

**FINANCIAL AND OPERATING SUMMARY**

(\$000s except per share amounts)

	Three Months Ended			Years Ended December 31,		
	Dec 31, 2022	Sep 30, 2022	% Change	2022	2021	% Change
<b>Financial highlights</b>						
Oil sales	152,465	166,487	(8)%	672,862	374,658	80 %
NGL sales	3,871	3,920	(1)%	16,783	10,283	63 %
Natural gas sales	9,472	8,890	7 %	37,583	25,122	50 %
Total oil, natural gas, and NGL revenue	165,808	179,297	(8)%	727,228	410,063	77 %
Cash flow from operating activities	78,975	69,170	14 %	276,125	100,484	175 %
Per share - basic (\$)	0.90	0.83	8 %	3.26	1.83	78 %
Per share diluted (\$)	0.88	0.80	10 %	3.17	1.79	77 %
Adjusted funds flow <sup>1</sup>	71,807	80,294	(11)%	293,555	100,438	192 %
Per share - basic (\$) <sup>1</sup>	0.82	0.96	(15)%	3.47	1.83	90 %
Per share diluted (\$)	0.80	0.93	(14)%	3.37	1.79	88 %
Net income	103,502	78,057	33 %	231,718	407,608	(43)%
Per share basic (\$)	1.17	0.93	26 %	2.74	7.42	(63)%
Per share diluted (\$)	1.15	0.91	26 %	2.66	7.28	(63)%
Expenditures on property, plant and equipment	47,728	42,358	13 %	169,944	103,786	64 %
Net acquisitions and dispositions	200,302	—	— %	200,270	65,413	206 %
Net capital expenditures	248,030	42,358	486 %	370,214	169,199	119 %
Net debt <sup>1</sup> , end of period	352,213	264,261	33 %	352,213	331,434	6 %
<b>Operating highlights</b>						
Production:						
Oil (bbls per day)	18,127	17,639	3 %	17,413	14,280	22 %
NGLs (bbls per day)	695	647	7 %	708	600	18 %
Natural gas (mcf per day)	19,647	18,561	6 %	18,844	16,571	14 %
Total (boe per day) (6:1)	22,097	21,380	3 %	21,262	17,642	21 %
Average realized price (excluding hedges):						
Oil (\$ per bbl)	91.43	102.59	(11)%	105.87	71.88	47 %
NGL (\$ per bbl)	60.51	65.91	(8)%	64.96	46.95	38 %
Natural gas (\$ per mcf)	5.24	5.21	1 %	5.46	4.15	32 %
<b>Netback (\$ per boe)</b>						
Petroleum and natural gas revenue	81.56	91.16	(11)%	93.71	63.68	47 %
Realized loss on commodity and FX contracts	(4.71)	(7.01)	(33)%	(12.65)	(14.29)	(11)%
Royalties	(13.50)	(17.27)	(22)%	(16.44)	(9.08)	81 %
Net operating expenses <sup>1</sup>	(20.98)	(19.31)	9 %	(19.70)	(17.37)	13 %
Transportation expenses	(1.40)	(1.30)	8 %	(1.45)	(1.10)	32 %
Operating netback <sup>1</sup>	40.97	46.27	(11)%	43.47	21.84	99 %
G&A expense	(2.06)	(2.14)	(4)%	(2.14)	(2.06)	4 %
Interest expense	(3.59)	(3.30)	9 %	(3.50)	(4.19)	(16)%
Adjusted funds flow <sup>1</sup>	35.32	40.83	(13)%	37.83	15.59	143 %
Common shares outstanding, end of period						
	96,477	83,977	15 %	96,477	83,357	16 %
Weighted average basic shares outstanding						
	88,094	83,626	5 %	84,619	54,931	54 %
Stock based compensation dilution						
	2,097	2,414	(13)%	2,404	1,061	127 %
Weighted average diluted shares outstanding						
	90,191	86,040	5 %	87,023	55,992	55 %

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.

## 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 months and years ended December 31, 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](http://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 March 8, 2023.

