

FINANCIAL AND OPERATING SUMMARY

(\$'000s except per share amounts)

	Three Months Ended			Nine Months Ended September 30,		
	Sep 30, 2022	Jun 30, 2022	% Change	2022	2021	% Change
Financial highlights						
Oil sales	166,487	196,470	(15)%	520,397	243,639	114 %
NGL sales	3,920	4,939	(21)%	12,912	6,437	101 %
Natural gas sales	8,890	11,590	(23)%	28,111	16,606	69 %
Total oil, natural gas, and NGL revenue	179,297	212,999	(16)%	561,420	266,682	111 %
Cash flow from operating activities	69,170	75,798	(9)%	197,150	50,067	294 %
Per share - basic (\$)	0.83	0.91	(9)%	2.36	1.07	121 %
Per share - diluted (\$)	0.80	0.88	(9)%	2.29	1.05	118 %
Adjusted funds flow ¹	80,294	78,561	2 %	221,748	57,118	288 %
Per share - basic (\$) ¹	0.96	0.94	2 %	2.66	1.22	118 %
Per share - diluted (\$)	0.93	0.91	2 %	2.58	1.20	115 %
Net income (loss) ³	78,057	72,027	8 %	128,216	364,740	(65)%
Per share - basic (\$)	0.93	0.86	8 %	1.54	7.82	(80)%
Per share - diluted (\$)	0.91	0.83	10 %	1.49	7.63	(80)%
Expenditures on property, plant and equipment	42,358	36,890	15 %	122,216	81,330	50 %
Net acquisitions and dispositions	—	(32)	nm ²	(32)	(12,591)	nm
Net capital expenditures	42,358	36,858	15 %	122,184	68,739	78 %
Net debt ¹ , end of period	264,261	280,131	(6)%	264,261	319,790	(17)%
Operating highlights						
Production:						
Oil (bbls per day)	17,639	17,110	3 %	17,173	13,299	29 %
NGLs (bbls per day)	647	799	(19)%	712	560	27 %
Natural gas (mcf per day)	18,561	18,565	— %	18,573	15,582	19 %
Total (boe per day) (6:1)	21,380	21,003	2 %	20,981	16,456	27 %
Average realized price (excluding hedges):						
Oil (\$ per bbl)	102.59	126.19	(19)%	111.00	67.11	65 %
NGL (\$ per bbl)	65.91	67.95	(3)%	66.44	42.13	58 %
Natural gas (\$ per mcf)	5.21	6.86	(24)%	5.54	3.90	42 %
Netback (\$ per boe)						
Petroleum and natural gas revenue	91.16	111.44	(18)%	98.02	59.36	65 %
Realized loss on commodity and FX contracts	(7.01)	(24.05)	(71)%	(15.46)	(13.57)	14 %
Royalties	(17.27)	(19.74)	(13)%	(17.48)	(7.80)	124 %
Net operating expenses ¹	(19.31)	(19.16)	1 %	(19.25)	(17.57)	10 %
Transportation expenses	(1.30)	(1.62)	(20)%	(1.47)	(1.03)	43 %
Operating netback ¹	46.27	46.87	(1)%	44.36	19.39	129 %
G&A expense	(2.14)	(2.19)	(2)%	(2.17)	(2.08)	4 %
Interest expense	(3.30)	(3.58)	(8)%	(3.47)	(4.60)	(25)%
Adjusted funds flow ¹	40.83	41.10	(1)%	38.72	12.71	205 %
Common shares outstanding, end of period	83,977	83,357	1 %	83,977	72,177	16 %
Weighted average basic shares outstanding	83,626	83,357	— %	83,448	46,662	79 %
Stock-based compensation dilution	2,414	2,917	(17)%	2,559	1,127	127 %
Weighted average diluted shares outstanding	86,040	86,274	— %	86,007	47,789	80 %

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

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

3 The three and nine months ended September 30, 2021 include a non-cash impairment reversal of \$323.6 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the consolidated financial position and results of operations of Surge Energy Inc. ("Surge" or the "Company"), which includes its subsidiaries, is for the three and nine months ended September 30, 2022 and 2021. For a full understanding of the financial position and results of operations of the Company, the MD&A should be read in conjunction with the documents filed on SEDAR, including historical financial statements, MD&A and the Annual Information Form ("AIF"). These documents are available at www.sedar.com.

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

Surge's Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A. This MD&A is dated November 1, 2022.

DESCRIPTION OF BUSINESS

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

CASH FLOW FROM OPERATING ACTIVITIES AND ADJUSTED FUNDS FLOW

(\$000s except per share and per boe)	Three Months Ended			Nine Months Ended September 30,	
	Sep 30, 2022	Jun 30, 2022	Sep 30, 2021	2022	2021
Cash flow from operating activities	69,170	75,798	26,263	197,150	50,067
Per share - basic (\$)	0.83	0.91	0.46	2.36	1.07
Per share - diluted (\$)	0.80	0.88	0.45	2.29	1.05
\$ per boe	35.17	39.66	16.18	34.42	11.14
Adjusted funds flow	80,294	78,561	27,804	221,748	57,118
Per share - basic (\$)	0.96	0.94	0.48	2.66	1.22
Per share - diluted (\$)	0.93	0.91	0.47	2.58	1.20
\$ per boe	40.83	41.10	17.13	38.72	12.71

Cash flow from operating activities for the third quarter of 2022 decreased 9 percent when compared to the second quarter of 2022 and increased 163 percent when compared to the third quarter of 2021. On a per basic share basis, cash flow from operating activities decreased 9 percent when compared to the second quarter of 2022 and increased 80 percent compared to the third quarter of 2021.

