FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended			Nine Months Ended September 30,		
	Sep 30, 2019	Jun 30, 2019	% Change	**2019**	2018[2]	% Change
Financial highlights						
Oil sales	**93,818**	104,387	(10)%	**289,333**	233,954	24 %
NGL sales	**1,958**	1,649	19 %	**6,032**	8,546	(29)%
Natural gas sales	**1,250**	1,629	(23)%	**7,194**	3,920	84 %
Total oil, natural gas, and NGL revenue	**97,026**	107,665	(10)%	**302,559**	246,420	23 %
Cash flow from operating activities	**40,228**	45,807	(12)%	**114,943**	95,137	21 %
Per share - basic ($)	**0.13**	0.15	(13)%	**0.37**	0.41	(10)%
Adjusted funds flow[1]	**41,513**	50,742	(18)%	**134,106**	107,403	25 %
Per share - basic ($)[1]	**0.13**	0.16	(19)%	**0.43**	0.46	(7)%
Total exploration and development expenditures	**22,247**	25,197	(12)%	**88,705**	86,954	2 %
Total acquisitions & dispositions	**12,077**	(29,166)	(141)%	**(44,896)**	28,733	(256)%
Total capital expenditures	**34,324**	(3,969)	(965)%	**43,809**	115,687	(62)%
Net debt[1], end of period	**377,409**	391,020	(3)%	**377,409**	282,394	34 %
Operating highlights						
Production:						
Oil (bbls per day)	**17,170**	17,366	(1)%	**17,358**	13,120	32 %
NGLs (bbls per day)	**769**	727	6 %	**713**	595	20 %
Natural gas (mcf per day)	**19,668**	20,706	(5)%	**20,342**	20,004	2 %
Total (boe per day) (6:1)	**21,217**	21,544	(2)%	**21,461**	17,049	26 %
Average realized price (excluding hedges):						
Oil ($ per bbl)	**59.39**	66.05	(10)%	**61.06**	65.32	(7)%
NGL ($ per bbl)	**27.69**	24.93	11 %	**30.97**	52.57	(41)%
Natural gas ($ per mcf)	**0.69**	0.86	(20)%	**1.30**	0.72	81 %
Netback ($ per boe)						
Petroleum and natural gas revenue	**49.71**	54.92	(9)%	**51.64**	52.94	(2)%
Realized loss on commodity and FX contracts	**(0.86)**	(1.29)	(33)%	**(0.84)**	(1.84)	(54)%
Royalties	**(7.12)**	(7.03)	1 %	**(6.61)**	(7.68)	(14)%
Net operating expenses[1]	**(13.93)**	(14.03)	(1)%	**(14.36)**	(14.37)	— %
Transportation expenses	**(1.42)**	(1.33)	7 %	**(1.58)**	(1.48)	7 %
Operating netback[1]	**26.38**	31.24	(16)%	**28.25**	27.57	2 %
G&A expense	**(1.81)**	(1.86)	(3)%	**(1.82)**	(2.08)	(13)%
Interest expense	**(3.31)**	(3.48)	(5)%	**(3.54)**	(2.42)	46 %
Adjusted funds flow[1]	**21.26**	25.90	(18)%	**22.89**	23.07	(1)%
Common shares outstanding, end of period	**324,215**	314,051	3 %	**324,215**	233,618	39 %
Weighted average basic shares outstanding	**318,076**	314,010	1 %	**313,876**	231,932	35 %
Stock option dilution	**—**	—	— %	**—**	4,736	(100)%
Weighted average diluted shares outstanding	**318,076**	314,010	1 %	**313,876**	236,668	33 %

1 This is a non-GAAP financial measure which is defined in the Non-GAAP Financial Measures section of this document.
2 IFRS 16 was adopted January 1, 2019 using the modified retrospective approach and as such, comparative information for 2018 that may have been impacted has not been restated. Refer to the Changes in Accounting Policies section of this MD&A for additional information.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the consolidated financial position and results of operations of Surge Energy Inc. ("Surge" or the "Company"), which includes its subsidiaries and partnership arrangements, is for the three and nine months ended September 30, 2019 and 2018. 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 November 4, 2019.

DESCRIPTION OF BUSINESS

Surge is a Calgary based exploration & production company that is engaged in the business of acquiring and developing operated oil-weighted properties. Surge will continue to identify and actively pursue strategic acquisitions with synergistic characteristics such as existing long life producing assets or opportunities with significant, low risk upside potential. 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			Nine Months Ended Sep 30,	
($000s except per share and per boe)	**Sep 30, 2019**	Jun 30, 2019	Sep 30, 2018	**2019**	2018
Cash flow from operating activities	**40,228**	45,807	37,197	**114,943**	95,137
Per share - basic ($)	**0.13**	0.15	0.16	**0.37**	0.41
Per share - diluted ($)	**0.13**	0.15	0.16	**0.37**	0.40
$ per boe	**20.61**	23.36	22.43	**19.62**	20.44
Adjusted funds flow	**41,513**	50,742	40,638	**134,106**	107,403
Per share - basic ($)	**0.13**	0.16	0.18	**0.43**	0.46
Per share - diluted ($)	**0.13**	0.16	0.17	**0.43**	0.45
$ per boe	**21.26**	25.90	24.50	**22.89**	23.07

Cash flow from operating activities for the third quarter of 2019 decreased 12 percent compared to the second quarter of 2019, however, increased eight percent when compared to the third quarter of 2018. On a per basic share basis, cash flow from operating activities decreased 13 percent compared to the second quarter of 2019 and decreased 19 percent when compared to the third quarter of 2018. Cash flow from operating activities for the nine months ended September 30, 2019 increased 21 percent when compared to the same period of the prior year and decreased 10 percent on a per basic share basis.

Adjusted funds flow for the third quarter of 2019 decreased 18 percent compared to the second quarter of 2019, however, increased two percent when compared to the third quarter of 2018. On a per basic share basis, adjusted funds flow decreased 19 percent compared to the second quarter of 2019 and decreased 28 percent compared to the third quarter of 2018. Adjusted funds flow for the nine months ended September 30, 2019 increased 25 percent when compared to the same period of the prior year and decreased seven percent on a per basic share basis.