### Matters Relating to Economic Uncertainty

Estimates are more difficult to determine, and the range of potential outcomes can be wider, in periods of higher volatility and uncertainty. The impacts of the COVID-19 pandemic and the recovery therefrom coupled with several factors including higher levels of uncertainty due to the Russian invasion of Ukraine and its impact on energy markets, rising interest and inflation rates, and constrained supply chains have created a higher level of volatility and uncertainty. Management has, to the extent reasonable, incorporated known facts and circumstances into the estimates made, however, actual results could differ from those estimates and those differences could be material.

### Evolving Demand for Energy

#### (a) Changing Regulation

Emissions, carbon and other regulations impacting climate and climate-related matters are dynamic and constantly evolving. With respect to environmental, social and governance ("ESG") and climate reporting, the International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators have issued a proposed national instrument 51-107 Disclosure of Climate-related Matters. The cost to comply with these standards, and others that may be developed or evolve over time, has not yet been quantified by the Company.

#### (b) Impairment and Impairment Reversal

The Company has considered the impact of the evolving worldwide demand for energy and global advancement of alternative sources of energy that are not sourced from fossil fuels in its assessment of impairment and impairment reversal on its property, plant and equipment, both as a possible indication of impairment and as part of the estimates and judgements involved in testing for impairment and impairment reversal. The estimated recoverable amount of the Company's property, plant and equipment was based on proved and probable reserves, the life of which is generally less than 20 years. The ultimate period in which global energy markets can transition from carbon based sources to alternative energy is highly uncertain, however, the majority of the cash flows associated with proved and probable reserves per the 2022 reserve report should be realized prior to the elimination of carbon based energy.

A specific adjustment to the recoverable amount of the fair value of property, plant and equipment acquired in a business combination to account for the risk of the evolving demand for energy was not considered necessary, however, the recoverable amount/fair value is based on an estimated period of cash flows that indirectly reflects changing energy demands and the discount rate applied in the impairment test incorporates the current cost of capital in the energy industry which indirectly reflects current market trends and uncertainty around the evolving demand for energy and climate change.

The carrying amount of the net assets of the Company was compared to the Company's market capitalization. As such, climate risk, to the extent it has been factored into the trading price of the Company's common shares by the market, was also considered in the impairment assessment of the recoverable amount. The ultimate period in which global energy markets can transition from carbon based sources to alternative energy is highly uncertain.

**(c) Reserves**

The Company engages a third party external reserve engineer to prepare the reserve report. The reserve report includes anticipated impacts from emissions related taxes and carbon pricing. Most notably, the reserve report includes the estimated carbon charge related to the Company's operations based on current legislated rates.

**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			Years Ended Dec 31,	
	Dec 31, 2022	Sep 30, 2022	Dec 31, 2021	2022	2021
Cash flow from operating activities	<b>78,975</b>	69,170	50,417	<b>276,125</b>	100,484
Per share - basic (\$)	<b>0.90</b>	0.83	0.63	<b>3.26</b>	1.83
Per share - diluted (\$)	<b>0.88</b>	0.80	0.63	<b>3.17</b>	1.79
\$ per boe	<b>38.85</b>	35.17	25.90	<b>35.58</b>	15.60
Adjusted funds flow	<b>71,807</b>	80,294	43,320	<b>293,555</b>	100,438
Per share - basic (\$)	<b>0.82</b>	0.96	0.55	<b>3.47</b>	1.83
Per share - diluted (\$)	<b>0.80</b>	0.93	0.54	<b>3.37</b>	1.79
\$ per boe	<b>35.32</b>	40.83	22.25	<b>37.83</b>	15.59

Cash flow from operating activities for the fourth quarter of 2022 increased 14 percent when compared to the third quarter of 2022 and increased 57 percent when compared to the fourth quarter of 2021. On a per basic share basis, cash flow from operating activities increased 8 percent compared to the third quarter of 2022 and increased 43 percent compared to the fourth quarter of 2021. Cash flow from operating activities for the year ended December 31, 2022 increased 175 percent when compared to the same period of the prior year and increased 78 percent on a per basic share basis.