Adjusted funds flow for the third quarter of 2022 increased 2 percent when compared to the second quarter of 2022 and increased 189 percent when compared to the third quarter of 2021. On a per basic share basis, adjusted funds flow increased 2 percent when compared to the second quarter of 2022 and increased 100 percent compared to the third quarter of 2021.

Cash flow from operating activities and adjusted funds flow for the three and nine months ended September 30, 2022 increased when compared to the same periods of the prior year due to the increase in petroleum and natural gas revenue as a result of improved crude oil pricing and increased production, partially offset with an increase in the realized loss on financial contracts and an increase in royalties. Cash flow from operating activities for the three months ended September 30, 2022 decreased when compared to the immediate preceding quarter due to \$3.5 million spent on decommissioning expenditures during the period and a decrease in petroleum and natural gas revenue, partially offset with a decrease in royalties and a higher unrealized gain on financial contracts.

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, 2022 and see the Non-GAAP and Other Financial Measures section of this MD&A for further information regarding adjusted funds flow.

OPERATIONS

Drilling

	Drilling		Success rate (%) net	Working interest (%)
	Gross	Net		
Q1 2022	23.0	21.5	100 %	93 %
Q2 2022	10.0	9.0	100 %	90 %
Q3 2022	26.0	20.7	100 %	80 %
Total	59.0	51.2	100 %	87 %

Surge achieved a 100 percent success rate during the period ended September 30, 2022, drilling 9 gross (9.0 net) wells in Southeast Alberta ("Sparky") and 17 gross (11.7 net) wells in Southeast Saskatchewan during the quarter.

Production

	Three Months Ended			Nine Months Ended Sep 30,	
	Sep 30, 2022	Jun 30, 2022	Sep 30, 2021	2022	2021
Oil (bbls per day)	17,639	17,110	14,264	17,173	13,299
NGL (bbls per day)	647	799	575	712	560
Oil and NGL (bbls per day)	18,286	17,909	14,839	17,885	13,859
Natural gas (mcf per day)	18,561	18,565	16,815	18,573	15,582
Total (boe per day) (6:1)	21,380	21,003	17,642	20,981	16,456
% Oil and NGL	86 %	85 %	84 %	85 %	84 %

Surge averaged production of 21,380 boe per day in the third quarter of 2022 (86 percent oil and NGLs), a 2 percent increase compared to the average production rate in the second quarter of 2022 and a 21 percent increase from the average production rate in the same period of 2021.

Production during the third quarter of 2022 increased as compared to the second quarter of 2022, primarily the result of a successful third quarter drilling program. 55 gross (47.72 net) wells drilled in 2022 were on stream as at September 30 and the remaining 4 gross (3.5 net) wells that were drilled will be brought on production in the fourth quarter of 2022.

The 21 percent and 27 percent increase in production for the three and nine months ended September 30, 2022, as compared to the same periods of the prior year is primarily the result of the acquisitions of Astra Oil Corporation ("Astra") and Fire Sky Energy Inc. ("Fire Sky") in the second half of 2021, which added approximately 4,950 boe per day in the first nine months of 2022 compared to approximately 2,100 boe per day for the third quarter of 2021.

Petroleum and Natural Gas Revenue, Realized Prices and Benchmark Pricing

(\$000s except per amount)	Three Months Ended			Nine Months Ended Sep 30,	
	Sep 30, 2022	Jun 30, 2022	Sep 30, 2021	2022	2021
Petroleum and Natural Gas Revenue					
Oil	166,487	196,470	97,272	520,397	243,639
NGL	3,920	4,939	2,663	12,912	6,437
Oil and NGL	170,407	201,409	99,935	533,309	250,076
Natural gas	8,890	11,590	5,170	28,111	16,606
Total petroleum and natural gas revenue	179,297	212,999	105,104	561,420	266,682
Realized Prices					
Oil (\$ per bbl)	102.59	126.19	74.12	111.00	67.11
NGL (\$ per bbl)	65.91	67.95	50.31	66.44	42.13
Oil and NGL (\$ per bbl)	101.30	123.59	73.20	109.23	66.10
Natural gas (\$ per mcf)	5.21	6.86	3.34	5.54	3.90
Total petroleum and natural gas revenue before realized commodity and FX contracts (\$ per boe)	91.16	111.44	64.76	98.02	59.36
Benchmark Prices					
WTI (US\$ per bbl)	91.56	108.41	70.56	98.09	64.82
CAD/USD exchange rate	1.31	1.28	1.26	1.28	1.25
WTI (C\$ per bbl)	119.94	138.76	88.91	125.55	81.03
Edmonton Light Sweet (C\$ per bbl)	116.84	137.80	83.67	123.42	75.73
WCS (C\$ per bbl)	93.50	122.08	71.77	105.53	65.40
AECO Daily Index (C\$ per mcf)	4.17	7.23	3.60	5.38	3.28
Chicago Citygate (US\$ per mmbtu)	7.38	7.20	4.11	6.33	5.39

Total petroleum and natural gas revenue for the third quarter of 2022 decreased 16 percent as compared to the second quarter of 2022. The decrease is primarily due to a 18 percent decrease in average realized oil and natural gas prices, which correlates to the 16 percent decrease in WTI crude oil pricing and the widening of crude oil differentials in the period, partially offset by a 2 percent increase in production during the period.