Cash flow from operating activities and adjusted funds flow for the third quarter of 2019 decreased when compared to the immediate preceding quarter primarily due to a decrease in petroleum and natural gas revenue. The increase in cash flow from operating activities and adjusted funds flow for the three and nine months ended September 30, 2019 when compared to the same periods of the prior year is primarily due to the increase in petroleum and natural gas revenue as a result of the Mount Bastion Oil & Gas Corp. ("MBOG") acquisition in the fourth quarter of 2018.

See the following Operations section for additional information regarding the cash flow and operating results of the Company for the three and nine months ended September 30, 2019 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 2019	12.0	11.6	100%	96%
Q2 2019	10.0	10.0	90%	100%
Q3 2019	4.0	4.0	100%	100%
Total	**26.0**	**25.6**	**97%**	**98%**

Surge achieved a 97 percent success rate during the nine months ended September 30, 2019, drilling 26 gross (25.6 net) wells. During the third quarter, Surge drilled three gross (3.0 net) wells in southeast Alberta ("Sparky") and one gross (1.0 net) well at Valhalla.

Production

	Three Months Ended			**Nine Months Ended Sep 30,**	
	Sep 30, 2019	Jun 30, 2019	Sep 30, 2018	**2019**	2018
Oil (bbls per day)	**17,170**	17,366	13,560	**17,358**	13,120
NGL (bbls per day)	**769**	727	669	**713**	595
Oil and NGL (bbls per day)	**17,939**	18,093	14,229	**18,071**	13,715
Natural gas (mcf per day)	**19,668**	20,706	22,797	**20,342**	20,004
Total (boe per day) (6:1)	**21,217**	21,544	18,029	**21,461**	17,049
% Oil and NGL	**85%**	84%	79%	**84%**	80%

Surge achieved production of 21,217 boe per day in the third quarter of 2019 (85 percent oil and NGLs), comparable to the average production rate in the second quarter of 2019 and an 18 percent increase from the average production rate in the third quarter of 2018.

During the nine months ended September 30, 2019, Surge achieved production of 21,461 boe per day (84 percent oil and NGLs), a 26 percent increase when compared to the same period of 2018.

Production during the third quarter of 2019 remained steady as compared to the second quarter of 2019, primarily the result of a successful first half 2019 drilling program which substantially offset natural declines. Additionally, the four gross (4.0 net) wells drilling program of the third quarter commenced in September, with production from those wells coming on stream subsequent to period.

The increase in Surge's production for the three and nine months ended September 30, 2019 as compared to the same periods of the prior year is primarily due to the fourth quarter 2018 acquisition of MBOG in combination with successful 2018 and 2019 drilling programs. Approximately 5,000 boe per day of production is attributable to the MBOG assets for the three and nine months ended September 30, 2019. The increase is slightly offset by approximately 500 boe per day of sold production resulting from the disposition of non-core assets in Northwest Alberta, which closed on March 28, 2019.

Petroleum and Natural Gas Revenue, Realized Prices and Benchmark Pricing

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per amount)	**Sep 30, 2019**	Jun 30, 2019	Sep 30, 2018	**2019**	2018
Petroleum and Natural Gas Revenue					
Oil	**93,818**	104,387	85,946	**289,333**	233,954
NGL	**1,958**	1,649	3,598	**6,032**	8,546
Oil and NGL	**95,776**	106,036	89,544	**295,365**	242,500
Natural gas	**1,250**	1,629	1,492	**7,194**	3,920
Total petroleum and natural gas revenue	**97,026**	107,665	91,036	**302,559**	246,420
Realized Prices					
Oil ($ per bbl)	**59.39**	66.05	68.89	**61.06**	65.32
NGL ($ per bbl)	**27.69**	24.93	58.46	**30.97**	52.57
Oil and NGL ($ per bbl)	**58.04**	64.40	68.40	**59.87**	64.76
Natural gas ($ per mcf)	**0.69**	0.86	0.71	**1.30**	0.72
Total petroleum and natural gas revenue before realized commodity and FX contracts ($ per boe)	**49.71**	54.92	54.89	**51.64**	52.94
Benchmark Prices					
WTI (US$ per bbl)	**56.45**	59.81	69.50	**57.05**	66.75
CAD/USD exchange rate	**1.32**	1.34	1.31	**1.33**	1.29
WTI (C$ per bbl)	**74.51**	80.14	91.05	**75.88**	86.11
Edmonton Light Sweet (C$ per bbl)	**68.20**	73.59	81.91	**69.40**	78.24
WCS (C$ per bbl)	**58.39**	65.76	61.78	**60.27**	57.79
AECO Daily Index (C$ per mcf)	**0.91**	1.03	1.19	**1.52**	1.63

Total petroleum and natural gas revenue for the third quarter of 2019 decreased 10 percent as compared to the second quarter of 2019. The decrease is primarily due to the decrease in WTI crude oil pricing and a widening of the WCS crude oil differential throughout the period resulting in a 10 percent decrease in average realized oil prices. This decrease correlates to the seven percent decrease in Edmonton light sweet and 11 percent decrease in WCS during the same period.

Total petroleum and natural gas revenue for the third quarter of 2019 increased seven percent when compared to the same period of 2018. The increase is primarily due to the 18 percent increase in production during the period, partially offset by a decrease in average realized oil prices, correlating to a decrease in crude oil benchmark pricing.

Total petroleum and natural gas revenue for the nine months ended September 30, 2019 increased 23 percent when compared to the same period of 2018. The increase is primarily due to a 26 percent increase in production during the period, partially offset by a seven percent decrease in average realized oil prices. Additionally, the Company realized an 81 percent increase in average natural gas prices during the period as a result of the Company's ability to secure firm transport on the Alliance pipeline to Chicago.

ROYALTIES

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2019**	Jun 30, 2019	Sep 30, 2018	**2019**	2018
Royalties	**13,892**	13,788	13,803	**38,741**	35,725
% of petroleum and natural gas revenue	**14%**	13%	15%	**13%**	14%
$ per boe	**7.12**	7.03	8.32	**6.61**	7.68

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 period ended September 30, 2019 increased slightly compared to the immediate preceding period as a result of the disposal of a 1.7 percent gross overriding royalty ("GORR") at the end of the second quarter of 2019. This increase was partially offset by a royalty credit earned under the Saskatchewan Petroleum Research Incentive program for gas conservation projects of which $0.5 million was recognized in the third quarter of 2019. A further $0.5 million credit will be recognized in the fourth quarter of 2019.

