FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended			Six Months Ended June 30,		
	Jun 30, 2021	Mar 31, 2021	% Change	**2021**	2020	% Change
Financial highlights						
Oil sales	**76,411**	69,956	9 %	**146,367**	89,643	63 %
NGL sales	**1,827**	1,948	(6)%	**3,775**	1,707	121 %
Natural gas sales	**2,646**	8,790	(70)%	**11,436**	2,861	300 %
Total oil, natural gas, and NGL revenue	**80,884**	80,694	— %	**161,578**	94,211	72 %
Cash flow from operating activities	**8,254**	15,550	(47)%	**23,804**	46,108	(48)%
Per share - basic ($)	**0.02**	0.05	(60)%	**0.07**	0.14	(50)%
Adjusted funds flow[1]	**13,557**	15,757	(14)%	**29,314**	38,882	(25)%
Per share - basic ($)[1]	**0.04**	0.05	(20)%	**0.08**	0.12	(33)%
Net income (loss)	**307,113**	(9,985)	nm[2]	**297,128**	(676,386)	nm
Per share basic ($)	**0.85**	(0.03)	nm	**0.85**	(2.03)	nm
Total exploration and development expenditures	**15,500**	31,898	(51)%	**47,398**	36,020	32 %
Total acquisitions & dispositions	**—**	(102,591)	nm	**(102,591)**	(5,276)	nm
Total capital expenditures	**15,500**	(70,693)	(122)%	**(55,193)**	30,744	(280)%
Net debt[1], end of period	**292,806**	303,334	(3)%	**292,806**	376,907	(22)%
Operating highlights						
Production:						
Oil (bbls per day)	**12,202**	13,422	(9)%	**12,809**	15,352	(17)%
NGLs (bbls per day)	**521**	583	(11)%	**552**	546	1 %
Natural gas (mcf per day)	**14,456**	15,462	(7)%	**14,956**	17,036	(12)%
Total (boe per day) (6:1)	**15,132**	16,582	(9)%	**15,854**	18,737	(15)%
Average realized price (excluding hedges):						
Oil ($ per bbl)	**68.81**	57.91	19 %	**63.13**	32.08	97 %
NGL ($ per bbl)	**38.53**	37.12	4 %	**37.79**	17.19	120 %
Natural gas ($ per mcf)	**2.01**	6.32	(68)%	**4.22**	0.92	359 %
Netback ($ per boe)						
Petroleum and natural gas revenue	**58.74**	54.07	9 %	**56.31**	27.63	104 %
Realized gain (loss) on commodity and FX contracts	**(15.19)**	(11.27)	35 %	**(13.15)**	8.50	(255)%
Royalties	**(8.04)**	(5.68)	42 %	**(6.81)**	(3.44)	98 %
Net operating expenses[1]	**(17.87)**	(18.09)	(1)%	**(17.98)**	(14.39)	25 %
Transportation expenses	**(0.94)**	(1.03)	(9)%	**(0.99)**	(1.67)	(41)%
Operating netback[1]	**16.70**	18.00	(7)%	**17.38**	16.63	5 %
G&A expense	**(2.21)**	(1.98)	12 %	**(2.09)**	(1.91)	9 %
Interest expense	**(4.65)**	(5.46)	(15)%	**(5.07)**	(3.31)	53 %
Adjusted funds flow[1]	**9.84**	10.56	(7)%	**10.22**	11.41	(10)%
Common shares outstanding, end of period	**379,594**	339,785	12 %	**379,594**	335,069	13 %
Weighted average basic shares outstanding	**360,780**	339,785	6 %	**350,340**	333,628	5 %
Stock option dilution	**11,458**	—	— %	**9,166**	—	— %
Weighted average diluted shares outstanding	**372,238**	339,785	10 %	**359,506**	333,628	8 %

1 This is a non-GAAP financial measure which is defined in the Non-GAAP Financial Measures section of this document.
2 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, is for the three and six months ended June 30, 2021 and 2020. 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").

For matters relating to the COVID-19 pandemic, refer to Note 2 "Basis of preparation" in the consolidated financial statements as at December 31, 2020.

Surge's Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A. This MD&A is dated July 29, 2021.

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,	
($000s except per share and per boe)	**Jun 30, 2021**	Mar 31, 2021	Jun 30, 2020	**2021**	2020
Cash flow from operating activities	**8,254**	15,550	2,970	**23,804**	46,108
Per share - basic ($)	**0.02**	0.05	0.01	**0.07**	0.14
Per share - diluted ($)	**0.02**	0.05	0.01	**0.07**	0.14
$ per boe	**5.99**	10.42	1.91	**8.30**	13.52
Adjusted funds flow	**13,557**	15,757	8,854	**29,314**	38,882
Per share - basic ($)	**0.04**	0.05	0.03	**0.08**	0.12
Per share - diluted ($)	**0.04**	0.05	0.03	**0.08**	0.12
$ per boe	**9.84**	10.56	5.69	**10.22**	11.41

Cash flow from operating activities and adjusted funds flow for the second quarter of 2021 decreased as compared to the first quarter of 2021 primarily as a result of a significant realized loss on financial contracts during the second quarter as benchmark crude oil prices increased throughout the period. Cash flow from operating activities and adjusted funds flow for the second quarter of 2021 increased as compared to the same period of the prior year primarily due to the increase in petroleum and natural gas revenue during the period, partially offset by a significant realized loss on financial contracts as compared to a realized gain on financial contracts during the second quarter of the prior year.