Total petroleum and natural gas revenue for the three and nine months ended September 30, 2022 increased 71 percent and 111 percent when compared to the same periods of 2021.

For the three months ended September 30, 2022, the increase is primarily due to a 41 percent increase in average realized oil and natural gas prices, correlating to the 30 percent increase in WTI crude oil pricing, a 80 percent increase to the Chicago Citygate natural gas price and a 16 percent increase in AECO, combined with a 21 percent increase in production during the period.

For the nine months ended September 30, 2022, the increase is primarily due to a 65 percent increase in average realized oil and natural gas prices, correlating to the 51 percent increase in WTI crude oil pricing, a 17 percent increase to the Chicago Citygate natural gas price and a 64 percent increase in AECO, combined with a 27 percent increase in production during the period.

ROYALTIES

(\$000s except per boe)	Three Months Ended			Nine Months Ended Sep 30,	
	Sep 30, 2022	Jun 30, 2022	Sep 30, 2021	2022	2021
Royalties	33,964	37,734	15,501	100,099	35,051
% of petroleum and natural gas revenue	19 %	18 %	15 %	18 %	13 %
\$ per boe	17.27	19.74	9.55	17.48	7.80

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 third quarter of 2022 is comparable to the immediate preceding quarter. Royalties as a percentage of revenue for the three and nine months ended September 30, 2022 increased 27 percent and 38 percent as compared to the same periods of the prior year, primarily as a result of a higher crude oil pricing environment and due to increased production as a result of acquisitions in the third and fourth quarters of 2021.

NET OPERATING EXPENSES

(\$000s except per boe)	Three Months Ended			Nine Months Ended Sep 30,	
	Sep 30, 2022	Jun 30, 2022	Sep 30, 2021	2022	2021
Operating expenses	39,920	38,189	28,288	115,563	82,156
Less processing income	(1,941)	(1,569)	(978)	(5,316)	(3,239)
Net operating expenses	37,979	36,620	27,310	110,247	78,917
\$ per boe	19.31	19.16	16.83	19.25	17.57

Total net operating expenses for the third quarter of 2022 increased 4 percent when compared to the immediate preceding quarter due to the impact of inflationary pressures and higher power, chemical and fuel costs during the period.

Total net operating expenses for the three and nine month periods ended September 30, 2022 increased 39 percent and 40 percent as compared to the same periods of the prior year primarily due to the acquisitions of Astra and Fire Sky. On a per boe basis, operating expenses increased primarily as a result of cost escalation resulting from inflationary pressures during the three quarters of 2022.

TRANSPORTATION EXPENSES

(\$000s except per boe)	Three Months Ended			Nine Months Ended Sep 30,	
	Sep 30, 2022	Jun 30, 2022	Sep 30, 2021	2022	2021
Transportation expenses	2,554	3,095	1,798	8,426	4,630
\$ per boe	1.30	1.62	1.11	1.47	1.03

Transportation expenses per boe for the third quarter of 2022 decreased 20 percent when compared to the second quarter of 2022 primarily due to the capital program being more focused in pipeline connected areas, resulting in lower transportation expenses per boe. Transportation expenses per boe for the three and nine months ended September 30, 2022 increased 17 percent and 43 percent as compared to the same periods of the prior year, primarily due to inflationary pressures and increased trucking associated with acquisitions and organic production additions that are not yet pipeline connected.

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

(\$000s except per boe)	Three Months Ended			Nine Months Ended Sep 30,	
	Sep 30, 2022	Jun 30, 2022	Sep 30, 2021	2022	2021
G&A expenses	5,659	5,558	4,249	16,570	12,559
Recoveries and capitalized amounts	(1,441)	(1,372)	(903)	(4,134)	(3,215)
Net G&A expenses	4,218	4,186	3,346	12,436	9,344
Net G&A expenses \$ per boe	2.14	2.19	2.06	2.17	2.08

Total net G&A expenses for the third quarter of 2022 was comparable to the immediate preceding quarter and increased 26 percent and 33 percent when compared to the same periods of 2021. The increase is primarily as a result of additional labour requirements to meet the Company's objectives following significant production growth and additional labour requirements following the acquisitions done in the second half of 2021.

TRANSACTION AND OTHER COSTS (INCOME)

(\$000s except per boe)	Three Months Ended			Nine Months Ended Sep 30,	
	Sep 30, 2022	Jun 30, 2022	Sep 30, 2021	2022	2021
Transaction and other costs (income)	510	(414)	1,502	(73)	2,981
\$ per boe	0.26	(0.22)	0.93	(0.01)	0.66

The Company had transaction and other costs for the third quarter of 2022 compared to transaction and other income in the immediate preceding quarter, primarily attributable to amendments made to prior period acquisition amounts, as values subject to estimate can be finalized for a period of up to one year. This was slightly offset by receiving \$1.5 million of Alberta Site Rehabilitation Program ("SRP") grant income to pay service companies to complete abandonment and reclamation work as compared to \$0.6 million received in the immediate preceding quarter. For the third quarter of 2021, only \$0.9 million in SRP income was received, which was offset by \$2.3 million in transaction costs related to M&A activity.