Royalties as a percentage of revenue for the three and nine months ended September 30, 2019 decreased as compared to the same periods of the prior year primarily as a result of a lower crude oil pricing environment.

NET OPERATING EXPENSES

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2019**	Jun 30, 2019	Sep 30, 2018	**2019**	2018
Operating expenses	**28,680**	28,297	24,360	**86,890**	69,123
Less processing and other income	**(1,483)**	(783)	(537)	**(2,740)**	(2,242)
Net operating expenses	**27,197**	27,514	23,823	**84,150**	66,881
$ per boe	**13.93**	14.03	14.36	**14.36**	14.37

Operating expenses for the third quarter of 2019 are slightly higher than the immediate preceding quarter while net operating expenses and net operating expenses per boe are comparable to the immediate preceding quarter due to additional processing income earned following the acquisition of a gas processing plant in the Company's Sparky core area during the period.

Net operating expenses per boe during the three and nine months ended September 30, 2019 have decreased when compared to the same periods of the prior year, however, 2019 includes the impact of adopting IFRS 16. During the three and nine month periods ended September 30, 2019, approximately $2.0 million and $6.0 million, respectively, of equipment rental payments were classified as leases under IFRS 16 and no longer included in net operating expenses. For comparability purposes, excluding the impact of IFRS 16, net operating expenses would have been approximately $14.94 per boe and $15.38 during the three and nine months ended September 30, 2019.

Excluding the impact of IFRS 16, net operating expenses per boe during the three and nine months ended September 30, 2019 increased as compared to the same periods of the prior year. The increase is primarily attributable to the acquisition of MBOG during the fourth quarter of 2018. The acquired operating fields historically averaged greater than $17.00 per boe.

TRANSPORTATION EXPENSES

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2019**	Jun 30, 2019	Sep 30, 2018	**2019**	2018
Transportation expenses	**2,763**	2,616	2,574	**9,242**	6,907
$ per boe	**1.42**	1.33	1.55	**1.58**	1.48

Transportation expenses per boe for the third quarter of 2019 increased seven percent compared to the immediate preceding quarter. The Company incurred additional transportation expenses during the third quarter of 2019 as a result of increased trucking for wells brought on production at the end of the second quarter that are not yet pipeline connected.

Transportation expenses per boe during the three months ended September 30, 2019 decreased eight percent when compared to the same period of the prior year due to the Company focusing its drilling program in areas with existing pipeline infrastructure.

Transportation expenses per boe during the nine months ended September 30, 2019 increased seven percent when compared to the same period of the prior year due to additional costs associated with a firm transportation commitment to ship a portion of Surge's associated gas production on the Alliance pipeline to Chicago that commenced in the fourth quarter of 2018.

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2019**	Jun 30, 2019	Sep 30, 2018	**2019**	2018
G&A expenses	**4,787**	4,921	4,623	**14,640**	13,725
Recoveries and capitalized amounts	**(1,262)**	(1,269)	(1,346)	**(3,993)**	(4,048)
Net G&A expenses	**3,525**	3,652	3,276	**10,647**	9,677
Net G&A expenses $ per boe	**1.81**	1.86	1.98	**1.82**	2.08

Net G&A expenses per boe for the third quarter of 2019 is comparable to the immediate preceding quarter and remained within the Company's guided range of $1.75 per boe to $1.95 per boe.

Net G&A expenses per boe for the three and nine months ended September 30, 2019 decreased nine percent and 13 percent, respectively, when compared to the same periods of the prior year. The decrease in net G&A expenses per boe is primarily the result of the synergistic acquisition of MBOG in the fourth quarter of 2018 in which the Company had appropriate staff and systems in place to absorb the acquired production and slightly lower rent expense due to the adoption of IFRS 16. The Company expects G&A expenses per boe to remain within the guided range of $1.75 per boe to $1.95 per boe for the remainder of 2019.

TRANSACTION AND OTHER COSTS

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2019**	Jun 30, 2019	Sep 30, 2018	**2019**	2018
Transaction and other costs	**481**	698	1,016	**1,373**	1,784
$ per boe	**0.25**	0.36	0.61	**0.23**	0.38

During the nine months ended September 30, 2019, the Company incurred transaction and other costs of $0.23 per boe, related to an asset acquisition in Southeast Alberta that closed in August 2019, a non-core asset disposition in Northwest Alberta that closed in March 2019 and a disposal of a 1.7 percent gross GORR that closed in the second quarter of 2019, in addition to severance costs. Transaction and other costs during the nine months ended September 30, 2018 primarily related to the acquisition of Mount Bastion Oil & Gas Corp. that closed subsequent to the period and the second quarter 2018 Sparky area asset acquisition, in addition to severance costs.

FINANCE EXPENSES

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2019**	Jun 30, 2019	Sep 30, 2018	**2019**	2018
Interest on bank debt	**4,658**	5,148	2,997	**16,059**	8,973
$ per boe	**2.39**	2.63	1.81	**2.74**	1.93
Interest on convertible debentures	**1,222**	985	640	**2,847**	1,919
$ per boe	**0.63**	0.50	0.39	**0.49**	0.41
Interest on lease obligations	**477**	553	119	**1,605**	358
$ per boe	**0.24**	0.28	0.07	**0.27**	0.08
Realized loss on interest contracts	**105**	130	—	**235**	—
$ per boe	**0.05**	0.07	—	**0.04**	—
Total interest expense	**6,462**	6,816	3,756	**20,746**	11,250
$ per boe	**3.31**	3.48	2.27	**3.54**	2.42
Accretion expense	**1,704**	1,650	1,400	**4,947**	4,065
$ per boe	**0.87**	0.84	0.84	**0.84**	0.87
Unrealized loss (gain) on interest contracts	**(197)**	3,361	—	**3,164**	—
$ per boe	**(0.10)**	1.71	—	**0.54**	—
Total finance expense	**7,969**	11,827	5,156	**28,857**	15,315
$ per boe	**4.08**	6.03	3.11	**4.92**	3.29

Total interest expense for the third quarter of 2019 decreased five percent as compared to the immediate preceding quarter primarily due to a lower average bank debt level during the period, partially offset by a full quarter of accrued interest expense on the convertible debentures issued in May 2019.

The increase in interest expense for the three and nine months ended September 30, 2019 as compared to the same period of 2018 is due to higher average bank debt during the period as a result of the MBOG acquisition and interest expense related to lease obligations as a result of the IFRS 16 adoption. Interest expense was further impacted by incremental accrued interest on convertible debentures that were issued during the second quarter of 2019.

