

	Three Months Ended			**Six Months Ended June 30,**	
($000s except per share and per boe)	**June 30, 2022**	March 31, 2022	June 30, 2021	**2022**	2021
Cash flow from operating activities	**75,798**	52,182	8,254	**127,980**	23,804
Per share - basic ($)	**0.91**	0.63	0.19	**1.54**	0.58
Per share - diluted ($)	**0.88**	0.63	0.19	**1.49**	0.56
$ per boe	**39.66**	28.22	5.99	**34.03**	8.30
Adjusted funds flow	**78,561**	62,893	13,557	**141,454**	29,314
Per share - basic ($)	**0.94**	0.75	0.32	**1.70**	0.71
Per share - diluted ($)	**0.91**	0.75	0.31	**1.64**	0.69
$ per boe	**41.10**	34.00	9.84	**37.61**	10.22

Cash flow from operating activities for the second quarter of 2022 increased 45 percent when compared to the first quarter of 2022 and increased 818 percent when compared to the second quarter of 2021. On a per basic share basis, cash flow from operating activities increased 44 percent when compared to the first quarter of 2022 and increased 379 percent compared to the second quarter of 2021.

Adjusted funds flow for the second quarter of 2022 increased 25 percent when compared to the first quarter of 2022 and increased 479 percent when compared to the second quarter of 2021. On a per basic share basis, adjusted funds flow increased 25 percent when compared to the first quarter of 2022 and increased 194 percent compared to the second quarter of 2021.

Cash flow from operating activities and adjusted funds flow for the three and six months ended June 30, 2022 increased when compared to the immediate preceding quarter and the same periods of the prior year due to the increase in petroleum and natural gas revenue as a result of improved crude oil pricing and increased production, partially offset with an increase in the realized loss on financial contracts and an increase in royalties.

See the following Operations section for additional information regarding the cash flow and operating results of the Company for the three and six months ended June 30, 2022 and see the Non-GAAP and Other Financial Measures section of this MD&A for further information regarding adjusted funds flow.

OPERATIONS

Drilling

	Drilling		Success	Working
	Gross	Net	rate (%) net	interest (%)
Q1 2022	23.0	21.5	100 %	93 %
Q2 2022	10.0	9.0	100 %	90 %
Total	**33.0**	**30.5**	**100 %**	**93 %**

Surge achieved a 100 percent success rate during the period ended June 30, 2022, drilling 7 gross (7.0 net) wells in Southeast Alberta ("Sparky"), 1 gross (0.5 net) well in Valhalla and 2 gross (1.5 net) wells in Southeast Saskatchewan during the first quarter.

Production

	Three Months Ended			**Six Months Ended June 30,**	
	June 30, 2022	March 31, 2022	June 30, 2021	**2022**	2021
Oil (bbls per day)	**17,110**	16,760	12,202	**16,936**	12,809
NGL (bbls per day)	**799**	691	521	**745**	552
Oil and NGL (bbls per day)	**17,909**	17,451	12,723	**17,681**	13,361
Natural gas (mcf per day)	**18,565**	18,592	14,456	**18,579**	14,956
Total (boe per day) (6:1)	**21,003**	20,550	15,132	**20,778**	15,854
% Oil and NGL	**85 %**	85 %	84 %	**85 %**	84 %

Surge averaged production of 21,003 boe per day in the second quarter of 2022 (85 percent oil and NGLs), a 2 percent increase compared to the average production rate in the first quarter of 2022 and a 39 percent increase from the average production rate in the same period of 2021.

Production during the second quarter of 2022 increased as compared to the first quarter of 2022, primarily the result of a successful first half 2022 drilling program which offset natural declines. 22 gross (20.5 net) wells drilled during the first half of 2022 were on stream as at June 30 and the remaining 11 gross (10.0 net) wells that were drilled will be brought on production in the third quarter of 2022.

The 39 percent and 31 percent increase in production for the three and six months ended June 30, 2022, as compared to the same periods of the prior year is primarily the result of the acquisitions of Astra Oil Corporation ("Astra") and Fire Sky Energy Inc. ("Fire Sky") in the second half of 2021, which added approximately 4,750 boe per day in the first half of 2022.