For the nine months ended September 30, 2022, the Company was granted \$2.5 million in SRP income, which was partially offset by transaction costs related to M&A activity. During the same period of the prior year, approximately \$1.9 million million was granted to Surge in SRP income, which was offset by transaction costs related to M&A activities and employee severance costs.

FINANCE EXPENSES

(\$000s except per boe)	Three Months Ended			Nine Months Ended Sep 30,	
	Sep 30, 2022	Jun 30, 2022	Sep 30, 2021	2022	2021
Interest on bank debt and term debt	4,991	4,712	3,481	13,799	12,623
Interest on convertible debentures	1,222	1,222	1,222	3,666	3,666
Interest on lease and other obligations	529	557	685	1,669	2,185
Realized (gain) loss on interest contracts	(244)	346	747	765	2,206
Total interest expense	6,498	6,837	6,135	19,899	20,679
\$ per boe	3.30	3.58	3.78	3.47	4.60
Accretion expense	2,868	2,905	1,963	8,477	5,730
Unrealized gain on interest contracts	(474)	(1,407)	(724)	(4,260)	(3,091)
Paid in kind interest on term debt	—	—	515	—	1,461
Total finance expense	8,892	8,335	7,889	24,116	24,779
\$ per boe	4.52	4.36	4.86	4.21	5.52
Average principal amount					
Bank Debt	16,006	59,517	180,109	53,912	209,476
Term Debt	160,644	147,939	41,335	146,551	39,543
Convertible debentures	79,000	79,000	79,000	79,000	79,000
Average total principal amount of debt outstanding	255,650	286,456	300,444	279,463	328,019

Total interest expense for the third quarter of 2022 decreased 5 percent when compared to the immediately preceding quarter primarily due to lower average bank debt during the period, partially offset by higher average term debt during the period.

Interest expense for the three months ended September 30, 2022 increased 6 percent as compared to the same period of 2021 due to significantly higher average term debt during the period with a higher effective interest rate than bank debt, partially offset by lower average bank debt during the period. Total interest expense for the nine months ended September 30, 2022 decreased 4 percent as compared to the same period of 2021 due to lower average bank debt during the period, partially offset by higher average term debt during the period.

Total finance expense includes accretion, representing the change in the time value of the decommissioning liability, term debt and convertible debentures as well as unrealized gains and losses on financial interest contracts. Accretion expense for the second quarter of 2022 is comparable to the immediately preceding quarter and increased 46 percent and 48 percent as compared to the three and nine months ended September 30, 2021 primarily due to an increase in the discount rate used during the periods. The Company had a higher unrealized gain on financial interest contracts as compared to the nine months ended September 30, 2021 due to an increase in floating interest rates over the period.

NETBACKS

(\$ per boe, except production)	Three Months Ended			Nine Months Ended Sep 30,	
	Sep 30, 2022	Jun 30, 2022	Sep 30, 2021	2022	2021
Average production (boe per day)	21,380	21,003	17,642	20,981	16,456
Petroleum and natural gas revenue	91.16	111.44	64.76	98.02	59.36
Realized loss on commodity and FX contracts	(7.01)	(24.05)	(14.30)	(15.46)	(13.57)
Royalties	(17.27)	(19.74)	(9.55)	(17.48)	(7.80)
Net operating expenses	(19.31)	(19.16)	(16.83)	(19.25)	(17.57)
Transportation expenses	(1.30)	(1.62)	(1.11)	(1.47)	(1.03)
Operating netback	46.27	46.87	22.97	44.36	19.39
G&A expense	(2.14)	(2.19)	(2.06)	(2.17)	(2.08)
Interest expense	(3.30)	(3.58)	(3.78)	(3.47)	(4.60)
Adjusted funds flow	40.83	41.10	17.13	38.72	12.71

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

(\$000s except per boe)	Three Months Ended			Nine Months Ended Sep 30,	
	Sep 30, 2022	Jun 30, 2022	Sep 30, 2021	2022	2021
Stock-based compensation	2,076	1,893	898	5,847	4,096
Capitalized stock-based compensation	(768)	(683)	(267)	(2,146)	(1,356)
Net stock-based compensation	1,308	1,210	631	3,701	2,740
Net stock-based compensation \$ per boe	0.67	0.63	0.39	0.65	0.61

Net stock-based compensation expense for the third quarter of 2022 increased 8 percent when compared to the immediate preceding quarter due to expensing of awards vesting during the period, as well as additional awards being granted. For the three and nine months ended September 30, 2022, net stock-based compensation expense increased 107 percent and 35 percent as compared to the same periods of 2021 due to a higher number of awards outstanding and an increase in the Company's share price over the period.