Total finance expense includes accretion representing the change in the time value of the decommissioning liability, the convertible debentures and firm transportation agreements and unrealized gains and losses on financial interest contracts. Accretion expense for the third quarter of 2019 was comparable to the second quarter of 2019 and accretion expense for the three and nine months ended September 30, 2019 increased as compared to the same periods of 2018 primarily due to the decommissioning liabilities associated with the MBOG acquisition during the fourth quarter of 2018.

NETBACKS

	Three Months Ended			Nine Months Ended Sep 30,	
($ per boe, except production)	**Sep 30, 2019**	Jun 30, 2019	Sep 30, 2018	**2019**	2018
Average production (boe per day)	**21,217**	21,544	18,029	**21,461**	17,049
Petroleum and natural gas revenue	**49.71**	54.92	54.89	**51.64**	52.94
Realized loss on commodity and FX contracts	**(0.86)**	(1.29)	(1.91)	**(0.84)**	(1.84)
Royalties	**(7.12)**	(7.03)	(8.32)	**(6.61)**	(7.68)
Net operating expenses	**(13.93)**	(14.03)	(14.36)	**(14.36)**	(14.37)
Transportation expenses	**(1.42)**	(1.33)	(1.55)	**(1.58)**	(1.48)
Operating netback	**26.38**	31.24	28.75	**28.25**	27.57
G&A expense	**(1.81)**	(1.86)	(1.98)	**(1.82)**	(2.08)
Interest expense	**(3.31)**	(3.48)	(2.27)	**(3.54)**	(2.42)
Adjusted funds flow	**21.26**	25.90	24.50	**22.89**	23.07

Capital budget and production guidance for 2019 is available on the Company's website surgeenergy.ca. 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			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2019**	Jun 30, 2019	Sep 30, 2018	**2019**	2018
Stock-based compensation	**5,224**	1,780	4,073	**8,833**	8,214
Capitalized stock-based compensation	**(2,210)**	(674)	(1,619)	**(3,625)**	(2,773)
Net stock-based compensation	**3,014**	1,106	2,454	**5,208**	5,441
Net stock-based compensation $ per boe	**1.54**	0.56	1.48	**0.89**	1.17

Net stock-based compensation expense for the third quarter of 2019 increased 173 percent compared to the immediate preceding quarter. The increase in net stock-based compensation is primarily the result of a $1.6 million PSA performance multiplier adjustment for awards that vested in the third quarter of 2019.

Net stock-based compensation expense for the third quarter of 2019 increased 23 percent compared to the third quarter of 2018. The increase in net stock-based compensation is primarily the result of a $1.6 million PSA performance multiplier adjustment for awards that vested in the third quarter of 2019 as compared to a $1.3 million PSA multiplier adjustment in the third quarter of 2018.

Net stock-based compensation expense for the nine months ended September 30, 2019 decreased four percent as compared to the same period of the prior year. The decrease in net stock-based compensation expense for the nine months ended September 30, 2019 is primarily the result of a stock appreciation rights exercised during the third quarter of 2018 with an associated stock-based compensation expense of $0.7 million, partially offset by the $1.6 million PSA performance multiplier adjustment for awards that vested in the third quarter of 2019 as compared to a $1.3 million PSA multiplier adjustment in the third quarter of 2018.

The stock-based compensation recorded in the period ended September 30, 2019 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 7% for PSAs and 8% for RSAs was used to value all awards granted for the nine month period ended September 30, 2019. The weighted average fair value of awards granted for the nine month period ended September 30, 2019 is $1.05 per PSA and $1.06 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, 2018	3,889,902	5,316,079
Granted	3,409,176	3,265,502
Reinvested [1]	233,567	313,724
Added by performance factor	—	1,645,004
Exercised	(1,992,880)	(3,202,278)
Forfeited	(215,080)	(452,658)
Balance at September 30, 2019	**5,324,685**	**6,885,373**

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

DEPLETION AND DEPRECIATION

	Three Months Ended			**Nine Months Ended Sep 30,**	
($000s except per boe)	**Sep 30, 2019**	Jun 30, 2019	Sep 30, 2018	**2019**	2018
Depletion and depreciation expense	**42,093**	41,511	26,307	**123,687**	74,930
$ per boe	**21.57**	21.17	15.86	**21.11**	16.10

Depletion and depreciation are calculated based on total capital expenditures (including acquisitions and dispositions), production rates and proved plus probable reserves. Deducted from the Company's second quarter of 2019 depletion and depreciation calculation are costs associated with salvage values of $61.4 million. Future development costs for proved and probable reserves of $786.0 million have been included in the depletion calculation.

Depletion and depreciation expense for the three and nine months ended September 30, 2019 was comparable to the second quarter of 2019 and increased compared to the same period of 2018 primarily due to the MBOG acquisition, resulting in a larger depletable base, in addition to increased production during the periods. Additionally, in relation to the leases recognized upon adoption of IFRS 16, the Company recognized $5.6 million of depreciation charges during the period ended September 30, 2019.

NET INCOME (LOSS)

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per share)	**Sep 30, 2019**	Jun 30, 2019	Sep 30, 2018	**2019**	2018
Net income (loss)	**(4,269)**	(2,611)	9,034	**(14,863)**	10,940
Per share - basic ($)	**(0.01)**	(0.01)	0.04	**(0.05)**	0.04
Per share - diluted ($)	**(0.01)**	(0.01)	0.04	**(0.05)**	0.04

The Company realized a higher net loss and net loss per basic share for the third quarter of 2019 as compared to the second quarter of 2019. The loss is primarily due to a 10 percent decrease in average realized price per barrel of oil as compared to the immediately preceding quarter.

The Company realized a net loss and net loss per basic share for the three and nine months ended September 30, 2019 as compared to net income and net income per basic share during the same period of 2018. The change is primarily due to an increase in depletion and depreciation expense due to the MBOG acquisition and a loss on disposal of petroleum and natural gas properties recognized in the second quarter of 2019.