Petroleum and Natural Gas Revenue, Realized Prices and Benchmark Pricing

	Three Months Ended			Six Months Ended June 30,	
($000s except per amount)	**June 30, 2022**	March 31, 2022	June 30, 2021	**2022**	2021
Petroleum and Natural Gas Revenue					
Oil	**196,470**	157,440	76,411	**353,910**	146,367
NGL	**4,939**	4,053	1,827	**8,992**	3,775
Oil and NGL	**201,409**	161,493	78,238	**362,902**	150,142
Natural gas	**11,590**	7,631	2,646	**19,221**	11,436
Total petroleum and natural gas revenue	**212,999**	169,124	80,884	**382,123**	161,578
Realized Prices					
Oil ($ per bbl)	**126.19**	104.38	68.81	**115.45**	63.13
NGL ($ per bbl)	**67.95**	65.17	38.53	**66.67**	37.79
Oil and NGL ($ per bbl)	**123.59**	102.83	67.57	**70.87**	62.09
Natural gas ($ per mcf)	**6.86**	4.56	2.01	**5.72**	4.22
Total petroleum and natural gas revenue before realized commodity and FX contracts ($ per boe)	**111.44**	91.45	58.74	**101.61**	56.31
Benchmark Prices					
WTI (US$ per bbl)	**108.41**	94.29	66.07	**101.35**	61.96
CAD/USD exchange rate	**1.28**	1.27	1.23	**1.28**	1.25
WTI (C$ per bbl)	**138.76**	119.75	81.27	**129.73**	77.45
Edmonton Light Sweet (C$ per bbl)	**137.80**	115.60	77.07	**126.70**	71.76
WCS (C$ per bbl)	**122.08**	101.01	66.99	**111.55**	62.21
AECO Daily Index (C$ per mcf)	**7.23**	4.74	3.09	**5.99**	3.12
Chicago Citygate (US$ per mmbtu)	**7.20**	4.42	2.80	**5.81**	6.04

Total petroleum and natural gas revenue for the second quarter of 2022 increased 26 percent as compared to the first quarter of 2022. The increase is primarily due to a 22 percent increase in average realized oil and natural gas prices, which correlates to the 15 percent increase in WTI crude oil pricing and the narrowing of crude oil differentials in the period, a 63 percent increase to the Chicago Citygate natural gas price and a 53 percent increase in AECO, combined with a 2 percent increase in production during the period.

Total petroleum and natural gas revenue for the three and six months ended June 30, 2022 increased 163 percent and 136 percent when compared to the same periods of 2021.

For the three months ended June 30, 2022, the increase is primarily due to a 90 percent increase in average realized oil and natural gas prices, correlating to the 64 percent increase in WTI crude oil pricing, a 157 percent increase to the Chicago Citygate natural gas price and a 134 percent increase in AECO, combined with a 39 percent increase in production during the period.

For the six months ended June 30, 2022, the increase is primarily due to a 80 percent increase in average realized oil and natural gas prices, correlating to the 64 percent increase in WTI crude oil pricing and a 92 percent increase in AECO, combined with a 31 percent increase in production during the period, partially offset by a 4 percent decrease to the Chicago Citygate natural gas price.

ROYALTIES

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**June 30, 2022**	March 31, 2022	June 30, 2021	**2022**	2021
Royalties	**37,734**	28,401	11,073	**66,135**	19,550
% of petroleum and natural gas revenue	**18 %**	17 %	14 %	**17 %**	12 %
$ per boe	**19.74**	15.36	8.04	**17.59**	6.81

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 geographic location of new wells drilled.

Royalties as a percentage of revenue for the second quarter of 2022 increased 6 percent when compared to the immediate preceding quarter, primarily as a result of a higher crude pricing environment.

Royalties as a percentage of revenue for the three and six months ended June 30, 2022 increased 29 percent and 42 percent as compared to the same periods of the prior year, primarily as a result of a higher crude oil pricing environment and due to increased production as a result of acquisitions in the third and fourth quarters of 2021.

NET OPERATING EXPENSES

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**June 30, 2022**	March 31, 2022	June 30, 2021	**2022**	2021
Operating expenses	**38,189**	37,454	25,785	**75,643**	53,868
Less processing income	**(1,569)**	(1,806)	(1,172)	**(3,375)**	(2,261)
Net operating expenses	**36,620**	35,648	24,613	**72,268**	51,607
$ per boe	**19.16**	19.28	17.87	**19.22**	17.98

Total net operating expenses for the second quarter of 2022 increased 3 percent when compared to the immediate preceding quarter due to the impact of inflationary pressures and higher power, chemical and fuel costs during the period.

Total net operating expenses for the three and six month periods ended June 30, 2022 increased 49 percent and 40 percent as compared to the same periods of the prior year primarily due to the acquisitions of Astra and Fire Sky. On a per boe basis, operating expenses increased primarily as a result of cost escalation resulting from inflationary pressures during the first half of 2022.

TRANSPORTATION EXPENSES

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**June 30, 2022**	March 31, 2022	June 30, 2021	**2022**	2021
Transportation expenses	**3,095**	2,777	1,293	**5,872**	2,832
$ per boe	**1.62**	1.50	0.94	**1.56**	0.99

Transportation expenses per boe for the second quarter of 2022 increased 8 percent when compared to the first quarter of 2022 primarily due to inflationary pressures. Transportation expenses per boe for the three and six months ended June 30, 2022 increased 72 percent and 58 percent as compared to the same periods of the prior year, primarily due to inflationary pressures and increased trucking associated with acquisitions and organic production additions that are not yet pipeline connected.

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**June 30, 2022**	March 31, 2022	June 30, 2021	**2022**	2021
G&A expenses	**5,558**	5,353	4,281	**10,911**	8,310
Recoveries and capitalized amounts	**(1,372)**	(1,321)	(1,240)	**(2,693)**	(2,312)
Net G&A expenses	**4,186**	4,032	3,041	**8,218**	5,998
Net G&A expenses $ per boe	**2.19**	2.18	2.21	**2.19**	2.09

Total net G&A expenses for the second quarter of 2022 increased 4 percent and 38 percent when compared to the immediate preceding quarter and the same period of 2021 primarily as a result of additional labour requirements to meet the Company's objectives following significant production growth resulting from recent acquisitions.