The weighted average fair value of awards granted for the period ended September 30, 2022 is \$9.46 (2021 - \$5.07) per PSA granted and \$9.22 (2021 - \$5.05) per RSA. In the case of PSAs, the award value is adjusted for a payout multiplier which can range from 0.0 to 2.0 and is dependent on the performance of the Company relative to pre-defined corporate performance measures for a particular period.

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

	Number of restricted share awards	Number of performance share awards
Balance at December 31, 2021	1,625,461	2,116,952
Granted	633,685	527,194
Reinvested	19,199	25,758
Exercised	(709,635)	(428,795)
Forfeited	(73,556)	(19,862)
Balance at September 30, 2022	1,495,154	2,221,247

DEPLETION AND DEPRECIATION

(\$000s except per boe)	Three Months Ended			Nine Months Ended Sep 30,	
	Sep 30, 2022	Jun 30, 2022	Sep 30, 2021	2022	2021
Depletion and depreciation expense	38,223	36,023	31,499	109,686	74,688
\$ per boe	19.43	18.85	19.41	19.15	16.62

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

Depletion and depreciation expense for the three months ended September 30, 2022 increased 6 percent when compared to the immediate preceding quarter due to higher production and capital additions. Depletion and depreciation expense for the three and nine months ended September 30, 2022 increased 21 percent and 47 percent compared to the same periods of 2021 due to an increase in the depletable base as a result of the fourth quarter 2021 impairment reversal and the acquisitions of Astra and Fire Sky in the second half of 2021.

NET INCOME

(\$000s except per share)	Three Months Ended			Nine Months Ended Sep 30,	
	Sep 30, 2022	Jun 30, 2022	Sep 30, 2021	2022	2021
Net income	78,057	72,027	67,612	128,216	364,740
Per share - basic (\$)	0.93	0.86	1.18	1.54	7.82
Per share - diluted (\$)	0.91	0.83	1.15	1.49	7.63

The Company realized higher net income and net income per basic share for the third quarter of 2022 compared to the second quarter of 2022. This is primarily due to a higher unrealized gain on financial contracts combined with a lower realized loss on financial contracts in the period, partially offset by a decrease in the average realized price per barrel of oil in the period. The Company realized higher net income for the third quarter of 2022 compared to the same period of 2021 primarily due to an unrealized gain on financial contracts in the period as compared to an unrealized loss on financial contracts in 2021, combined with an increase in the average realized price per barrel of oil in the period.

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

CAPITAL EXPENDITURES

Capital Expenditure Summary

(\$000s)	Q1 2022	Q2 2022	Q3 2022	2022 YTD	2021 YTD	% Change
Land	920	13,164	252	14,336	833	nm ¹
Seismic	389	945	325	1,659	828	100 %
Drilling and completions	29,698	16,082	28,865	74,645	54,557	37 %
Facilities, equipment and pipelines	10,580	5,079	11,432	27,091	21,168	28 %
Other	1,381	1,620	1,484	4,485	3,944	14 %
Expenditures on property, plant and equipment	42,968	36,890	42,358	122,216	81,330	50 %
Acquisitions - share based	—	—	—	—	90,000	nm
Cash from dispositions	—	(32)	—	(32)	(102,591)	nm
Net acquisitions & dispositions	—	(32)	—	(32)	(12,591)	nm
Net capital expenditures	42,968	36,858	42,358	122,184	68,739	78 %

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

During the third quarter of 2022, Surge invested a total of \$42.4 million, excluding acquisitions and dispositions.

During the third quarter of 2022, Surge invested \$28.9 million to drill and complete 9 gross (9.0 net) wells in Southeast Alberta ("Sparky") and 17 gross (11.7 net) wells in Southeast Saskatchewan and \$11.4 million to equip and tie-in wells drilled in 2022. An additional \$2.1 million was spent on land, seismic and other capital items during the quarter.

FACTORS THAT HAVE CAUSED VARIATIONS OVER THE QUARTERS

The fluctuations in Surge's revenue and net earnings from quarter to quarter are primarily caused by changes in production volumes, changes in realized commodity prices and the related impact on royalties, realized and unrealized gains or losses on derivative instruments, and changes in impairment charges and non-cash items. The change in production from the fourth quarter of 2020 through the current quarter is due to Surge's drilling programs and acquisitions and dispositions over that period. Please refer to the Financial and Operating Results section and other sections of this MD&A for detailed discussions on variations during the comparative quarters and to Surge's previously issued interim and annual MD&A's for changes in prior quarters.

Share Capital and Option Activity

	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Weighted common shares	83,626,295	83,357,221	83,357,221	79,468,797
Dilutive instruments (treasury method)	2,413,802	2,917,383	—	1,108,395
Weighted average diluted shares outstanding	86,040,097	86,274,604	83,357,221	80,577,192
	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Weighted common shares	57,379,790	42,444,687	39,974,675	39,974,675
Dilutive instruments (treasury method)	1,242,800	1,348,020	—	—
Weighted average diluted shares outstanding	58,622,590	43,792,707	39,974,675	39,974,675

On November 1, 2022, Surge had 83,977,382 common shares, 2,221,247 PSAs, and 1,495,154 RSAs outstanding.