CAPITAL EXPENDITURES

Capital Expenditure Summary

($000s)	Q1 2019	Q2 2019	Q3 2019	**2019 YTD**	2018 YTD	% Change
Land	310	498	5,750	**6,558**	3,044	115 %
Seismic	123	(14)	29	**138**	999	(86)%
Drilling and completions	32,729	18,035	10,264	**61,028**	61,542	(1)%
Facilities, equipment and pipelines	6,761	5,116	4,914	**16,791**	16,886	(1)%
Other	1,338	1,562	1,290	**4,190**	4,483	(7)%
Total exploration and development	41,261	25,197	22,247	**88,705**	86,954	2 %
Acquisitions - cash consideration	273	—	12,077	**12,350**	35,698	(65)%
Property dispositions	(28,080)	(29,166)	—	**(57,246)**	(6,965)	722 %
Total acquisitions & dispositions	(27,807)	(29,166)	12,077	**(44,896)**	28,733	(256)%
Total capital expenditures	13,454	(3,969)	34,324	**43,809**	115,687	(62)%

Capital budget and production guidance for 2019 is available on the Company's website surgeenergy.ca.

During the three and nine months ended September 30, 2019, Surge invested a total of $22.2 million and $88.7 million, excluding acquisitions and dispositions.

During the third quarter of 2019, Surge invested $2.1 million to drill three gross (3.0 net) wells in the Sparky area that will be completed and brought on stream in the fourth quarter and spud one gross (1.0 net) well in the Sparky area that will be drilled, completed and brought on stream in the fourth quarter. Surge also invested $4.3 million to drill, complete and bring on stream one gross (1.0 net) well at Valhalla. The Company spent a further $3.9 million optimizing producing wellbores in the Shaunavon and Greater Sawn areas.

During the third quarter of 2019, Surge invested $4.9 million in facilities, pipelines, waterflood expansions and pilots. An additional $7.1 million was spent on land and seismic acquisitions and other capital items during the quarter.

During the three month period ended September 30, 2019, the Company acquired a gas processing plant in Southeast Alberta for cash consideration of $12.1 million. In conjunction with the purchase, the Company elected to early adopt the amendments to IFRS 3 "Business Combinations" which resulted in accounting for the transaction as an asset acquisition. Concurrent with the acquisition, the Company entered into a sale-leaseback arrangement for total cash proceeds of $12.4 million. Refer to notes 4 and 12 in the condensed consolidated interim financial statements for additional information.

During the nine month period ended September 30, 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. Cash consideration received on disposition was $29.1 million. 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.

During the nine month period ended September 30, 2019 the Company disposed of certain non-core assets in Northwest Alberta for cash proceeds of $28.1 million.

FACTORS THAT HAVE CAUSED VARIATIONS OVER THE QUARTERS

The fluctuations in Surge's revenue and net earnings from quarter to quarter are primarily caused by changes in production volumes, changes in realized commodity prices and the related impact on royalties, and realized and unrealized gains or losses on derivative instruments. The change in production from the fourth quarter of 2017 through the current quarter is due to Surge's successful drilling programs and acquisitions over that period. Please refer to the Financial and Operating Results section and other sections of this MD&A for detailed discussions on variations during the comparative quarters and to Surge's previously issued interim and annual MD&A for changes in prior quarters.

Share Capital and Option Activity

	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Weighted common shares	**318,075,528**	314,010,237	309,447,717	288,743,803
Dilutive instruments (treasury method)	**—**	—	—	—
Weighted average diluted shares outstanding	**318,075,528**	314,010,237	309,447,717	288,743,803

	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Weighted common shares	231,988,109	230,812,437	233,006,881	232,928,730
Dilutive instruments (treasury method)	4,234,451	5,264,860	—	—
Weighted average diluted shares outstanding	236,222,560	236,077,297	233,006,881	232,928,730

On November 4, 2019, Surge had 324,215,111 common shares, 6,936,148 PSAs, and 5,363,951 RSAs outstanding.

Quarterly Financial Information

	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Oil, Natural gas & NGL sales	**97,026**	107,665	97,868	58,127
Net loss	**(4,269)**	(2,611)	(7,983)	(82,473)
Net loss per share ($):				
Basic	**(0.01)**	(0.01)	(0.03)	(0.29)
Diluted	**(0.01)**	(0.01)	(0.03)	(0.29)
Cash flow from operating activities	**40,228**	45,807	28,908	26,770
Cash flow from operating activities per share ($):				
Basic	**0.13**	0.15	0.09	0.09
Diluted	**0.13**	0.15	0.09	0.09
Adjusted funds flow	**41,513**	50,742	41,851	6,249
Adjusted funds flow per share ($):				
Basic	**0.13**	0.16	0.14	0.02
Diluted	**0.13**	0.16	0.14	0.02
Average daily sales				
Oil (bbls/d)	**17,170**	17,366	17,542	16,578
NGL (bbls/d)	**769**	727	644	703
Natural gas (mcf/d)	**19,668**	20,706	20,663	22,598
Barrels of oil equivalent (boe per day) (6:1)	**21,217**	21,544	21,630	21,047
Average sales price				
Natural gas ($/mcf)	**0.69**	0.86	2.32	2.03
Oil ($/bbl)	**59.39**	66.05	57.72	33.72
NGL ($/bbl)	**27.69**	24.93	41.86	38.28
Barrels of oil equivalent ($/boe)	**49.71**	54.92	50.27	30.02

Quarterly Financial Information

	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Oil, Natural gas & NGL sales	91,036	87,094	68,290	69,260
Net income (loss)	9,034	3,015	(1,109)	(13,078)
Net income (loss) per share ($):				
Basic	0.04	0.01	(0.01)	(0.06)
Diluted	0.04	0.01	(0.01)	(0.06)
Cash flow from operating activities	37,197	33,725	24,215	28,640
Cash flow from operating activities per share ($):				
Basic	0.16	0.15	0.10	0.12
Diluted	0.16	0.14	0.10	0.12
Adjusted funds flow	40,638	38,596	28,169	32,173
Adjusted funds flow per share ($):				
Basic	0.18	0.17	0.12	0.14
Diluted	0.17	0.17	0.12	0.14
Average daily sales				
Oil (bbls/d)	13,560	13,343	12,446	12,169
NGL (bbls/d)	669	556	560	571
Natural gas (mcf/d)	22,797	19,038	18,128	17,607
Barrels of oil equivalent (boe per day) (6:1)	18,029	17,072	16,027	15,675
Average sales price				
Natural gas ($/mcf)	0.71	0.63	0.82	1.41
Oil ($/bbl)	68.89	68.78	57.58	57.36
NGL ($/bbl)	58.46	49.15	48.82	52.41
Barrels of oil equivalent ($/boe)	54.89	56.06	47.34	48.03