Total net G&A expenses for the six months ended June 30, 2022 increased 37 percent when compared to the same period of the prior year primarily attributable to additional labour requirements following the acquisitions done in the second half of 2021 combined with the receipt of the Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") in the first half of 2021. The receipt of CEWS was recorded as a credit to salaries and wages expense, while the receipt of CERS was recorded as a credit to rent expense. No CEWS or CERS were received in the first half of 2022.

TRANSACTION AND OTHER COSTS (INCOME)

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**June 30, 2022**	March 31, 2022	June 30, 2021	**2022**	2021
Transaction and other costs (income)	**(414)**	(169)	432	**(583)**	1,479
$ per boe	**(0.22)**	(0.09)	0.31	**(0.16)**	0.52

Total transaction and other costs (income) for the second quarter of 2022 increased 145 percent when compared to the immediate preceding quarter, primarily attributable to receiving $0.6 million of Alberta Site Rehabilitation Program (“SRP”) grant income to pay service companies to complete abandonment and reclamation work as compared to $0.3 million in the immediate preceding quarter.

For the six months ended June 30, 2022, the Company was granted $1.0 million in SRP income, which was partially offset by transaction costs related to M&A activity. During the same period of the prior year, approximately $1.0 million was granted to Surge in SRP income, which was offset by transaction costs related to M&A activities and employee severance costs.

FINANCE EXPENSES

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**June 30, 2022**	March 31, 2022	June 30, 2021	**2022**	2021
Interest on bank debt and term debt	**4,712**	4,095	3,712	**8,807**	9,142
Interest on convertible debentures	**1,222**	1,222	1,222	**2,444**	2,444
Interest on lease and other obligations	**557**	583	725	**1,140**	1,501
Realized loss on interest contracts	**346**	664	738	**1,010**	1,458
Total interest expense	**6,837**	6,564	6,396	**13,401**	14,544
$ per boe	**3.58**	3.55	4.65	**3.56**	5.07
Accretion expense	**2,905**	2,704	1,866	**5,609**	3,767
Unrealized gain on interest contracts	**(1,407)**	(2,379)	(961)	**(3,786)**	(2,367)
Paid in kind interest on term debt	**—**	—	514	**—**	946
Total finance expense	**8,335**	6,889	7,816	**15,224**	16,890
$ per boe	**4.36**	3.72	5.68	**4.05**	5.89
Average principal amount					
Bank Debt	**59,517**	97,423	175,571	**60,160**	224,403
Term Debt	**147,939**	133,713	40,818	**155,806**	38,632
Convertible debentures	**79,000**	79,000	79,000	**79,000**	79,000
Average total principal amount of debt outstanding	**286,456**	310,136	295,389	**294,966**	342,035

Total interest expense for the second quarter of 2022 increased 4 percent when compared to the immediately preceding quarter primarily due to higher average term debt during the period with a higher effective interest rate than bank debt, partially offset by lower average bank debt during the period.

Interest expense for the three months ended June 30, 2022 increased 7 percent as compared to the same period of 2021 due to significantly higher average term debt during the period with a higher effective interest rate than bank debt. Total interest expense for the six months ended June 30, 2022 decreased 8 percent as compared to the same period of 2021 due to lower average bank debt during the period, partially offset by higher average term debt during the period.

Total finance expense includes accretion, representing the change in the time value of the decommissioning liability, term debt and convertible debentures as well as unrealized gains and losses on financial interest contracts. Accretion expense for the second quarter of 2022 increased 7 percent as compared to the immediately preceding quarter and increased 56 percent and 49 percent as compared to the three and six months ended June 30, 2021 primarily due to an increase in the discount rate used during the periods. The Company had a higher unrealized gain on financial interest contracts as compared to the three and six months ended June 30, 2021 due to an increase in floating interest rates over the periods.

NETBACKS

	Three Months Ended			Six Months Ended June 30,	
($ per boe, except production)	**June 30, 2022**	March 31, 2022	June 30, 2021	**2022**	2021
Average production (boe per day)	**21,003**	20,550	15,132	**20,778**	15,854
Petroleum and natural gas revenue	**111.44**	91.45	58.74	**101.61**	56.31
Realized loss on commodity and FX contracts	**(24.05)**	(15.58)	(15.19)	**(19.88)**	(13.15)
Royalties	**(19.74)**	(15.36)	(8.04)	**(17.59)**	(6.81)
Net operating expenses	**(19.16)**	(19.28)	(17.87)	**(19.22)**	(17.98)
Transportation expenses	**(1.62)**	(1.50)	(0.94)	**(1.56)**	(0.99)
Operating netback	**46.87**	39.73	16.70	**43.36**	17.38
G&A expense	**(2.19)**	(2.18)	(2.21)	**(2.19)**	(2.09)
Interest expense	**(3.58)**	(3.55)	(4.65)	**(3.56)**	(5.07)
Adjusted funds flow	**41.10**	34.00	9.84	**37.61**	10.22

Please refer to the respective sections of the MD&A for a detailed explanation of the changes to the netback as compared to prior periods.