Adjusted funds flow for the fourth quarter of 2022 decreased 11 percent when compared to the third quarter of 2022 and increased 66 percent when compared to the fourth quarter of 2021. On a per basic share basis, adjusted funds flow decreased 15 percent when compared to the third quarter of 2022 and increased 49 percent compared to the fourth quarter of 2021. Adjusted funds flow for the year ended December 31, 2022 increased 192 percent when compared to the same period of the prior year and increased 90 percent on a per basic share basis.

Adjusted funds flow for the fourth quarter of 2022 decreased when compared to the third quarter of 2022 primarily due to a decrease in petroleum and natural gas revenue as a result of an 11 percent decrease in realized oil price, correlating to the 10 percent decrease in benchmark oil pricing during the period.

The increase in cash flow from operating activities for the three months and year ended December 31, 2022 when compared to the same period of the prior year is primarily a result of an increase in petroleum and natural gas revenue as crude oil pricing recovered throughout the period and the Company realized a full quarter and year end with the production from the acquisitions of Astra Oil Corp. and Fire Sky Energy. The increase was further realized in part due to a smaller realized loss on financial contracts in 2022 as compared to the realized loss on financial contracts during the year ended December 31, 2021.

See the following Operations section for additional information regarding the cash flow and operating results of the Company for the three months and year ended December 31, 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 %
Q4 2022	24.0	17.9	100 %	75 %
<b>Total</b>	<b>83.0</b>	<b>69.1</b>	<b>100 %</b>	<b>83 %</b>

Surge achieved a 100 percent success rate during the year ended December 31, 2022, drilling 7 gross (7.0 net) wells in Southeast Alberta ("Sparky") and 17 gross (10.9 net) wells in Southeast Saskatchewan during the fourth quarter.

### Production

	Three Months Ended			Years Ended Dec 31,	
	Dec 31, 2022	Sep 30, 2022	Dec 31, 2021	2022	2021
Oil (bbls per day)	<b>18,127</b>	17,639	17,192	<b>17,413</b>	14,280
NGL (bbls per day)	<b>695</b>	647	720	<b>708</b>	600
Oil and NGL (bbls per day)	<b>18,822</b>	18,286	17,912	<b>18,121</b>	14,880
Natural gas (mcf per day)	<b>19,647</b>	18,561	19,503	<b>18,844</b>	16,571
Total (boe per day) (6:1)	<b>22,097</b>	21,380	21,163	<b>21,262</b>	17,642
% Oil and NGL	<b>85 %</b>	86 %	85 %	<b>85 %</b>	84 %

Surge averaged production of 22,097 boe per day in the fourth quarter of 2022 (85 percent oil and NGLs), a 3 percent increase compared to the average production rate in the third quarter of 2022 and a 4 percent increase from the average production rate in the same period of 2021. The increase in production is primarily the result of the acquisition of certain assets from Enerplus Corp., which closed on December 19, 2022 and added approximately 500 boe per day in the fourth quarter of 2022. Additionally, the increase in production can also be attributed to a successful fourth quarter drilling program, offsetting natural declines during the period.

During the year ended December 31, 2022, Surge achieved production of 21,262 boe per day (85 percent oil and NGLs), a 21 percent increase when compared to the prior year. The increase in production is primarily due to production additions from the acquisitions of Astra and Fire Sky, contributing approximately 5,000 boe per day for the year ended December 31, 2022 as compared to 1,700 boe per day for the year ended December 31, 2021. The asset acquisition in the fourth quarter of 2022 and a successful 2022 drilling program further offset natural production declines during the year.