Quarterly Financial Information

	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Oil, Natural gas & NGL sales	179,297	212,999	169,124	143,381
Net income (loss)	78,057	72,027	(21,868)	42,868
Net income (loss) per share (\$):				
Basic	0.93	0.86	(0.26)	0.54
Diluted	0.91	0.83	(0.26)	0.53
Cash flow from operating activities	69,170	75,798	52,182	50,417
Cash flow from operating activities per share (\$):				
Basic	0.83	0.91	0.63	0.63
Diluted	0.80	0.88	0.63	0.63
Adjusted funds flow	80,294	78,561	62,893	43,320
Adjusted funds flow per share (\$):				
Basic	0.96	0.94	0.75	0.55
Diluted	0.93	0.91	0.75	0.54
Average daily sales				
Oil (bbls/d)	17,639	17,110	16,760	17,192
NGL (bbls/d)	647	799	691	720
Natural gas (mcf/d)	18,561	18,565	18,592	19,503
Barrels of oil equivalent (boe per day) (6:1)	21,380	21,003	20,550	21,163
Average sales price				
Natural gas (\$/mcf)	5.21	6.86	4.56	4.75
Oil (\$/bbl)	102.59	126.19	104.38	82.84
NGL (\$/bbl)	65.91	67.95	65.17	58.10
Barrels of oil equivalent (\$/boe)	91.16	111.44	91.45	73.65

Quarterly Financial Information

	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Oil, Natural gas & NGL sales	105,104	80,844	80,694	59,907
Net income (loss)	67,612	307,113	(9,985)	(57,727)
Net income (loss) per share (\$):				
Basic	1.18	7.24	(0.25)	(1.44)
Diluted	1.15	7.01	(0.25)	(1.44)
Cash flow from operating activities	26,263	8,254	15,550	11,000
Cash flow from operating activities per share (\$):				
Basic	0.46	0.19	0.39	0.28
Diluted	0.46	0.19	0.39	0.28
Adjusted funds flow	27,804	13,557	15,757	8,467
Adjusted funds flow per share (\$):				
Basic	0.48	0.32	0.39	0.21
Diluted	0.47	0.31	0.39	0.21
Average daily sales				
Oil (bbls/d)	14,264	12,202	13,422	13,788
NGL (bbls/d)	575	521	583	726
Natural gas (mcf/d)	16,815	14,456	15,462	17,050
Barrels of oil equivalent (boe per day) (6:1)	17,642	15,132	16,582	17,356
Average sales price				
Natural gas (\$/mcf)	3.34	2.01	6.32	1.66
Oil (\$/bbl)	74.12	68.81	57.91	43.80
NGL (\$/bbl)	50.31	38.53	37.12	26.14
Barrels of oil equivalent (\$/boe)	64.76	58.74	54.07	37.52

LIQUIDITY AND CAPITAL RESOURCES

On September 30, 2022, Surge had \$9.8 million drawn on its credit facilities, \$155.2 million drawn on its term facility, excluding unamortized issue costs, \$79.0 million principal amount of convertible subordinated unsecured debentures ("Debentures"), and total net debt of \$264.3 million, a decrease in total net debt of 17 percent compared to the same date in 2021. At September 30, 2022, Surge had approximately \$140.2 million of borrowing capacity in relation to the \$150.0 million credit facilities. The following table sets forth the consolidated capitalization of Surge and the change in the components of the Debentures:

Consolidated Capitalization

(\$000s)	Outstanding as at Sep 30, 2022
Shareholder Equity	
Share capital	1,656,394
Common shares outstanding	83,977
Debentures - equity	6,266
Debt	
Credit Facilities	
Total Commitment	150,000
Amount drawn	9,758
Term Facility	
Total Commitment	160,000
Amount drawn	155,180
Amount drawn net of unamortized issue costs	150,780
Emissions Reduction Fund	7,066
Other Term Debt	1,263
Debentures - liability	76,197

Convertible Debentures

	Number of convertible debentures	Liability Component (\$000s)	Equity Component (\$000s)
Balance at December 31, 2020	79,000	71,181	6,266
Accretion of discount	—	2,754	—
Balance at December 31, 2021	79,000	73,935	6,266
Accretion of discount	—	2,262	—
Balance at September 30, 2022	79,000	76,197	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 September 30, 2022
Bank debt	(9,758)
Term debt	(159,108)
Accounts receivable	62,984
Prepaid expenses and deposits	3,055
Accounts payable and accrued liabilities	(82,298)
Dividends payable	(2,939)
Convertible debentures	(76,197)
Total	(264,261)

Bank Debt

As at September 30, 2022, the Company had a total commitment of \$150 million, being the aggregate of a committed revolving term facility of \$120 million and an operating loan facility of \$30 million, with a syndicate of lenders. A review and redetermination of the borrowing base is scheduled to occur semi-annually on or before June 30 and November 30 of each year, with the option of the facilities being extended for a further 364-day period at the request of the Company and subject to the approval of the syndicate. The maturity of the First Lien Credit Facility has been extended through to May 31, 2024.

Term Debt

As at September 30, 2022, the Company had a term loan of \$155.2 million, excluding unamortized issue costs. The loan is a five year, non-revolving second lien term facility, maturing on December 9, 2026. A portion of the principal amount is repayable in scheduled quarterly repayments, which commenced on March 31, 2022. The Company is required to make an additional principal repayment of \$0.8 million in each calendar month in which a shareholder distribution is paid.