STOCK-BASED COMPENSATION

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**June 30, 2022**	March 31, 2022	June 30, 2021	**2022**	2021
Stock-based compensation	**1,893**	1,878	1,795	**3,771**	3,198
Capitalized stock-based compensation	**(683)**	(695)	(618)	**(1,378)**	(1,089)
Net stock-based compensation	**1,210**	1,183	1,177	**2,393**	2,109
Net stock-based compensation $ per boe	**0.64**	0.64	0.85	**0.63**	0.73

Net stock-based compensation expense for the second quarter of 2022 was comparable to the immediate preceding quarter. For the three and six months ended June 30, 2022, net stock-based compensation expense increased 3 percent and 13 percent as compared to the same periods of 2021 due to a higher number of awards outstanding and an increase in the Company's share price over the period.

The weighted average fair value of awards granted for the period ended June 30, 2022 is $11.54 (2021 - $5.02) per PSA granted and $11.25 (2021 - nil) 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 December 31, 2021	1,625,461	2,116,952
Granted	93,600	15,600
Forfeited	(71,040)	(19,862)
Balance at June 30, 2022	**1,648,021**	**2,112,690**

DEPLETION AND DEPRECIATION

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**June 30, 2022**	March 31, 2022	June 30, 2021	**2022**	2021
Depletion and depreciation expense	**36,023**	35,440	21,558	**71,463**	43,189
$ per boe	**18.85**	19.16	15.65	**19.00**	15.05

Depletion and depreciation are calculated based on total capital expenditures (including acquisitions and dispositions), production rates and proved and probable oil and gas reserves.

Depletion and depreciation expense for the three months ended June 30, 2022 is comparable to the immediate preceding quarter. Depletion and depreciation expense for the three and six months ended June 30, 2022 increased 67 percent and 65 percent compared to the same periods of 2021 due to an increase in the depletable base as a result of the second and fourth quarter 2021 impairment reversals and the acquisitions of Astra and Fire Sky in the second half of 2021.

NET INCOME (LOSS)

	Three Months Ended			Six Months Ended June 30,	
($000s except per share)	**June 30, 2022**	March 31, 2022	June 30, 2021	**2022**	2021
Net income (loss)	**72,027**	(21,868)	307,113	**50,159**	297,128
Per share - basic ($)	**0.86**	(0.26)	7.24	**0.60**	7.21
Per share - diluted ($)	**0.83**	(0.26)	7.01	**0.58**	7.03

The Company realized net income and net income per basic share for the second quarter of 2022 compared to a net loss and net loss per basic share during the first quarter of 2022. This is primarily due to an unrealized gain on financial contracts in the period as compared to an unrealized loss on financial contracts in the first quarter of 2022 combined with an increase in the average realized price per barrel of oil in the period, partially offset by a higher realized loss on financial contracts in the period.

The Company realized lower net income and net income per basic share for the three and six months ended June 30, 2022 as compared to the same periods of 2021, primarily due to the impairment reversal recorded in the second quarter of 2021.

CAPITAL EXPENDITURES

Capital Expenditure Summary

($000s)	Q1 2022	Q2 2022	**2022 YTD**	2021 YTD	% Change
Land	920	13,164	**14,084**	793	1,676 %
Seismic	389	945	**1,334**	—	— %
Drilling and completions	29,698	16,082	**45,780**	30,392	51 %
Facilities, equipment and pipelines	10,580	5,079	**15,659**	13,361	17 %
Other	1,381	1,620	**3,001**	2,852	5 %
Expenditures on property, plant and equipment	42,968	36,890	**79,858**	47,398	68 %
Cash from dispositions	—	(32)	**(32)**	(102,591)	nm[1]
Net acquisitions & dispositions	—	(32)	**(32)**	(102,591)	nm
Net capital expenditures	42,968	36,858	**79,826**	(55,193)	nm

1 The Company views this change calculation as not meaningful, or "nm".

During the second quarter of 2022, Surge invested a total of $36.9 million , excluding acquisitions and dispositions.

During the second quarter of 2022, Surge invested $16.1 million to drill and complete 7 gross (7.0 net) wells in Southeast Alberta ("Sparky"), 1 gross (0.5 net) well in Valhalla and 2 gross (1.5 net) wells in Southeast Saskatchewan and $5.1 million to equip and tie-in wells drilled in the first half of 2022. A further $13.2 million was invested in Crown land sale purchases in the Company's Southeast Saskatchewan core area and Crown land sale purchases and freehold leasing in the Company's Sparky core area. An additional $2.5 million was spent on seismic and other capital items during the quarter.

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, realized and unrealized gains or losses on derivative instruments, and changes in impairment charges and non-cash items. The change in production from the third quarter of 2020 through the current quarter is due to Surge’s drilling programs and acquisitions and dispositions 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's for changes in prior quarters.