**Petroleum and Natural Gas Revenue, Realized Prices and Benchmark Pricing**

(\$000s except per amount)	Three Months Ended			Years Ended Dec 31,	
	Dec 31, 2022	Sep 30, 2022	Dec 31, 2021	2022	2021
<b>Petroleum and Natural Gas Revenue</b>					
Oil	152,465	166,487	131,019	672,862	374,658
NGL	3,871	3,920	3,846	16,783	10,283
Oil and NGL	156,336	170,407	134,865	689,645	384,941
Natural gas	9,472	8,890	8,516	37,583	25,122
Total petroleum and natural gas revenue	165,808	179,297	143,381	727,228	410,063
<b>Realized Prices</b>					
Oil (\$ per bbl)	91.43	102.59	82.84	105.87	71.88
NGL (\$ per bbl)	60.51	65.91	58.10	64.96	46.95
Oil and NGL (\$ per bbl)	90.28	101.30	81.84	104.27	70.87
Natural gas (\$ per mcf)	5.24	5.21	4.75	5.46	4.15
Total petroleum and natural gas revenue before realized commodity and FX contracts (\$ per boe)	81.56	91.16	73.65	93.71	63.68
<b>Benchmark Prices</b>					
WTI (US\$ per bbl)	82.65	91.56	77.19	94.23	67.92
CAD/USD exchange rate	1.36	1.31	1.26	1.30	1.26
WTI (C\$ per bbl)	112.40	119.94	97.26	122.50	85.58
Edmonton Light Sweet (C\$ per bbl)	109.91	116.84	93.14	120.04	80.08
WCS (C\$ per bbl)	77.09	93.50	78.55	98.42	68.69
AECO Daily Index (C\$ per mcf)	6.15	4.17	4.65	6.29	3.62
Chicago Citygate (US\$ per mmbtu)	5.11	7.38	4.59	5.31	5.19

Total petroleum and natural gas revenue for the fourth quarter of 2022 decreased 8 percent as compared to the third quarter of 2022. The decrease is primarily due to an 11 percent decrease in average realized oil and natural gas prices, correlating to the 10 percent decrease in WTI crude oil pricing. This decrease was partially offset by a 3 percent increase in production during the period.

Total petroleum and natural gas revenue for the three months and year ended December 31, 2022 increased 16 percent and 77 percent when compared to the same periods of 2021. The increase is primarily due to the strengthening of WTI resulting in an increase in average realized oil prices. Additionally, the Company realized a 32 percent increase in the average natural gas price during the year ended December 31, 2022, primarily attributable to a 74 percent increase in the Chicago Citygate natural gas price and a 2 percent increase to AECO.

## ROYALTIES

(\$000s except per boe)	Three Months Ended			Years Ended Dec 31,	
	Dec 31, 2022	Sep 30, 2022	Dec 31, 2021	2022	2021
Royalties	<b>27,449</b>	33,964	23,414	<b>127,548</b>	58,465
% of petroleum and natural gas revenue	<b>17 %</b>	19 %	16 %	<b>18 %</b>	14 %
\$ per boe	<b>13.50</b>	17.27	12.03	<b>16.44</b>	9.08

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 fourth quarter of 2022 decreased 11 percent when compared to the immediate preceding quarter, primarily as a result of a lower crude pricing environment.

Royalties as a percentage of revenue for the three months and year ended December 31, 2022 increased 6 percent and 29 percent as compared to the same periods of the prior year, primarily as a result of a higher crude oil pricing environment.

## NET OPERATING EXPENSES

(\$000s except per boe)	Three Months Ended			Years Ended Dec 31,	
	Dec 31, 2022	Sep 30, 2022	Dec 31, 2021	2022	2021
Operating expenses	<b>44,570</b>	39,920	34,257	<b>160,133</b>	116,413
Less processing income	<b>(1,926)</b>	(1,941)	(1,336)	<b>(7,242)</b>	(4,575)
Net operating expenses	<b>42,644</b>	37,979	32,921	<b>152,891</b>	111,838
\$ per boe	<b>20.98</b>	19.31	16.91	<b>19.70</b>	17.37

Total net operating expenses for the fourth quarter of 2022 increased 12 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, in addition to operating costs associated with the asset acquisition from Enerplus Corp. in the fourth quarter of 2022.

Total net operating expenses and net operating expenses per boe for the three months and year ended December 31, 2022 increased 30 percent and 37 percent as compared to the same periods of the prior year, primarily due to the acquisitions of Astra and Fire Sky in the second half of 2021 and the asset acquisition from Enerplus Corp. in the fourth quarter of 2022. On a per boe basis, operating expenses increased primarily as a result of cost escalation resulting from inflationary pressures during the year.