LIQUIDITY AND CAPITAL RESOURCES

On September 30, 2019, Surge had $308.3 million drawn on its credit facility, $79.0 million principal amount of convertible subordinated unsecured debentures ("Debentures"), and total net debt of $377.4 million, an increase in total net debt of 34 percent as compared to the same date in 2018. At September 30, 2019, Surge had approximately $117 million of borrowing capacity in relation to the $425 million credit facility, with the ability to borrow up to $500 million with unanimous consent from the Company's lenders, providing Surge financial flexibility through 2019. 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 September 30, 2019
Shareholder Equity	
Share capital	1,464,459
Common shares outstanding	324,215
Debentures - equity	6,266
Debt	
Credit Facilities	
Total Commitment	500,000
Amount drawn	308,335
Debentures - liability	68,118

Convertible Debentures

	Number of convertible debentures	Liability Component ($000s)	Equity Component ($000s)
Balance at December 31, 2017	44,500	36,715	3,551
Accretion of discount	—	1,258	—
Balance at December 31, 2018	44,500	37,973	3,551
Issuance of convertible debentures	34,500	30,551	3,949
Issue costs	—	(1,775)	(230)
Deferred income tax liability	—	—	(1,004)
Accretion of discount	—	1,369	—
Balance at September 30, 2019	**79,000**	**68,118**	**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, debt and/or equity financing, specifically targeting an all-in payout ratio[1] for 2019 of less than 100 percent. Furthermore, the Company's flexible capital program and unused bank line further add to Surge's ability to fund future capital requirements as there is no assurance that debt and equity financing will be available on terms acceptable to the Company to meet its capital requirements.

As crude oil pricing began to stabilize in early 2017, Surge increased the Company's dividend to $0.00708 per share per month, effective February 2017 and following a core area acquisition in April 2017, effective May 2017, the dividend was increased to $0.007917 per share per month. Due to further increases in crude oil prices, effective June 2018, the dividend was increased again, to $0.008333 per share per month. Surge's management and Board will continue to assess market conditions regularly until a sustainable recovery in world crude oil prices is realized.

1 This is a non-GAAP financial measure which is defined in the Non-GAAP Financial Measures section of this document.

Net Debt

($000s)	As at September 30, 2019
Bank debt	(308,335)
Accounts receivable	40,562
Prepaid expenses and deposits	6,200
Accounts payable and accrued liabilities	(45,016)
Dividends payable	(2,702)
Convertible debentures	(68,118)
Total	**(377,409)**

As at September 30, 2019, the Company had a total commitment of $500 million, being the aggregate of a revolving term credit facility of $450 million and an operating loan commitment of $50 million, with a syndicate of banks. Unanimous consent of all lenders is required for the Company to exceed a total amount drawn (revolving term credit facility and operating loan combined) in excess of $425 million. A review and re-determination of the borrowing base will occur semi-annually on or before May 31 and November 30 of each year. The facility is available on a revolving basis until May 31, 2020. On May 31, 2020, 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 facility may be extended for a further 364-day period at the request of the Company and subject to the approval of the syndicate. As the available lending limits of the facility are based on the syndicate's interpretation of the Company's reserves and future commodity prices, there can be no assurance that the amount of the available facility will not decrease at the next scheduled review. Interest rates vary depending on the ratio of net debt to EBITDA. The facility had an effective interest rate of prime plus 1.75 percent as at September 30, 2019 (December 31, 2018 – prime plus 1.25 percent).

The facility is secured by a general assignment of book debts, debentures of $1.5 billion with a floating charge over all assets of the Company with a negative pledge and undertaking to provide fixed charges on the major producing petroleum and natural gas properties at the request of the bank.

RELATED-PARTY AND OFF-BALANCE-SHEET TRANSACTIONS

Surge was not involved in any off-balance-sheet transactions or related party transactions during the period ended September 30, 2019.

CONTRACTUAL OBLIGATIONS AND LEASES

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

As at September 30, 2019, Surge had future minimum payments relating to its variable office rent payments and firm transport commitments totaling $36.7 million, as summarized below:

	September 30, 2019	December 31, 2018
Less than 1 year	**$ 2,588**	$ 12,058
1 - 3 years	**21,077**	17,874
3 - 5 years	**5,442**	10,105
5+ years	**7,566**	9,394
Total commitments	**$ 36,673**	$ 49,431

The decrease in total commitments as at September 30, 2019 compared to December 31, 2018 is due to the adoption of IFRS 16 effective January 1, 2019 (see note 3 in the September 30, 2019 Financial Statements), partially offset by a new firm transport commitments entered in the third quarter of 2019.

The Company had the following future commitments associated with its lease obligations:

	Total
Lease obligations at December 31, 2018	**$ 5,871**
Additions upon adoption of IFRS 16 at January 1, 2019	**29,886**
Lease modifications	**5,643**
Interest expense	**1,604**
Lease payments	**(6,788)**
Lease obligations at September 30, 2019	**$ 36,215**
Other obligations	**14,162**
Lease and other obligations at September 30, 2019	**50,377**
Current portion	**9,712**
Long-term portion	**40,666**

Upon adoption of IFRS 16 on January 1, 2019, the Company recorded a $29.9 million right-of-use asset (included in "Petroleum and natural gas properties") and a $29.9 million lease obligation.

In relation to those leases recognized upon adoption of under IFRS 16, the Company has recognized during the period ended September 30, 2019, $5.6 million of depreciation charges and $6.8 million of lease payments of which $1.6 million has been recorded as interest expense.

As at September 30, 2019, the Company has a $35.8 million right-of-use asset (included in "Petroleum and natural gas properties") and a $36.2 million lease obligation (the non-current portion of $40.7 million recorded in "Long term lease and other obligations" and the current $9.7 million portion recorded in "Current portion of lease and other obligations").

During the three month period ended September 30, 2019, the Company acquired a gas processing facility in Southeast Alberta. In conjunction with the purchase, the Company entered into a sale-leaseback agreement and recorded a corresponding financial liability in accordance with IFRS 9 "Financial Instruments" (included in "Long term lease and other obligations" with the current portion included in "Current portion of lease and other obligations"). Monthly lease payments will be apportioned between finance expense and a reduction of the outstanding financial liability.