Share Capital and Option Activity

	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Weighted common shares	**83,357,221**	83,357,221	79,468,797	57,379,790
Dilutive instruments (treasury method)	**2,917,383**	—	1,108,395	1,242,800
Weighted average diluted shares outstanding	**86,274,604**	83,357,221	80,577,192	58,622,590

	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Weighted common shares	42,444,687	39,974,675	39,974,675	39,660,630
Dilutive instruments (treasury method)	1,348,020	—	—	—
Weighted average diluted shares outstanding	43,792,707	39,974,675	39,974,675	39,660,630

On July 27, 2022, Surge had 83,357,221 common shares, 2,121,898 PSAs, and 1,652,693 RSAs outstanding.

Quarterly Financial Information

	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Oil, Natural gas & NGL sales	**212,999**	169,124	143,381	105,104
Net income (loss)	**72,027**	(21,868)	42,868	67,612
Net income (loss) per share ($):				
Basic	**0.86**	(0.26)	0.54	1.18
Diluted	**0.83**	(0.26)	0.53	1.15
Cash flow from operating activities	**75,798**	52,182	50,417	26,263
Cash flow from operating activities per share ($):				
Basic	**0.91**	0.63	0.63	0.46
Diluted	**0.88**	0.63	0.63	0.45
Adjusted funds flow	**78,561**	62,893	43,320	27,804
Adjusted funds flow per share ($):				
Basic	**0.94**	0.75	0.55	0.48
Diluted	**0.91**	0.75	0.54	0.47
Average daily sales				
Oil (bbls/d)	**17,110**	16,760	17,192	14,264
NGL (bbls/d)	**799**	691	720	575
Natural gas (mcf/d)	**18,565**	18,592	19,503	16,815
Barrels of oil equivalent (boe per day) (6:1)	**21,003**	20,550	21,163	17,642
Average sales price				
Natural gas ($/mcf)	**6.86**	4.56	4.75	3.35
Oil ($/bbl)	**126.19**	104.38	82.84	74.12
NGL ($/bbl)	**67.95**	65.17	58.10	50.31
Barrels of oil equivalent ($/boe)	**111.44**	91.45	73.65	64.76

Quarterly Financial Information

	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Oil, Natural gas & NGL sales	80,844	80,694	59,907	56,931
Net income (loss)	307,113	(9,985)	(57,727)	(13,184)
Net income (loss) per share ($):				
Basic	7.24	(0.25)	(1.44)	(0.33)
Diluted	7.01	(0.25)	(1.44)	(0.33)
Cash flow from operating activities	8,254	15,550	11,000	15,082
Cash flow from operating activities per share ($):				
Basic	0.19	0.39	0.28	0.38
Diluted	0.19	0.39	0.28	0.38
Adjusted funds flow	13,557	15,757	8,467	12,523
Adjusted funds flow per share ($):				
Basic	0.32	0.39	0.21	0.32
Diluted	0.31	0.39	0.21	0.32
Average daily sales				
Oil (bbls/d)	12,202	13,422	13,788	13,759
NGL (bbls/d)	521	583	726	582
Natural gas (mcf/d)	14,456	15,462	17,050	16,503
Barrels of oil equivalent (boe per day) (6:1)	15,132	16,582	17,356	17,092
Average sales price				
Natural gas ($/mcf)	2.01	6.32	1.66	1.17
Oil ($/bbl)	68.81	57.91	43.80	42.66
NGL ($/bbl)	38.53	37.12	26.14	21.68
Barrels of oil equivalent ($/boe)	58.74	54.07	37.52	36.21

LIQUIDITY AND CAPITAL RESOURCES

On June 30, 2022, Surge had $22.3 million drawn on its credit facilities, $158.4 million drawn on its term facility, excluding unamortized issue costs, $79.0 million principal amount of convertible subordinated unsecured debentures ("Debentures"), and total net debt of $280.1 million, a decrease in total net debt of 4 percent compared to the same date in 2021. At June 30, 2022, Surge had approximately $127.7 million of borrowing capacity in relation to the $150.0 million credit facilities. The following tables sets forth the consolidated capitalization of Surge and the change in the components of the Debentures:

Consolidated Capitalization

($000s)	Outstanding as at June 30, 2022
Shareholder Equity	
Share capital	1,654,211
Common shares outstanding	83,357
Debentures - equity	6,266
Debt	
Credit Facilities	
Total Commitment	150,000
Amount drawn	22,254
Term Facility	
Total Commitment	160,000
Amount drawn	158,421
Amount drawn net of unamortized issue costs	154,021
Emissions Reduction Fund	6,900
Other Term Debt	1,260
Debentures - liability	75,423

Convertible Debentures

	Number of convertible debentures	Liability Component ($000s)	Equity Component ($000s)
Balance at December 31, 2020	79,000	71,181	6,266
Accretion of discount	—	2,754	—
Balance at December 31, 2021	79,000	73,935	6,266
Accretion of discount	—	1,488	—
Balance at June 30, 2022	**79,000**	**75,423**	**6,266**

Surge monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives. Currently, Surge anticipates that the future capital requirements will be funded through a combination of internal cash flow, divestitures, and debt and/or equity financing. There can be no guarantees that the credit facilities will be extended or that alternative forms of debt and equity financing will be available on terms acceptable to the Company to meet its capital requirements.