## TRANSPORTATION EXPENSES

(\$000s except per boe)	Three Months Ended			Years Ended Dec 31,	
	Dec 31, 2022	Sep 30, 2022	Dec 31, 2021	2022	2021
Transportation expenses	<b>2,846</b>	2,554	2,468	<b>11,272</b>	7,098
\$ per boe	<b>1.40</b>	1.30	1.27	<b>1.45</b>	1.10

Transportation expenses per boe for the fourth quarter of 2022 increased 8 percent when compared to the third quarter of 2022 primarily due to increased trucking for wells brought on production in the fourth quarter of 2022 that are not yet pipeline connected.

Transportation expenses per boe for the year ended December 31, 2022 increased 32 percent as compared to the same period of the prior year as a result of cost escalation resulting from inflationary pressures during the year.

**GENERAL AND ADMINISTRATIVE EXPENSES (G&A)**

(\$000s except per boe)	Three Months Ended			Years Ended Dec 31,	
	Dec 31, 2022	Sep 30, 2022	Dec 31, 2021	2022	2021
G&A expenses	<b>5,930</b>	5,659	4,868	<b>22,500</b>	17,427
Recoveries and capitalized amounts	<b>(1,740)</b>	(1,441)	(974)	<b>(5,874)</b>	(4,189)
Net G&A expenses	<b>4,190</b>	4,218	3,894	<b>16,626</b>	13,238
Net G&A expenses \$ per boe	<b>2.06</b>	2.14	2.00	<b>2.14</b>	2.06

Total net G&A expenses for the fourth quarter of 2022 are comparable to the immediate preceding quarter and increased 8 percent when compared to the fourth quarter of 2021. Total net G&A expenses increased 26 percent as compared to the year ended December 31, 2021.

Total net G&A expenses increased as compared to the fourth quarter and year ended December 31, 2021, primarily as a result of additional labour requirements to meet the Company's objectives following significant acquisitions and production growth throughout 2022.

**TRANSACTION AND OTHER COSTS**

(\$000s except per boe)	Three Months Ended			Years Ended Dec 31,	
	Dec 31, 2022	Sep 30, 2022	Dec 31, 2021	2022	2021
Transaction and other costs	<b>3,752</b>	510	2,436	<b>3,679</b>	5,417
\$ per boe	<b>1.85</b>	0.26	1.25	<b>0.47</b>	0.84

During the three months ended December 31, 2022, the Company incurred transaction and other costs primarily related to the acquisition of certain assets from Enerplus Corp., which closed on December 19, 2022. Additionally, during the fourth quarter of 2022, the Company was granted \$0.8 million through the Alberta Site Rehabilitation Program ("SRP") to pay service companies to complete abandonment and reclamation work.

During the year ended December 31, 2022, the Company incurred transaction and other costs related to the acquisition of certain assets from Enerplus Corp., debt settlement and restructuring and employee severance costs, partially offset by approximately \$3.3 million in SRP grants.

**FINANCE EXPENSES**

(\$000s except per boe)	Three Months Ended			Years Ended Dec 31,	
	Dec 31, 2022	Sep 30, 2022	Dec 31, 2021	2022	2021
Interest on bank debt	1,917	764	2,996	5,048	15,618
Interest on term debt	4,672	4,227	726	15,340	726
Interest on convertible debentures	784	1,222	1,222	4,449	4,888
Interest on lease and other obligations	622	529	625	2,291	2,810
Realized (gain) loss on interest contracts	(702)	(244)	748	63	2,954
<b>Total interest expense</b>	<b>7,293</b>	<b>6,498</b>	<b>6,317</b>	<b>27,191</b>	<b>26,996</b>
<b>\$ per boe</b>	<b>3.59</b>	<b>3.30</b>	<b>3.24</b>	<b>3.50</b>	<b>4.19</b>
Accretion expense	3,016	2,868	2,170	11,492	7,899
Unrealized (gain) loss on interest contracts	314	(474)	(1,639)	(3,946)	(4,730)
Other finance expenses	360	—	—	360	—
Paid in kind interest on term debt	—	—	274	—	1,735
<b>Total finance expense</b>	<b>10,983</b>	<b>8,892</b>	<b>7,122</b>	<b>35,097</b>	<b>31,901</b>
<b>\$ per boe</b>	<b>5.40</b>	<b>4.52</b>	<b>3.66</b>	<b>4.52</b>	<b>4.95</b>
<b>Average principal amount</b>					
Bank Debt	20,177	16,006	143,719	64,331	179,487
Term Debt	207,570	160,644	62,975	195,013	45,449
Convertible debentures	56,750	79,000	79,000	56,750	79,000
<b>Average total principal amount of debt outstanding</b>	<b>284,497</b>	<b>255,650</b>	<b>285,694</b>	<b>316,094</b>	<b>303,936</b>

Total interest expense for the fourth quarter of 2022 increased 12 percent when compared to the third quarter of 2022 primarily due to higher average bank debt and term debt during the period.