Financial Covenants

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

Emissions Reduction Fund

As at September 30, 2022, the Company had a \$7.1 million (December 31, 2021 - \$6.6 million) loan repayable relating to the Government of Canada Emissions Reduction Fund ("ERF"). As at September 30, 2022, the Company has received \$9.8 million (December 31, 2021 - \$1.04 million) of funds from ERF for the Company's planned gas emissions reduction program.

RELATED-PARTY AND OFF-BALANCE-SHEET TRANSACTIONS

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

CONTRACTUAL OBLIGATIONS

During the second quarter, the Company signed a new office lease agreement. During the period, the Company signed an amended agreement for the same office lease. The ten year office lease, commences in the fourth quarter of 2022, for a total commitment of \$20.8 million.

FINANCIAL INSTRUMENTS

The following table summarizes the Company's financial derivatives as at November 1, 2022 by period and by product.

Commodity Contracts

West Texas Intermediate Crude Oil Derivative Contracts (WTI)

Period	Swaps		Collars		
	Volumes (bbls/d)	Average Price (CAD/bbl)	Volumes (bbls/d)	Average Bought Put (CAD/bbl)	Average Sold Call (CAD/bbl)
Qtr. 4 2022	4,000	\$83.85	2,500	\$82.86	\$114.10
Qtr. 1 2023	—	—	5,500	\$82.24	\$148.29
Qtr. 2 2023	—	—	5,665	\$89.77	\$184.57
Qtr. 3 2023	—	—	4,500	\$89.77	\$201.02
Qtr. 4 2023	337	89.77	3,321	\$86.32	\$143.36

Western Canadian Select Derivative Contracts (WCS)

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

Mixed Sweet Blend Derivative Contracts (MSW)

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

Natural Gas Derivative Contracts

Period	NYMEX Collars			NYMEX - AECO Basis Swaps		AECO Swaps		AECO Collars		
	Volumes (MMBtu/d)	Average Bought Put (CAD/MMBtu)	Average Sold Call (CAD/MMBtu)	Volumes (MMBtu/d)	Average Price (CAD/MMBtu)	Average Bought Put (CAD/GJ)	Average Sold Call (CAD/GJ)	Volumes (GJ/d)	Average Bought Put (CAD/GJ)	Average Sold Call (CAD/GJ)
Qtr. 4 2022	—	—	—	—	—	4,500	\$3.48	2,500	\$2.90	\$3.67
Qtr. 1 2023	—	—	—	—	—	4,000	\$3.66	2,000	\$2.90	\$3.91
Qtr. 2 2023	1,000	\$5.52	\$11.39	1,000	\$(1.85)	—	—	4,000	\$2.75	\$3.67
Qtr. 3 2023	3,000	\$5.52	\$11.39	3,000	\$(1.99)	—	—	2,000	\$2.75	\$3.73
Qtr. 4 2023	4,326	\$5.52	\$11.92	4,326	\$(2.07)	—	—	674	\$2.75	\$3.73
Qtr. 1 2024	2,000	\$5.52	\$13.12	2,000	\$(2.26)	—	—	—	—	—

Foreign Currency Exchange Derivative Contracts

Type	Term	Notional Amount (USD\$)	Floor	Ceiling
Average Rate Collar	Oct 2022 - Dec 2023	\$5,000,000	1.3420	1.4000

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 <ul style="list-style-type: none"> • 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

During the period, the Company announced the issuance of a notice of redemption to holders of its outstanding \$44.5 million 5.75% Convertible Unsecured Subordinated Debentures due December 31, 2022. On October 28, 2022, the Company redeemed all of the aggregate principal amount of the Debentures for cash.

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 September 30, 2022 that materially affected, or are reasonably likely to materially affect, the Company's DC&P.

Internal Controls Over Financial Reporting

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

1. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Company;
2. are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made in accordance with authorizations of management and Directors of Surge; and
3. are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

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

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

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

CRITICAL ACCOUNTING ESTIMATES

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

Reserves

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

Forecasted Oil and Gas Commodity Prices

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

Business Combinations

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

Decommissioning Liability

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

Derivative Financial Instruments

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

Stock-based Compensation

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

Deferred Income Taxes

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

Leases

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

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

RISK FACTORS

Additional risk factors can be found under “Matters Relating to the COVID-19 Pandemic” in this MD&A or under “Risk Factors” in the Company’s AIF for the year ended December 31, 2021, which can be found on www.sedar.com. Many risks are discussed below and in the AIF, but these risk factors should not be construed as exhaustive. There are numerous factors, both known and unknown, that could cause actual results or events to differ materially from forecast results.

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

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

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

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

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

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

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

BOE PRESENTATION

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

FORWARD-LOOKING STATEMENTS

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

More particularly, this MD&A contains statements concerning: the anticipated timing of wells being brought on to production; forecast commodity prices, inflation rates and currency prices; the impact of fluctuations in oil or natural gas prices on the Company's operations and financial condition and the value and amount of its reserves; the Company's long term prospects and business plan; Surge's assets and the characteristics thereof; management's beliefs regarding the estimates of the future values for certain of the Company's assets and liabilities; the underlying causes of the fluctuations in Surge's revenue and net earnings from quarter to quarter; fair value of forward contracts, swaps, options and costless collars entered into by the Company; expected payments and forfeiture rates of RSAs and PSAs granted under the

Company's Stock Incentive Plan; expectations with respect to its underlying decommissioning liabilities; the Company's plans for funding its future capital requirements; the ongoing assessment of management and the Board of market conditions and other relevant considerations; and factors affecting the royalty rates applicable to the Company.