Net Debt

($000s)	As at June 30, 2022
Bank debt	(22,254)
Term debt	(162,180)
Accounts receivable	80,589
Prepaid expenses and deposits	4,227
Accounts payable and accrued liabilities	(102,172)
Dividends payable	(2,918)
Convertible debentures	(75,423)
Total	**(280,131)**

Bank Debt

As at June 30, 2022, the Company had a total commitment of $150 million, being the aggregate of a committed revolving term facility of $120 million and an operating loan facility of $30 million, with a syndicate of banks. A review and redetermination of the borrowing base is scheduled to occur semi-annually on or before June 30 and November 30 of each year. The facility is available on a revolving basis until November 30, 2022. On November 30, 2022, 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. During the period, the Corporation reconfirmed and extended its existing $150 million First Lien Credit Facility. The maturity of the newly reconfirmed First Lien Credit Facility is now extended through to May 31, 2024.

Term Debt

As at June 30, 2022, the Company had a term loan of $158.4 million, excluding unamortized issue costs. During the period, the Corporation's term debt facility provider exercised their right to deliver an additional $30 million of term debt financing (under the same terms and conditions as the existing 5-year term debt facility). The loan is a five year, non-revolving second lien term facility, maturing on December 9, 2026. The principal amount is repayable in scheduled quarterly repayments, which commenced on March 31, 2022. The Company is required to make an additional principal repayment of $0.8 million in each calendar month in which a shareholder distribution is paid.

Financial Covenants

The Company is subject to certain financial covenants under the first lien and second lien facilities. As at June 30, 2022, the Company was compliant with all restrictions and covenants in its first and second lien credit agreements.

Emissions Reduction Fund

As at June 30, 2022, the Company had a $6.9 million (December 31, 2021 - $6.6 million) loan repayable relating to the Government of Canada Emissions Reduction Fund (“ERF”). As at June 30, 2022, the Company has received $9.6 million (December 31, 2021 – $1.04 million) of funds from ERF for the Company's planned gas emissions reduction program.

RELATED-PARTY AND OFF-BALANCE-SHEET TRANSACTIONS

Surge was not involved in any off-balance-sheet transactions or related-party transactions during the period ended June 30, 2022.

CONTRACTUAL OBLIGATIONS

During the period, the Company signed a new nine year office lease, commencing in 2023, for a total commitment of $13.7 million.

FINANCIAL INSTRUMENTS

The following table summarizes the Company's financial derivatives as at July 27, 2022 by period and by product.

Commodity Contracts

West Texas Intermediate Crude Oil Derivative Contracts (WTI)

	Swaps		Collars		
Period	Volumes (bbls/d)	Average Price (CAD/bbl)	Volumes (bbls/d)	Average Bought Put (CAD/bbl)	Average Sold Call (CAD/bbl)
Qtr. 3 2022	4,000	$79.83	2,000	$74.01	$107.19
Qtr. 4 2022	4,000	$79.33	2,500	$77.23	$106.35
Qtr. 1 2023	—	—	5,500	$76.65	$138.21
Qtr. 2 2023	—	—	5,665	$83.67	$172.03
Qtr. 3 2023	—	—	4,500	$83.67	$187.36

Western Canadian Select Derivative Contracts (WCS)

	Swaps	
Period	Volumes (bbls/d)	Average Price (CAD/bbl)
Qtr. 3 2022	4,000	$(16.31)
Qtr. 4 2022	2,500	$(16.68)

Mixed Sweet Blend Derivative Contracts (MSW)

	Swaps	
Period	Volumes (bbls/d)	Average Price (CAD/bbl)
Qtr. 3 2022	4,500	$(5.89)
Qtr. 4 2022	4,500	$(5.89)

Natural Gas Derivative Contracts

	NYMEX Collars			NYMEX - AECO Basis Swaps		AECO Swaps		AECO Collars		
Period	Volumes (MMBtu/d)	Average Bought Put (CAD/ MMBtu)	Average Sold Call (CAD/ MMBtu)	Volumes (MMBtu/d)	Average Price (CAD/ MMBtu)	Average Bought Put (CAD/GJ)	Average Sold Call (CAD/GJ)	Volumes (GJ/d)	Average Bought Put (CAD/GJ)	Average Sold Call (CAD/GJ)
Qtr. 3 2022	—	—	—	—	—	3,500	$3.26	—	—	—
Qtr. 4 2022	—	—	—	—	—	4,500	$3.48	2,500	$2.90	$3.67
Qtr. 1 2023	—	—	—	—	—	4,000	$3.66	2,000	$2.90	$3.91
Qtr. 2 2023	1,000	$5.15	$10.62	1,000	$(1.72)	—	—	4,000	$2.75	$3.67
Qtr. 3 2023	3,000	$5.15	$10.62	3,000	$(1.85)	—	—	2,000	$2.75	$3.73
Qtr. 4 2023	3,000	$5.15	$10.62	3,000	$(1.85)	—	—	674	$2.75	$3.73

Interest Rate Derivative Contracts

Type	Term	Notional Amount (CAD$)	Surge Receives	Surge Pays	Fixed Rate SGY Pays
Fixed-to-Floating Rate Swap	Feb 2018 - Feb 2023	$100,000,000	Floating Rate	Fixed Rate	Semi-Annual Step Up • Beginning at 1.786% • Ending at 2.714% • Averaging 2.479%
Fixed-to-Floating Rate Swap	Jul 2019 - Jun 2024	$50,000,000	Floating Rate	Fixed Rate	1.7850%

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures ("DC&P"), as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, are designed to provide reasonable assurance that 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 periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in the Company's DC&P during the period ended June 30, 2022 that materially affected, or are reasonably likely to materially affect, the Company's DC&P.