The decrease in cash flow from operating activities and adjusted funds flow for the six months ended June 30, 2021 when compared to the same period of the prior year is primarily a result of a realized loss on financial contracts as compared to a realized gain on financial contracts during the first six months of 2020. This decrease was partially offset with an increase in petroleum and natural gas revenue as crude oil pricing recovered through the first six months of 2021.

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, 2021 and see the Non-GAAP Financial Measures section of this MD&A for further information regarding adjusted funds flow.

OPERATIONS

Drilling

	Drilling		Success rate (%) net	Working interest (%)
	Gross	Net		
Q1 2021	19.0	19.0	100 %	100 %
Q2 2021	4.0	4.0	100 %	100 %
Total	**23.0**	**23.0**	**100 %**	**100 %**

Surge achieved a 100 percent success rate during the three months ended June 30, 2021, drilling 4 gross (4 net) wells in Southeast Alberta ("Sparky").

Production

	Three Months Ended			**Six Months Ended June 30,**	
	Jun 30, 2021	Mar 31, 2021	Jun 30, 2020	**2021**	2020
Oil (bbls per day)	**12,202**	13,422	13,813	**12,809**	15,352
NGL (bbls per day)	**521**	583	528	**552**	546
Oil and NGL (bbls per day)	**12,723**	14,005	14,341	**13,361**	15,898
Natural gas (mcf per day)	**14,456**	15,462	16,664	**14,956**	17,036
Total (boe per day) (6:1)	**15,132**	16,582	17,118	**15,854**	18,737
% Oil and NGL	**84 %**	84 %	84 %	**84 %**	85 %

Surge averaged production of 15,132 boe per day in the second quarter of 2021 (84 percent oil and NGLs), a nine percent decrease compared to the average production rate in the first quarter of 2021 and a 12 percent decrease from the average production rate in the same period of 2020.

During the six months ended June 30, 2021, Surge achieved production of 15,854 boe per day (84 percent oil and NGLs), a 15 percent decrease when compared to the same period of 2020.

Production during the second quarter of 2021 decreased as compared to the first quarter of 2021, primarily attributable to approximately 2,700 boe per day of sold production resulting from the disposition of certain assets in Southeast Alberta and Northeast Alberta, which closed on March 25, 2021, partially offset by production additions from the Company's first half 2021 drilling program.

The decrease in production for the three and six months ended June 30, 2021, as compared to the immediate preceding quarter and same periods of the prior year is primarily due to the disposition of certain assets in Southeast Alberta and Northeast Alberta on March 25, 2021 (approximately 2,700 boe per day and 1,300 boe per day for the three and six months ended June 30, 2021, respectively). A further decrease in production was realized during the first half of 2021, relative to the first half of 2020 as natural production declines more than offset production additions from the Company's second half 2020 and first half 2021 drilling program.

Petroleum and Natural Gas Revenue, Realized Prices and Benchmark Pricing

	Three Months Ended			Six Months Ended June 30,	
($000s except per amount)	**Jun 30, 2021**	Mar 31, 2021	Jun 30, 2020	**2021**	2020
Petroleum and Natural Gas Revenue					
Oil	**76,411**	69,956	28,432	**146,367**	89,643
NGL	**1,827**	1,948	644	**3,775**	1,707
Oil and NGL	**78,238**	71,904	29,076	**150,142**	91,350
Natural gas	**2,646**	8,790	1,429	**11,436**	2,861
Total petroleum and natural gas revenue	**80,884**	80,694	30,505	**161,578**	94,211
Realized Prices					
Oil ($ per bbl)	**68.81**	57.91	22.62	**63.13**	32.08
NGL ($ per bbl)	**38.53**	37.12	13.41	**37.79**	17.19
Oil and NGL ($ per bbl)	**67.57**	57.05	22.28	**62.09**	31.57
Natural gas ($ per mcf)	**2.01**	6.32	0.94	**4.22**	0.92
Total petroleum and natural gas revenue before realized commodity and FX contracts ($ per boe)	**58.74**	54.07	19.58	**56.31**	27.63
Benchmark Prices					
WTI (US$ per bbl)	**66.07**	57.84	27.85	**61.96**	37.01
CAD/USD exchange rate	**1.23**	1.27	1.39	**1.25**	1.37
WTI (C$ per bbl)	**81.27**	73.46	38.71	**77.45**	50.70
Edmonton Light Sweet (C$ per bbl)	**77.07**	66.44	29.57	**71.76**	40.59
WCS (C$ per bbl)	**66.99**	57.43	22.42	**62.21**	28.27
AECO Daily Index (C$ per mcf)	**3.09**	3.15	1.99	**3.12**	2.02

Total petroleum and natural gas revenue for the second quarter of 2021 is comparable to the immediate preceding quarter primarily due to a 14 percent increase in WTI crude oil pricing and the narrowing of crude oil differentials during the period resulting in a 19 percent increase in average realized oil prices, partially offset by a decrease in production.