During the three month period ended September 30, 2019, the Company extended the term of an existing lease resulting in the recognition of an incremental $5.6 million right-of-use asset (included in "Petroleum and natural gas properties") and a $5.6 million lease obligation. The incremental borrowing rate used to revalue the lease was adjusted to reflect changes in market conditions and the revised lease term.

FINANCIAL INSTRUMENTS

As a means of managing commodity price, interest rate, and foreign exchange volatility, the Company enters into various derivative financial instrument agreements and physical contracts. The fair value of forward contracts and swaps is determined by discounting the difference between the contracted prices and published forward price curves as at the statement of financial position date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates). The fair value of options and costless collars is based on option models that use published information with respect to volatility, prices and interest rates. Surge's financial derivative contracts are classified as level two.

The following table summarizes the Company's financial derivatives as at November 4, 2019 by period and by product.

Commodity Contracts

WTI Oil Hedges

Type	Term	bbl/d	Currency	Put Sold (per bbl)	Put Acquired (per bbl)	Call Sold (per bbl)	Call Acquired (per bbl)	Swap Price (per bbl)
WTI	2H 2019	250	USD	—	$50.00	$63.40	—	—
WTI	Q2 2019 - Q1 2020	250	USD	—	$55.00	$65.00	—	—
WTI	2H 2019	1,500	USD	—	—	—	—	$59.26
WTI	Feb 2019 - Dec 2019	250	USD	—	—	—	—	$53.90
WTI	Q2 2019 - Q1 2020	500	USD	—	—	—	—	$59.83
WTI	May 2019 - Jun 2020	250	USD	—	—	—	—	$62.00
WTI	Q1 2020	750	USD	—	—	—	—	$57.07
WTI	Q3 2019 - Q1 2020	500	USD	—	—	—	—	$58.80
WTI	1H 2020	250	USD	—	$57.50	—	—	—
WTI	Q3 2019 - Q2 2020	500	USD	—	$58.00	—	—	—
WTI	Q4 2019	500	USD	—	—	$58.00	—	—
WTI	1H 2020	250	USD	—	—	$67.50	—	—
WTI	2H 2019	2,000	USD	$53.00	$60.00	$82.79	—	—
WTI	Q2 2019 - Q1 2020	250	USD	$45.00	$55.00	$68.50	—	—
WTI	1H 2020	1,750	USD	$47.14	$55.71	$64.47	—	—
WTI	Q3 2019 - Q4 2020	500	USD	$47.50	$57.50	$71.50	—	—

Oil Differential Hedges

Type	Term	bbl/d	Currency	Floor (per bbl)	Ceiling (per bbl)	Swap Price (per bbl)
WCS Swap	1H 2020	1,000	USD	—	—	US$WTI less $16.50
WCS Collar	2H 2019	2,000	USD	US$WTI less $16.75	US$WTI less $22.00	—
WCS Collar	Q4 2019	1,000	USD	US$WTI less $14.75	US$WTI less $19.00	—
WCS Collar	2020	1,000	USD	US$WTI less $14.60	US$WTI less $19.95	—

Natural Gas Hedges

Type	Term	Volume	Currency	Floor	Ceiling
Chicago Collar	Apr 2019-Oct 2019	4,000 mmbtu/d	USD	$2.50 per mmbtu	$3.10 per mmbtu
Chicago Collar	Nov 2019-Oct 2020	3,000 mmbtu/d	USD	$2.25 per mmbtu	$2.90 per mmbtu
AECO Swap	Q2 2019 - Q4 2019	3,000 gj/d	CAD	$1.45 per gj	$1.45 per gj
AECO Swap	Nov 2019-Dec 2020	3,000 gj/d	CAD	$1.975 per gj	$1.975 per gj
AECO Swap	2020	4,000 gj/d	CAD	$1.45 per gj	$1.45 per gj

CAD/USD FX Hedges

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

Interest Rate Hedges

Type	Term	Notional Amount (CAD$)	Surge Receives	Surge Pays	Fixed Rate SGY Receives
Fixed-to-Floating Rate Swap	Feb 2018 - Feb 2023	$100,000,000	Floating Rate	Fixed Rate	Semi-Annual Step Up • Beginning at 1.786% • Ending at 2.714% • Averaging 2.479%
Fixed 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 quarter ended September 30, 2019 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 Controller 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 Controller 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 Controller by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

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

There were no changes in the Company's ICFR during the quarter ended September 30, 2019 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

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

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

Forecasted Commodity Prices

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

Business Combinations

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

Decommissioning Liability

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

Derivative Financial Instruments

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 value of stock deferred income tax provision, including (but not limited to) future tax rates, accessibility of tax pools and future cash flows.

CHANGES IN ACCOUNTING POLICIES

IFRS 16 was issued January 2016 and replaces IAS 17 Leases. The standard introduces a single lessee accounting model for leases with required recognition of assets and liabilities for most leases. On January 1, 2019 the Company adopted IFRS 16 using the modified retrospective approach, whereby the cumulative effect of initially applying the standard was recognized as an increase to right-of-use assets (included in "Petroleum and natural gas properties") with a corresponding increase to lease obligations (the non-current portion recorded in "Long term lease and other obligations" and the current portion recorded in "Current portion of lease and other obligations").

The right-of-use assets recognized were measured at amounts equal to the lease obligations. The weighted average incremental borrowing rate used to determine the lease obligation at adoption was approximately 6%. The right-of-use assets and lease obligations recognized largely relate to the Company's head office lease in Calgary and long-term leases for oil batteries and equipment rentals. The adoption of IFRS 16 included the following elections:

- The Company elected to retain the classification of contracts previously identified as leases under IAS 17 and IFRIC 4;
- The Company elected to use hindsight in determining the lease term where the contract contains terms to extend or terminate the lease;
- The Company elected to not apply lease accounting to certain leases for which the lease term ends within 12 months of the January 1, 2019 adoption;
- The Company elected to not apply lease accounting to certain leases of low value assets;
- The Company elected to apply a single discount rate to a portfolio of leases with similar characteristics.

As a result of this adoption, the Company has revised the description of its accounting policy for leases as follows:

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease obligation is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date. Interest expense is recognized on the lease obligations using the effective interest rate method and payments are applied against the lease obligation. At the commencement date, a corresponding right-of-use asset is recognized at the amount of the lease obligation, adjusted for lease incentives received and initial direct costs. Depreciation is recognized on the right-of-use asset over the lease term.