The forward-looking statements are based on certain key expectations and assumptions made by Surge, including expectations and assumptions concerning the performance of existing wells and success obtained in drilling new wells, anticipated expenses, cash flow and capital expenditures, compliance with and application of regulatory and royalty regimes, prevailing commodity prices and economic conditions, recoverable and carrying value of certain assets, the financial assumptions used by Surge's reserve evaluators in assessing potential impairment of Surge assets; development and completion activities and the costs relating thereto, the performance of new wells, the successful implementation of waterflood programs, the availability of and performance of facilities and pipelines, the geological characteristics of Surge's properties and any acquired assets, the successful application of drilling, completion and seismic technology, the determination of decommissioning liabilities, the ability to obtain approval from syndicate to increase or maintain its credit facilities; prevailing weather conditions, exchange rates, licensing requirements, the impact of completed facilities on operating costs, and the availability, costs of capital, labour and services, and the creditworthiness of industry partners.

Although Surge believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Surge can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the condition of the global economy, including trade, public health (including the impact of COVID-19) and other geopolitical risks; risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; inability of Surge to fund its future capital requirements; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks); commodity price and exchange rate fluctuations and constraint in the availability of services, adverse weather or break-up conditions; uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures; failure to obtain the continued support of the lenders under Surge's current bank line; potential decrease in the available lending limits under Surge's bank line as a result of the syndicate's interpretation of the Company's reserves, commodity prices and decommissioning obligations; or the inability to obtain consent of lenders to increase or maintain the bank line. Certain of these risks are set out in more detail in this MD&A under the headings 'Matters Relating to the COVID-19 Pandemic' and 'Risk Factors' herein and in Surge's AIF dated March 9, 2022 which has been filed on SEDAR and can be accessed at www.sedar.com.

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

NON-GAAP AND OTHER FINANCIAL MEASURES

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

Adjusted Funds Flow & Adjusted Funds Flow per Share

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

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

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

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

(\$000s except per share)	Three Months Ended			Nine Months Ended Sep 30,	
	Sep 30, 2022	Jun 30, 2022	Sep 30, 2021	2022	2021
Cash flow from operating activities	69,170	75,798	26,263	197,150	50,067
Change in non-cash working capital	7,164	2,198	(2,866)	18,423	(2,485)
Decommissioning expenditures	3,532	501	2,105	5,528	4,649
Cash settled transaction and other costs	428	64	2,303	647	4,888
Adjusted funds flow	\$ 80,294	\$ 78,561	\$ 27,804	\$ 221,748	\$ 57,118
Per share - basic	\$ 0.96	\$ 0.94	\$ 0.48	\$ 2.66	\$ 1.22

Net Debt

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

(\$000s)	As at		
	Sep 30, 2022	Jun 30, 2022	Sep 30, 2021
Bank debt	(9,758)	(22,254)	(189,371)
Term debt	(159,108)	(162,180)	(47,203)
Accounts receivable	62,984	80,589	58,968
Prepaid expenses and deposits	3,055	4,227	4,044
Accounts payable and accrued liabilities	(82,298)	(102,172)	(73,009)
Convertible debentures	(76,197)	(75,423)	(73,219)
Dividends payable	(2,939)	(2,918)	—
Total	(264,261)	(280,131)	(319,790)

Operating Netback & Adjusted Funds Flow per boe

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

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

(\$000s)	Three Months Ended			Nine Months Ended Sep 30,	
	Sep 30, 2022	Jun 30, 2022	Sep 30, 2021	2022	2021
Petroleum and natural gas revenue	179,297	212,999	105,104	561,420	266,682
Processing income	1,941	1,569	978	5,316	3,239
Royalties	(33,964)	(37,734)	(15,501)	(100,099)	(35,051)
Realized loss on commodity and FX contracts	(13,790)	(45,966)	(23,209)	(88,565)	(60,942)
Operating expenses	(39,920)	(38,189)	(28,288)	(115,563)	(82,156)
Transportation expenses	(2,554)	(3,095)	(1,798)	(8,426)	(4,630)
Operating netback	91,010	89,584	37,286	254,083	87,142
G&A expense	(4,218)	(4,186)	(3,346)	(12,436)	(9,344)
Interest expense	(6,498)	(6,837)	(6,135)	(19,899)	(20,679)
Adjusted funds flow	80,294	78,561	27,804	221,748	57,118
Barrels of oil equivalent (boe)	1,966,876	1,911,258	1,623,036	5,727,563	4,492,511
Operating netback (\$ per boe)	\$ 46.27	\$ 46.87	\$ 22.97	\$ 44.36	\$ 19.39
Adjusted funds flow (\$ per boe)	\$ 40.83	\$ 41.10	\$ 17.13	\$ 38.72	\$ 12.71

Net Operating Expenses

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