Total petroleum and natural gas revenue for the three and six months ended June 30, 2021 increased 165 percent and 72 percent when compared to the same periods of 2020. The increase is primarily due to the strengthening of WTI and the narrowing of crude oil differentials resulting in an increase in average realized oil prices, partially offset with a decrease in production during the periods. Additionally, the Company realized a 359 percent increase in average natural gas price during the six months ended June 30, 2021 resulting from the Company's firm transport on the Alliance pipeline to Chicago. The Chicago Citygate natural gas price increased 257 percent from US$1.69/mmbtu in the first half of 2020 to US$6.04/mmbtu in the first half of 2021. The increase was further supported by a 54 percent increase to AECO.

ROYALTIES

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**Jun 30, 2021**	Mar 31, 2021	Jun 30, 2020	**2021**	2020
Royalties	**11,073**	8,477	3,215	**19,550**	11,720
% of petroleum and natural gas revenue	**14 %**	11 %	11 %	**12 %**	12 %
$ per boe	**8.04**	5.68	2.06	**6.81**	3.44

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 2021 increased 27 percent when compared to the first quarter of 2021 and second quarter of 2020 as a result of higher crude pricing environment.

Royalties as a percentage of revenue for the six months ended June 30, 2021 is comparable to the same period of the prior year primarily as a result of higher crude oil pricing environment, partially offset by the lower royalties on new production that qualified for various royalty incentives under the Alberta Modernized Royalty Framework.

NET OPERATING EXPENSES

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**Jun 30, 2021**	Mar 31, 2021	Jun 30, 2020	**2021**	2020
Operating expenses	**25,785**	28,083	23,706	**53,868**	51,905
Less processing income	**(1,172)**	(1,089)	(1,112)	**(2,261)**	(2,832)
Net operating expenses	**24,613**	26,994	22,594	**51,607**	49,073
$ per boe	**17.87**	18.09	14.50	**17.98**	14.39

Total net operating expenses for the second quarter of 2021 decreased when compared to the immediate preceding quarter, primarily due to the disposition of approximately 2,700 boe per day on March 25, 2021. In the addition, the decrease is due to the Company experiencing cold weather conditions during the first quarter of 2021, leading to additional repairs, maintenance and power costs during that period.

Total net operating expenses for three and six months ended June 30, 2021 increased as compared to the same periods of the prior year primarily due to average power prices in the province of Alberta increasing 106 percent from $48.47/MWh in the first half of 2020 to $100.00/MWh in the first half of 2021.

TRANSPORTATION EXPENSES

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**Jun 30, 2021**	Mar 31, 2021	Jun 30, 2020	**2021**	2020
Transportation expenses	**1,293**	1,539	2,641	**2,832**	5,687
$ per boe	**0.94**	1.03	1.70	**0.99**	1.67

Transportation expenses per boe for the second quarter of 2021 decreased when compared to the first quarter of 2021 and the same period of the prior year primarily due to a pipeline tie-in project in the Sparky area. Additionally, the Company's 2021 capital program has been focused in pipeline connected areas, resulting in lower transportation expenses per boe.

Transportation expenses per boe for the six months ended June 30, 2021 decreased 41 percent as compared to the same period of the prior year as a result of the Company's continued focus of its drilling program in areas with existing pipeline infrastructure and the termination of a firm service transportation agreement in the fourth quarter of 2020, resulting in savings of approximately $0.6 million in transportation expenses, or $0.19 per boe, during the six months ended June 30, 2021.

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**Jun 30, 2021**	Mar 31, 2021	Jun 30, 2020	**2021**	2020
G&A expenses	**4,281**	4,029	3,790	**8,310**	8,543
Recoveries and capitalized amounts	**(1,240)**	(1,072)	(688)	**(2,312)**	(2,025)
Net G&A expenses	**3,041**	2,957	3,102	**5,998**	6,518
Net G&A expenses $ per boe	**2.21**	1.98	1.99	**2.09**	1.91

Total net G&A expenses for the second quarter of 2021 are comparable to the immediate preceding quarter and the second quarter of 2020.

Total net G&A expenses for the six months ended June 30, 2021 decreased eight percent when compared to the same period of the prior year primarily attributable to higher recoveries and capitalized amounts resulting from the increase in capital activities during the period.

TRANSACTION AND OTHER COSTS

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**Jun 30, 2021**	Mar 31, 2021	Jun 30, 2020	**2021**	2020
Transaction and other costs	**432**	1,047	66	**1,479**	195
$ per boe	**0.31**	0.69	0.04	**0.52**	0.06

During the six months ended June 30, 2021, the Company incurred transaction and other costs related to an acquisition of certain assets in Southeast Saskatchewan expected to close in August 2021, the disposition of certain assets in Northeast and Southeast Alberta, and employee severance costs.

During the six months ended June 30, 2021, approximately $1.0 million was granted to Surge through the Alberta Site Rehabilitation Program ("SRP") to pay service companies to complete abandonment and reclamation work.