The preparation of the condensed consolidated interim 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 "Risk Factors" in the Company's AIF for the year ended December 31, 2018, 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 continued pursuit of strategic acquisitions and the characteristics thereof; Surge's assets and the characteristics thereof; underlying causes of the fluctuations in Surge’s revenue and net earnings from quarter to quarter; management’s expectations regarding net operating, transportation and G&A expenses for the remainder of 2019; Surge’s capital program for the remainder of 2019; Surge’s capital budget and production guidance for the remainder of 2019; continued efforts of Surge to monitor and adjust its capital structure; funding of future capital requirements through internal cash flow, divestitures, debt and/or equity financing; Surge’s financial flexibility; 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; estimations of the fair value of acquired assets; estimated tax pools; potential impairments of cash generating units and the assumptions used to assess such impairments; expectations with respect to its underlying decommissioning liabilities; ability of Surge to increase or maintain its credit facility; the impact of certain new IFRS; continued support of Surge's lenders; Surge's dividend and the continued efforts by management and the Board to assess such dividend and market conditions; and expectations on corporate 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, the 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 credit facility; prevailing weather conditions, exchange rates, licensing requirements, the impact of completed facilities on operating costs and the availability, costs of capital, labour and services, and the creditworthiness of industry partners.

Although Surge believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Surge can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; inability of Surge to fund its future capital requirements; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), commodity price and exchange rate fluctuations and constraint in the availability of services, adverse weather or break-up conditions, uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures, failure to obtain the continued support of the lenders under Surge’s current bank line or the inability to obtain consent of lenders to increase bank line. Certain of these risks are set out in more detail in this MD&A under the heading ‘Risk Factors’ and in Surge’s AIF dated March 12, 2019 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", and "all-in payout ratio" 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, transaction and other costs, and cash settled stock-based compensation plans, particularly cash used to settle withholding obligations on stock-based compensation arrangements that are settled in shares. 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, which management believes do not reflect the ongoing cash flows of the business, and as such reduces comparability. All of the Company’s stock-based compensation plans are equity classified as the Company has the intention of settling all awards with shares. Cash settled stock-based compensation currently represents the statutory tax withholdings required on stock-based compensation awards and is a discretionary allocation of capital. The Company has the option to either require the holder to sell shares earned in the stock-based compensation plan to satisfy tax withholdings, or the Company can issue less shares to the individual and remit a cash payment to satisfy tax withholding requirements. 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			Nine Months Ended Sep 30,	
($000s except per share)	**Sep 30, 2019**	Jun 30, 2019	Sep 30, 2018	**2019**	2018
Cash flow from operating activities	**40,228**	45,807	37,197	**114,943**	95,137
Change in non-cash working capital	**(475)**	3,126	(2,269)	**13,693**	1,126
Decommissioning expenditures	**1,279**	1,111	1,329	**4,097**	4,909
Transaction and other costs	**481**	698	1,016	**1,373**	1,784
Cash settled stock-based compensation	**—**	—	3,365	**—**	4,447
Adjusted funds flow	**$ 41,513**	$ 50,742	$ 40,638	**$ 134,106**	$ 107,403
Per share - basic	**$ 0.13**	$ 0.16	$ 0.18	**$ 0.43**	$ 0.47

Net Debt

There is no comparable measure in accordance with IFRS for net debt. Net debt is calculated as bank debt plus the liability component of the convertible debentures plus or minus working capital, however, excluding the fair value of financial contracts, lease obligations, decommissioning obligations 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)	**Sep 30, 2019**	Jun 30, 2019	Sep 30, 2018
Bank debt	**(308,335)**	(319,503)	(250,684)
Accounts receivable	**40,562**	38,310	35,940
Prepaid expenses and deposits	**6,200**	8,113	7,111
Accounts payable and accrued liabilities	**(45,016)**	(47,771)	(35,168)
Convertible debentures	**(68,118)**	(67,552)	(37,646)
Dividends payable	**(2,702)**	(2,617)	(1,947)
Total	**(377,409)**	(391,020)	(282,394)

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			Nine Months Ended Sep 30,	
($000s)	**Sep 30, 2019**	Jun 30, 2019	Sep 30, 2018	**2019**	2018
Petroleum and natural gas revenue	**97,026**	107,665	91,036	**302,559**	246,420
Processing and other income	**1,483**	783	537	**2,740**	2,242
Royalties	**(13,892)**	(13,788)	(13,803)	**(38,741)**	(35,725)
Realized loss on financial contracts	**(1,674)**	(2,537)	(3,166)	**(4,927)**	(8,577)
Operating expenses	**(28,680)**	(28,297)	(24,360)	**(86,890)**	(69,123)
Transportation expenses	**(2,763)**	(2,616)	(2,574)	**(9,242)**	(6,907)
Operating netback	**51,500**	61,210	47,670	**165,499**	128,330
G&A expense	**(3,525)**	(3,652)	(3,276)	**(10,647)**	(9,677)
Interest expense	**(6,462)**	(6,816)	(3,756)	**(20,746)**	(11,250)
Adjusted funds flow	**41,513**	50,742	40,638	**134,106**	107,403
Barrels of oil equivalent (boe)	**1,951,893**	1,960,535	1,658,668	**5,859,104**	4,654,377
Operating netback ($ per boe)	**$ 26.38**	$ 31.24	$ 28.75	**$ 28.25**	$ 27.57
Adjusted funds flow ($ per boe)	**$ 21.26**	$ 25.90	$ 24.50	**$ 22.89**	$ 23.07

Net Operating Expenses

Net operating expenses are determined by deducting processing and other revenue 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.

All-in Payout Ratio

All-in payout ratio is calculated using the sum of total exploration and development capital plus dividends paid divided by adjusted funds flow. This capital management measure is used by management to analyze allocated capital in comparison to the cash being generated by the principal business activities. This measure is provided to allow readers to quantify the amount of adjusted funds flow that is being used to either: i) pay dividends; and ii) deployed into the Company's development and exploration program. A ratio of less than 100 percent indicates that a portion of the adjusted funds flow is being retained by the Company and can be used to fund items such as asset abandonment, repayment of debt, fund acquisitions or the costs related thereto, withholding tax obligations on stock based compensation or other items.