Internal Controls Over Financial Reporting

Internal control over financial reporting ("ICFR"), as defined in National Instrument 52-109, includes those policies and procedures that:

1. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Company;

2. are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made in accordance with authorizations of management and Directors of Surge; and

3. are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

The Chief Executive Officer and Chief Financial Officer are responsible for designing internal controls over financial reporting 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 period ended June 30, 2022 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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

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

Forecasted Oil and Gas Commodity Prices

Management's estimates of forecasted oil and gas commodity 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 independent third party reserve evaluators 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) proved and probable oil and gas reserves in accordance with National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities and (b) forecasted oil and gas commodity prices.

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

Surge utilizes derivative financial instruments to manage its 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 deferred income tax provision, including (but not limited to) future tax rates, accessibility of tax pools and future cash flows.

Leases

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates, and assumptions that affect the reported amount of assets, liabilities, income, and expenses. Actual results could differ significantly from these estimates. Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include:

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

RISK FACTORS

Additional risk factors can be found under "Matters Relating to the COVID-19 Pandemic" in this MD&A or under "Risk Factors" in the Company's AIF for the year ended December 31, 2021, which can be found on www.sedar.com. Many risks are discussed below and in the AIF, 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: the anticipated timing of wells being brought on to production; forecast commodity prices, inflation rates and currency prices; the impact of fluctuations in oil or natural gas prices on the Company's operations and financial condition and the value and amount of its reserves; the Company's long term prospects and business plan; Surge's assets and the characteristics thereof; management's beliefs regarding the estimates of the future values for certain of the Company's assets and liabilities; the underlying causes of the fluctuations in Surge’s revenue and net earnings from quarter to quarter; fair value of forward contracts, swaps, options and costless collars entered into by the Company; expected payments and forfeiture rates of RSAs and PSAs granted under the Company's Stock Incentive Plan; expectations with respect to its underlying decommissioning liabilities; the Company's plans for funding its future capital requirements; the ongoing assessment of management and the Board of market conditions and other relevant considerations; and factors affecting the royalty rates applicable to the Company.

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, compliance with and application of regulatory and royalty regimes, prevailing commodity prices and economic conditions, recoverable and carrying value of certain assets, the financial assumptions used by Surge's reserve evaluators in assessing potential impairment of Surge assets; 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 and any acquired assets, the successful application of drilling, completion and seismic technology, the determination of decommissioning liabilities, the ability to obtain approval from syndicate to increase or maintain its credit facilities; 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 condition of the global economy, including trade, public health (including the impact of COVID-19) and other geopolitical risks; 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; failure to obtain the continued support of the lenders under Surge's current bank line; potential decrease in the available lending limits under Surge's bank line as a result of the syndicate's interpretation of the Company's reserves, commodity prices and decommissioning obligations; or the inability to obtain consent of lenders to increase or maintain the bank line. Certain of these risks are set out in more detail in this MD&A under the headings 'Matters Relating to the COVID-19 Pandemic' and 'Risk Factors' herein and in Surge's AIF dated March 9, 2022 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.

NON-GAAP AND OTHER FINANCIAL MEASURES

Certain secondary financial measures in this document - namely, "adjusted funds flow", "adjusted funds flow per share", "net debt", "net operating expenses", "operating netback", and "adjusted funds flow per boe" are not prescribed by GAAP. These specified financial measures include non-GAAP financial measures and non-GAAP ratios, are not defined by IFRS and therefore are referred to as non-GAAP and other financial measures. These non-GAAP and other financial measures are included because management uses the information to analyze business performance, cash flow generated from the business, leverage and liquidity, resulting from the Company's principal business activities and it may be useful to investors on the same basis. None of these measures are used to enhance the Company's reported financial performance or position. The non-GAAP and other measures do not have a standardized meaning prescribed by IFRS and therefore are unlikely to be comparable to similar measures presented by other issuers. They are common in the reports of other companies but may differ by definition and application. All non-GAAP and other financial measures used in this document are defined below.

Adjusted Funds Flow & Adjusted Funds Flow per Share

Adjusted funds flow is a non-GAAP financial measure. The Company adjusts cash flow from operating activities in calculating adjusted funds flow for changes in non-cash working capital, decommissioning expenditures and cashed settled transaction and other costs. Management believes the timing of collection, payment or incurrence of these items involves a high degree of discretion and as such may not be useful for evaluating Surge's cash flows.