FINANCE EXPENSES

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**Jun 30, 2021**	Mar 31, 2021	Jun 30, 2020	**2021**	2020
Interest on bank debt	**3,712**	5,430	2,863	**9,142**	6,336
Interest on convertible debentures	**1,222**	1,222	1,222	**2,444**	2,444
Interest on lease and other obligations	**725**	776	850	**1,501**	1,735
Realized loss on interest contracts	**738**	720	628	**1,458**	789
Total interest expense	**6,396**	8,148	5,563	**14,544**	11,304
$ per boe	**4.65**	5.46	3.57	**5.07**	3.31
Accretion expense	**1,866**	1,901	1,337	**3,767**	3,147
Unrealized loss (gain) on interest contracts	**(961)**	(1,406)	353	**(2,367)**	6,034
Paid in kind interest on term debt	**514**	431	—	**946**	—
Total finance expense	**7,816**	9,074	7,253	**16,890**	20,485
$ per boe	**5.68**	6.08	4.66	**5.89**	6.01
Average principal amount					
Bank Debt	**175,571**	273,778	295,055	**224,403**	297,092
Term Debt	**40,818**	36,421	—	**38,632**	—
Convertible debentures	**79,000**	79,000	79,000	**79,000**	79,000
Average total principal amount of debt outstanding	**295,389**	389,199	374,055	**342,035**	376,092

Total interest expense for the second quarter of 2021 decreased 22 percent when compared to the immediate preceding quarter primarily due to lower average bank debt during the period. The increase in interest expense for the three and six months ended June 30, 2021 as compared to the same periods of 2020 is due to higher average interest rates, partially offset by lower average bank debt during the periods.

Total finance expense includes accretion, representing the change in the time value of the decommissioning liability and convertible debentures as well as unrealized gains and losses on financial interest contracts and paid in kind interest on term debt. Accretion expense for the second quarter of 2021 was comparable to the first quarter of 2021 and accretion expense for the three and six months ended June 30, 2021 increased as compared to the same periods of 2020 primarily due to an increase in the discount rate used during the periods. The Company had an unrealized gain on financial interest contracts during the three and six months ended June 30, 2021 as compared to an unrealized loss on financial interest contracts during the same periods of 2020 due to an increase in floating interest rates over the periods.

NETBACKS

	Three Months Ended			Six Months Ended June 30,	
($ per boe, except production)	**Jun 30, 2021**	Mar 31, 2021	Jun 30, 2020	**2021**	2020
Average production (boe per day)	**15,132**	16,582	17,118	**15,854**	18,737
Petroleum and natural gas revenue	**58.74**	54.07	19.58	**56.31**	27.63
Realized gain (loss) on commodity and FX contracts	**(15.19)**	(11.27)	9.93	**(13.15)**	8.50
Royalties	**(8.04)**	(5.68)	(2.06)	**(6.81)**	(3.44)
Net operating expenses	**(17.87)**	(18.09)	(14.50)	**(17.98)**	(14.39)
Transportation expenses	**(0.94)**	(1.03)	(1.70)	**(0.99)**	(1.67)
Operating netback	**16.70**	18.00	11.25	**17.38**	16.63
G&A expense	**(2.21)**	(1.98)	(1.99)	**(2.09)**	(1.91)
Interest expense	**(4.65)**	(5.46)	(3.57)	**(5.07)**	(3.31)
Adjusted funds flow	**9.84**	10.56	5.69	**10.22**	11.41

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)	**Jun 30, 2021**	Mar 31, 2021	Jun 30, 2020	**2021**	2020
Stock-based compensation	**1,795**	1,403	1,987	**3,198**	3,864
Capitalized stock-based compensation	**(618)**	(471)	—	**(1,089)**	(757)
Net stock-based compensation	**1,177**	932	1,987	**2,109**	3,107
Net stock-based compensation $ per boe	**0.85**	0.62	1.28	**0.73**	0.91

Net stock-based compensation expense for the second quarter of 2021 increased when compared to the immediate preceding quarter primarily due to accelerated expensing of awards vesting during the period. Net stock-based compensation expense for the three and six months ended June 30, 2021 decreased as compared to the same periods of the prior year is primarily the result of an increase of forfeited awards during the periods.

The stock-based compensation recorded in the period ended June 30, 2021 relates to the 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. A weighted average forfeiture rate of nil (June 30, 2020 - 8%) for PSAs and 7.2% (June 30, 2020 - 6%) for RSAs was used to value all awards granted for the period ended June 30, 2021. The weighted average fair value of awards granted for the period ended June 30, 2021 is nil (June 30, 2020 - $0.21) per PSA and $0.59 (June 30, 2020 - $0.21) 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, 2020	9,987,634	11,927,348
Granted	454,636	—
Exercised	(647,312)	(177,324)
Forfeited	(485,833)	(667,292)
Balance at June 30, 2021	**9,309,125**	**11,082,732**

DEPLETION AND DEPRECIATION

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**Jun 30, 2021**	Mar 31, 2021	Jun 30, 2020	**2021**	2020
Depletion and depreciation expense	**21,558**	21,631	22,101	**43,189**	58,214
$ per boe	**15.65**	14.49	14.19	**15.05**	17.07

Depletion and depreciation are calculated based on total capital expenditures (including acquisitions and dispositions), production rates and proved and probable oil and gas reserves. Deducted from the Company's second quarter of 2021 depletion and depreciation calculation are costs associated with salvage values of $57.9 million. Future development costs for proved and probable oil and gas reserves of $747.6 million have been included in the depletion calculation.

Depletion and depreciation expense for the three months ended June 30, 2021 is comparable to the immediate preceding quarter. Depletion and depreciation expense for the three and six months ended June 30, 2021 decreased when compared to the same periods of 2020 due to a reduction of the depletable base as a result of the first and fourth quarter 2020 impairment expenses incurred.

IMPAIRMENT (REVERSAL)

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**Jun 30, 2021**	Mar 31, 2021	Jun 30, 2020	**2021**	2020
Impairment (reversal) of petroleum and natural gas properties	**(323,640)**	—	—	**(323,640)**	590,628
$ per boe	**(235.02)**	—	—	**(112.79)**	173.20

The Company identified five cash generating units as of June 30, 2021 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 Company's CGUs at June 30, 2021 were geographically labeled Northwest Alberta, North Central Alberta, Central Alberta, Southeast Alberta and Southwest Saskatchewan. The Company's Northeast Alberta CGU was disposed effective March 25, 2021.

For the period ended June 30, 2021, due to increases in forward oil and natural gas prices, a test for impairment reversal was completed in four of the Company's five CGUs. The Company determined that the estimated recoverable amounts of the Northwest Alberta, North Central Alberta, Southeast Alberta, and Southwest Saskatchewan CGUs exceeded the carrying values and previous impairment, net of depletion, of $323.6 million was reversed. The before tax discount rate applied in the calculation as at June 30, 2021 was 17 - 20 percent.

Under IFRS, deferred income tax assets may only be recognized to the extent that it is probable that future taxable profits will be available against which the unused tax losses and deductible temporary differences can be utilized. Accordingly, the Company has not recognized a total deferred income tax asset of approximately $133.5 million as at June 30, 2021.

NET INCOME (LOSS)

	Three Months Ended			Six Months Ended June 30,	
($000s except per share)	**Jun 30, 2021**	Mar 31, 2021	Jun 30, 2020	**2021**	2020
Net income (loss)	**307,113**	(9,985)	(61,159)	**297,128**	(676,386)
Per share - basic ($)	**0.85**	(0.03)	(0.18)	**0.85**	(2.03)
Per share - diluted ($)	**0.83**	(0.03)	(0.18)	**0.83**	(2.03)

The Company realized net income and net income per basic share for the three and six months ended June 30, 2021 compared to a net loss and net loss per basic during the same periods of 2020 and first quarter of 2021. This was primarily due to a reversal of prior period impairment charge during the second quarter of 2021, resulting from a recovery of crude oil pricing throughout the first half of 2021.

CAPITAL EXPENDITURES

Capital Expenditure Summary

($000s)	Q1 2021	Q2 2021	2021 YTD	2020 YTD	% Change
Land	449	344	**793**	466	70 %
Seismic	—	—	**—**	260	(100)%
Drilling and completions	22,203	8,189	**30,392**	22,411	36 %
Facilities, equipment and pipelines	7,974	5,387	**13,361**	10,886	23 %
Other	1,272	1,580	**2,852**	1,997	43 %
Total exploration and development	31,898	15,500	**47,398**	36,020	32 %
Property dispositions	(102,591)	—	**(102,591)**	(5,276)	1,844 %
Total acquisitions & dispositions	(102,591)	—	**(102,591)**	(5,276)	1,844 %
Total capital expenditures	(70,693)	15,500	**(55,193)**	30,744	(280)%

During the three and six months ended June 30, 2021, Surge invested a total of $15.5 million and $47.4 million on capital projects, excluding acquisitions and dispositions.

During the second quarter of 2021, Surge invested $8.2 million to drill and complete 4 gross (4 net) wells in Southeast Alberta ("Sparky") and complete one net well in Northeast Alberta that was spud late in the first quarter of 2021. Production from the second quarter drilling program will be brought on stream in the third quarter of 2021. The Company invested a further $5.4 million to equip and tie-in several wells that were drilled during the first quarter of 2021, in addition to completing scheduled turnarounds on a number of the Company’s operated facilities. An additional $1.9 million was spent on land and other capital items during the quarter.

During the six months period ended June 30, 2021, the Company disposed of certain assets in Southeast Alberta and Northeast Alberta for cash proceeds of $102.6 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, 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 2019 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 for changes in prior quarters.

Share Capital and Option Activity

	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Weighted common shares	**360,779,836**	339,784,739	339,784,739	337,115,352
Dilutive instruments (treasury method)	**11,458,173**	—	—	—
Weighted average diluted shares outstanding	**372,238,009**	339,784,739	339,784,739	337,115,352
	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Weighted common shares	335,068,916	332,187,964	324,835,793	318,075,528
Dilutive instruments (treasury method)	—	—	—	—
Weighted average diluted shares outstanding	335,068,916	332,187,964	324,835,793	318,075,528

On July 29, 2021, Surge had 379,594,375 common shares, 11,082,732 PSAs, and 9,271,837 RSAs outstanding.