Changes in non-cash working capital are a result of the timing of cash flows related to accounts receivable and accounts payable, which management believes reduces comparability between periods. Management views decommissioning expenditures predominately as a discretionary allocation of capital, with flexibility to determine the size and timing of decommissioning programs to achieve greater capital efficiencies and as such, costs may vary between periods. Transaction and other costs represent expenditures associated with property acquisitions and dispositions and employee severance costs, which management believes do not reflect the ongoing cash flows of the business, and as such reduces comparability. Each of these expenditures, due to their nature, are not considered principal business activities and vary between periods, which management believes reduces comparability.

Adjusted funds flow per share is a non-GAAP ratio, calculated using the same weighted average basic and diluted shares used in calculating income per share.

The following table reconciles cash flow from operating activities to adjusted funds flow and adjusted funds flow per share:

	Three Months Ended			Six Months Ended June 30,	
($000s except per share)	**June 30, 2022**	March 31, 2022	June 30, 2021	**2022**	2021
Cash flow from operating activities	**75,798**	52,182	8,254	**127,980**	23,804
Change in non-cash working capital	**2,198**	9,061	3,355	**11,259**	381
Decommissioning expenditures	**501**	1,495	1,063	**1,996**	2,544
Cash settled transaction and other costs	**64**	155	885	**219**	2,585
Adjusted funds flow	**$ 78,561**	$ 62,893	$ 13,557	**$ 141,454**	$ 29,314
Per share - basic	**$ 0.94**	$ 0.75	$ 0.32	**$ 1.70**	$ 0.71

Net Debt

Net debt is a non-GAAP financial measure, calculated as bank debt, term debt plus the liability component of the convertible debentures plus current assets, less current liabilities, however, excluding the fair value of financial contracts, decommissioning obligations, and lease and other obligations. There is no comparable measure in accordance with IFRS for net debt. This metric is used by management to analyze the level of debt in the Company including the impact of working capital, which varies with timing of settlement of these balances.

	As at		
($000s)	**June 30, 2022**	March 31, 2022	June 30, 2021
Bank debt	**(22,254)**	(96,780)	(162,318)
Term debt	**(162,180)**	(133,580)	(41,164)
Accounts receivable	**80,589**	83,502	29,244
Prepaid expenses and deposits	**4,227**	3,669	4,595
Accounts payable and accrued liabilities	**(102,172)**	(97,913)	(50,641)
Convertible debentures	**(75,423)**	(74,668)	(72,522)
Dividends payable	**(2,918)**	—	—
Total	**(280,131)**	(315,770)	(292,806)

Operating Netback & Adjusted Funds Flow per boe

Operating netback is a non-GAAP financial measure, calculated as petroleum and natural gas revenue and processing and other income, less royalties, realized gain (loss) on commodity and FX contracts, operating expenses, and transportation expenses. Operating netback per boe is calculated as operating netback divided by total barrels of oil equivalent produced during a specific period of time. There is no comparable measure in accordance with IFRS. This metric is used by management to evaluate the Company's ability to generate cash margin on a unit of production basis.

Operating netback & adjusted funds flow are calculated on a per unit basis as follows:

	Three Months Ended			**Six Months Ended June 30,**	
($000s)	**June 30, 2022**	March 31, 2022	June 30, 2021	**2022**	2021
Petroleum and natural gas revenue	**212,999**	169,124	80,884	**382,123**	161,578
Processing income	**1,569**	1,806	1,172	**3,375**	2,261
Royalties	**(37,734)**	(28,401)	(11,073)	**(66,135)**	(19,550)
Realized loss on commodity and FX contracts	**(45,966)**	(28,809)	(20,911)	**(74,775)**	(37,733)
Operating expenses	**(38,189)**	(37,454)	(25,785)	**(75,643)**	(53,868)
Transportation expenses	**(3,095)**	(2,777)	(1,293)	**(5,872)**	(2,832)
Operating netback	**89,584**	73,489	22,994	**163,073**	49,856
G&A expense	**(4,186)**	(4,032)	(3,041)	**(8,218)**	(5,998)
Interest expense	**(6,837)**	(6,564)	(6,396)	**(13,401)**	(14,544)
Adjusted funds flow	**78,561**	62,893	13,557	**141,454**	29,314
Barrels of oil equivalent (boe)	**1,911,258**	1,849,429	1,377,078	**3,760,687**	2,869,475
Operating netback ($ per boe)	**$ 46.87**	$ 39.73	$ 16.70	**$ 43.36**	$ 17.38
Adjusted funds flow ($ per boe)	**$ 41.10**	$ 34.00	$ 9.84	**$ 37.61**	$ 10.22

Net Operating Expenses

Net operating expenses is a non-GAAP financial measure, determined by deducting processing income primarily generated by processing third party volumes at processing facilities where the Company has an ownership interest. It is common in the industry to earn third party processing revenue on facilities where the entity has a working interest in the infrastructure asset. Under IFRS this source of funds is required to be reported as revenue. However, the Company's principal business is not that of a midstream entity whose activities are dedicated to earning processing and other infrastructure payments. Where the Company has excess capacity at one of its facilities, it will look to process third party volumes as a means to reduce the cost of operating/owning the facility. As such, third party processing revenue is netted against operating costs in the MD&A.