Quarterly Financial Information

	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Oil, Natural gas & NGL sales	**80,884**	80,694	59,907	56,931
Net income (loss)	**307,113**	(9,985)	(57,727)	(13,184)
Net income (loss) per share ($):				
Basic	**0.85**	(0.03)	(0.17)	(0.04)
Diluted	**0.83**	(0.03)	(0.17)	(0.04)
Cash flow from operating activities	**8,254**	15,550	11,000	15,082
Cash flow from operating activities per share ($):				
Basic	**0.02**	0.05	0.03	0.04
Diluted	**0.02**	0.05	0.03	0.04
Adjusted funds flow	**13,557**	15,757	8,467	12,523
Adjusted funds flow per share ($):				
Basic	**0.04**	0.05	0.02	0.04
Diluted	**0.04**	0.05	0.02	0.04
Average daily sales				
Oil (bbls/d)	**12,202**	13,422	13,788	13,759
NGL (bbls/d)	**521**	583	726	582
Natural gas (mcf/d)	**14,456**	15,462	17,050	16,503
Barrels of oil equivalent (boe per day) (6:1)	**15,132**	16,582	17,356	17,092
Average sales price				
Natural gas ($/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

Quarterly Financial Information

	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Oil, Natural gas & NGL sales	30,505	63,706	91,789	97,026
Net loss	(61,159)	(615,227)	(143,801)	(4,269)
Net loss per share ($):				
Basic	(0.18)	(1.85)	(0.44)	(0.01)
Diluted	(0.18)	(1.85)	(0.44)	(0.01)
Cash flow from operating activities	2,970	43,138	34,474	40,228
Cash flow from operating activities per share ($):				
Basic	0.01	0.13	0.11	0.13
Diluted	0.01	0.13	0.11	0.13
Adjusted funds flow	8,854	30,028	38,881	41,513
Adjusted funds flow per share ($):				
Basic	0.03	0.09	0.12	0.13
Diluted	0.03	0.09	0.12	0.13
Average daily sales				
Oil (bbls/d)	13,813	16,891	16,441	17,170
NGL (bbls/d)	528	564	630	769
Natural gas (mcf/d)	16,664	17,409	19,521	19,668
Barrels of oil equivalent (boe per day) (6:1)	17,118	20,357	20,325	21,217
Average sales price				
Natural gas ($/mcf)	0.94	0.90	1.56	0.69
Oil ($/bbl)	22.62	39.82	57.46	59.39
NGL ($/bbl)	13.41	20.72	35.84	27.69
Barrels of oil equivalent ($/boe)	19.58	34.39	49.09	49.71

LIQUIDITY AND CAPITAL RESOURCES

On June 30, 2021, Surge had $162.3 million drawn on its credit facilities, $40.0 million drawn on its term facility, $79.0 million principal amount of convertible subordinated unsecured debentures ("Debentures"), and total net debt of $292.8 million, a decrease in total net debt of 22 percent compared to the same date in 2020. At June 30, 2021, Surge had approximately $52.7 million of borrowing capacity in relation to the $215 million credit facilities. The following tables set forth the consolidated capitalization of Surge and the change in the components of the Debentures:

Consolidated Capitalization

($000s)	Outstanding as at June 30, 2021
Shareholder Equity	
Share capital	1,500,725
Common shares outstanding	379,594
Debentures - equity	6,266
Debt	
Credit Facilities	
Total Commitment	215,000
Amount drawn	162,318
Term Facility	
Total Commitment	40,000
Amount drawn	40,000
Debentures - liability	72,522

Convertible Debentures

	Number of convertible debentures	Liability Component ($000s)	Equity Component ($000s)
Balance at December 31, 2019	79,000	68,699	6,266
Accretion of discount	—	2,482	—
Balance at December 31, 2020	79,000	71,181	6,266
Accretion of discount	—	1,341	—
Balance at June 30, 2021	**79,000**	**72,522**	**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, 2021
Bank debt	(162,318)
Term debt	(41,164)
Accounts receivable	29,244
Prepaid expenses and deposits	4,595
Accounts payable and accrued liabilities	(50,641)
Convertible debentures	(72,522)
Total	**(292,806)**

Bank Debt

As at June 30, 2021, the Company had a total commitment of $215.0 million, being the aggregate of a committed revolving term facility of $120.0 million, a committed non-revolving term facility of $75.0 million, and an operating loan facility of $20.0 million, with a syndicate of banks. As at June 30, 2021, the Company had $87.3 million drawn on its committed revolving term facility and $75.0 million drawn on its committed non-revolving term facility. The revolving term commitment will continue to revolve until the next scheduled borrowing base redetermination date on or before November 30, 2021. On completion of the acquisition discussed in the Subsequent Event section of this MD&A, the Company will return to a single-tranche first lien credit facility with a total commitment of $215.0 million, being the aggregate of a revolving term facility of $195.0 million and an operating loan facility of $20.0 million, with a syndicate of banks. The revolving term facility will decrease by $2.5 million on October 31, 2021 to $212.5 million and again on November 30, 2021 to $210 million. Additionally, the maturity of the total commitment will be extended from July 1, 2022 to November 30, 2022. As the available lending limits of the facilities are based on the syndicate's interpretation of the Company's reserves, commodity prices and decommissioning obligations, there can be no assurance that the amount of the available facilities will not decrease at the next scheduled review. In the current environment, there is an increased risk that the lenders may decrease the amount available under the credit facilities and the decreases could be material. Interest rates vary depending on the ratio of Senior Debt to EBITDA (as defined in the lending agreement). As at June 30, 2021, the Company had an effective interest rate of prime plus 3.50 percent on the revolving term/operating loan facility (December 31, 2020 – prime plus 3.50 percent) and an effective interest rate of prime plus 5.50 percent on the non-revolving term facility (December 31, 2020 - prime plus 6.50 percent).

The facilities are 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.

Term Debt

As at June 30, 2021, the Company had a term loan of $40 million plus capitalized interest with Business Development Bank of Canada, for a four year, non-revolving second lien term facility, maturing on November 17, 2024. Interest on the outstanding term loan will accrue and be added to the principal amount (capitalized) in the first year. Interest on the outstanding term loan will be due and payable monthly by the Company thereafter. Interest on borrowings are summarized as follows:

i. for the period between November 17, 2020 and the first anniversary date, at a per annum rate equal to 5.0 percent;

ii. thereafter until the second anniversary date, at a per annum rate equal to the greater of: the senior interest rate plus 1.0 percent; and 6.0 percent;

iii. thereafter until the third anniversary date, at a per annum rate equal to the greater of: the senior interest rate plus 2.0 percent; and 7.0 percent;

iv. thereafter, at a per annum rate equal to the greater of: the senior interest rate plus 3.0 percent; and 8.0 percent.

As at June 30, 2021, the Company had an effective interest rate of 5.0 percent on the term facility (December 31, 2020 - 5.0 percent).

As at June 30, 2021, the Company was compliant with all restrictions in its first and second lien credit agreements.

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, 2021.

CONTRACTUAL OBLIGATIONS

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

As at June 30, 2021, Surge had future minimum payments relating to its variable office rent payments and firm transport commitments totaling $19.4 million, as summarized below:

	June 30, 2021	December 31, 2020
Less than 1 year	**$ 6,484**	$ 9,861
1 - 3 years	**6,205**	7,081
3 - 5 years	**4,650**	4,842
5+ years	**2,097**	3,109
Total commitments	**$ 19,436**	$ 24,893

During the year ended December 31, 2019, the Company sold a 1.7 percent gross overriding royalty ("GORR") on the total revenue from the Company's Southwest Saskatchewan, Southeast Alberta and North Central Alberta assets, effective May 1, 2019. The Company has a drilling commitment on the GORR lands that must be fulfilled by April 30, 2022. In the event that the Company fails to fulfill the drilling commitment, the GORR shall increase from 1.7 percent to 2.7 percent. For the six months ended June 30, 2021, Surge has drilled 69 out of the 100 wells that are required to meet the drilling commitment.

LEASES

The Company has recognized the following lease and other obligations:

	Total
Lease obligations at December 31, 2019	$ 46,684
Additions	2,209
Interest expense	3,325
Payments	(11,426)
Lease and other obligations at December 31, 2020	$ 40,792
Dispositions	(629)
Interest expense	1,501
Payments	(5,766)
Lease and other obligations at June 30, 2021	**$ 35,898**
Current portion	**8,916**
Long term portion	**26,982**

FINANCIAL INSTRUMENTS

The following table summarizes the Company's financial derivatives as at July 29, 2021 by period and by product.

Commodity Contracts

West Texas Intermediate Crude Oil Derivative Contracts (WTI)

	Swaps		Collars			Three-way Collar			
Period	Volumes (bbls/d)	Average Price (CAD/bbl)	Volumes (bbls/d)	Average Bought Put (CAD/bbl)	Average Sold Call (CAD/bbl)	Volumes (bbls/d)	Average Sold Put (CAD/bbl)	Average Bought Put (CAD/bbl)	Average Sold Call (CAD/bbl)
Qtr. 3 2021	4,684	$55.00	1,700	$53.59	$61.55	250	$43.39	$53.31	$63.23
Qtr. 4 2021	4,534	$55.33	1,450	$53.34	$61.64	250	$43.39	$53.31	$63.23
Qtr. 1 2022	2,500	$76.12	2,500	$55.00	$71.88	1,000	$57.03	$68.19	$88.02
Qtr. 2 2022	2,000	$79.34	—	—	—	1,500	$57.03	$66.95	$88.23
Qtr. 3 2022	2,500	$78.94	—	—	—	—	—	—	—
Qtr. 4 2022	2,000	$78.50	—	—	—	—	—	—	—

Western Canadian Select Derivative Contracts (WCS)

	Swaps	
Period	Volumes (bbls/d)	Average Price (CAD/bbl)
Qtr. 3 2021	5,000	$(17.31)
Qtr. 4 2021	2,500	$(16.27)
Qtr. 1 2022	2,500	$(15.82)
Qtr. 2 2022	2,500	$(15.82)
Qtr. 3 2022	1,500	$(16.13)
Qtr. 4 2022	1,500	$(16.13)

Mixed Sweet Blend Derivative Contracts (MSW)

	Swaps	
Period	Volumes (bbls/d)	Average Price (CAD/bbl)
Qtr. 3 2021	2,250	$(6.64)
Qtr. 4 2021	1,500	$(6.62)
Qtr. 1 2022	2,000	$(6.14)
Qtr. 2 2022	2,000	$(6.14)
Qtr. 3 2022	2,000	$(6.14)
Qtr. 4 2022	2,000	$(6.14)

Natural Gas Derivative Contracts

	Chicago Swaps		Chicago Collars			AECO Swaps	
Period	Volumes (MMBtu/d)	Average Price (CAD/MMBtu)	Volumes (MMBtu/d)	Average Bought Put (CAD/MMBtu)	Average Sold Call (CAD/MMBtu)	Volumes (GJ/d)	Average Price (CAD/GJ)
Qtr. 3 2021	3,000	$3.12	3,000	$2.67	$3.60	4,000	$2.86
Qtr. 4 2021	1,011	$3.12	1,011	$2.67	$3.60	5,326	$2.85
Qtr. 1 2022	—	—	—	—	—	4,000	$3.21

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%

SUBSEQUENT EVENT

On June 22, 2021, the Company announced that it has entered into an arrangement agreement to acquire all of the issued and outstanding shares of Astra Oil Corp. for total consideration of approximately $160 million funded by the issuance of approximately $145 million of share consideration and the assumption of approximately $15 million of net debt. The acquisition is expected to close in August of 2021. Completion of the acquisition is subject to approval of at least 66 percent of the voting Astra shareholders and approval of at least a simple majority of the voting shareholders of the issuance of Surge common shares.

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, 2021 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, 2021 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, 2020, 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: sustainability of production; forecast commodity prices, inflation rates and currency prices; the Company's long term prospects and business plan; Surge's assets and the characteristics thereof; estimates regarding the future values for certain of the Company's assets and liabilities; the potential impact of the current economic environment on the Company; the COVID-19 pandemic and the potential impacts on the Company and the oil and gas industry generally; 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; estimated tax pools; expectations with respect to its underlying decommissioning liabilities; ability of Surge to avoid default under its credit facilities or its convertible debentures; the potential for a reduction in the available lending limit under the Company’s credit facilities; 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; the acquisition of all the shares of Astra and the timing thereof; 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, 2021 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 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 non-GAAP 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 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 financial measures used in this document are defined below.

Adjusted funds flow & Adjusted funds flow per share

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 acquisitions 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 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,	
($000s except per share)	**Jun 30, 2021**	Mar 31, 2021	Jun 30, 2020	**2021**	2020
Cash flow from operating activities	**8,254**	15,550	2,970	**23,804**	46,108
Change in non-cash working capital	**3,355**	(2,974)	5,733	**381**	(9,015)
Decommissioning expenditures	**1,063**	1,481	151	**2,544**	1,691
Cash settled transaction and other costs	**885**	1,700	—	**2,585**	98
Adjusted funds flow	**$ 13,557**	$ 15,757	$ 8,854	**$ 29,314**	$ 38,882
Per share - basic	**$ 0.04**	$ 0.05	$ 0.03	**$ 0.08**	$ 0.12

Net Debt

There is no comparable measure in accordance with IFRS for net debt. Net debt is calculated as bank debt, term debt plus the liability component of the convertible debentures plus or minus working capital, however, excluding the fair value of financial contracts, decommissioning obligations and lease and other obligations. 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)	**Jun 30, 2021**	Mar 31, 2021	Jun 30, 2020
Bank debt	**(162,318)**	(170,650)	(306,549)
Term debt	**(41,164)**	(40,649)	—
Accounts receivable	**29,244**	30,240	27,503
Prepaid expenses and deposits	**4,595**	5,921	5,828
Accounts payable and accrued liabilities	**(50,641)**	(56,354)	(33,782)
Convertible debentures	**(72,522)**	(71,842)	(69,907)
Total	**(292,806)**	(303,334)	(376,907)

Operating Netback & Adjusted Funds Flow per boe

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

Operating Netback & Adjusted Funds Flow per boe

	Three Months Ended			Six Months Ended June 30,	
($000s)	**Jun 30, 2021**	Mar 31, 2021	Jun 30, 2020	**2021**	2020
Petroleum and natural gas revenue	**80,884**	80,694	30,505	**161,578**	94,211
Processing income	**1,172**	1,089	1,112	**2,261**	2,832
Royalties	**(11,073)**	(8,477)	(3,215)	**(19,550)**	(11,720)
Realized gain (loss) on commodity and FX contracts	**(20,911)**	(16,822)	15,464	**(37,733)**	28,973
Operating expenses	**(25,785)**	(28,083)	(23,706)	**(53,868)**	(51,905)
Transportation expenses	**(1,293)**	(1,539)	(2,641)	**(2,832)**	(5,687)
Operating netback	**22,994**	26,862	17,519	**49,856**	56,704
G&A expense	**(3,041)**	(2,957)	(3,102)	**(5,998)**	(6,518)
Interest expense	**(6,396)**	(8,148)	(5,563)	**(14,544)**	(11,304)
Adjusted funds flow	**13,557**	15,757	8,854	**29,314**	38,882
Barrels of oil equivalent (boe)	**1,377,078**	1,492,397	1,557,700	**2,869,475**	3,410,114
Operating netback ($ per boe)	**$ 16.70**	$ 18.00	$ 11.25	**$ 17.38**	$ 16.63
Adjusted funds flow ($ per boe)	**$ 9.84**	$ 10.56	$ 5.69	**$ 10.22**	$ 11.41

Net Operating Expenses

Net operating expenses are 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.