Total interest expense for the fourth quarter of 2022 increased 15 percent when compared to the same period of 2021 primarily due to higher average term debt during the period with a higher effective interest rate than bank debt, partially offset by lower average bank debt during the period. Total interest expense for the year ended December 31, 2022 was comparable to the same period of December 31, 2021.

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 and paid in kind interest on term debt. Accretion expense for the fourth quarter of 2022 increased 5 percent as compared to the third quarter of 2022 and accretion expense for the three months and year ended December 31, 2022 increased 39 percent and 45 percent as compared to the same periods of 2021 primarily due to an increase in the discount rate used during the periods, in addition to certain assets and their associated decommissioning liabilities being acquired from Enerplus Corp. during the fourth quarter of 2022.



**NETBACKS**

(\$ per boe, except production)	Three Months Ended			Years Ended Dec 31,	
	Dec 31, 2022	Sep 30, 2022	Dec 31, 2021	2022	2021
Average production (boe per day)	<b>22,097</b>	21,380	21,163	<b>21,262</b>	17,642
Petroleum and natural gas revenue	<b>81.56</b>	91.16	73.65	<b>93.71</b>	63.68
Realized loss on commodity and FX contracts	<b>(4.71)</b>	(7.01)	(15.95)	<b>(12.65)</b>	(14.29)
Royalties	<b>(13.50)</b>	(17.27)	(12.03)	<b>(16.44)</b>	(9.08)
Net operating expenses	<b>(20.98)</b>	(19.31)	(16.91)	<b>(19.70)</b>	(17.37)
Transportation expenses	<b>(1.40)</b>	(1.30)	(1.27)	<b>(1.45)</b>	(1.10)
<b>Operating netback</b>	<b>40.97</b>	46.27	27.49	<b>43.47</b>	21.84
G&A expense	<b>(2.06)</b>	(2.14)	(2.00)	<b>(2.14)</b>	(2.06)
Interest expense	<b>(3.59)</b>	(3.30)	(3.24)	<b>(3.50)</b>	(4.19)
<b>Adjusted funds flow</b>	<b>35.32</b>	40.83	22.25	<b>37.83</b>	15.59

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			Years Ended Dec 31,	
	Dec 31, 2022	Sep 30, 2022	Dec 31, 2021	2022	2021
Stock-based compensation	<b>2,011</b>	2,076	1,777	<b>7,858</b>	5,873
Capitalized stock-based compensation	<b>(787)</b>	(768)	(595)	<b>(2,933)</b>	(1,951)
Net stock-based compensation	<b>1,224</b>	1,308	1,182	<b>4,925</b>	3,922
Net stock-based compensation \$ per boe	<b>0.60</b>	0.67	0.61	<b>0.63</b>	0.61

Net stock-based compensation expense for the fourth quarter of 2022 decreased 6 percent when compared to the immediate preceding quarter and increased 4 percent when compared to the same period of the prior year. Net stock-based compensation expense for the year ended December 31, 2022 increased 26 percent as compared to the prior year, primarily due to supplemental restricted and performance share grants resulting from additional labour requirements to meet the Company's objectives following significant acquisitions and production growth throughout the second half of 2021 and calendar year 2022.

The stock-based compensation recorded in the year ended December 31, 2022 relates to the restricted share award ("RSA") and PSA 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 7.6% (2021 - 9.5%) for PSAs and 7.2% (2021 - 8.0%) for RSAs was used to value all awards granted for the period ended December 31, 2022. The weighted average fair value of awards granted for the period ended December 31, 2022 is \$9.46 (2021 - \$5.07) per PSA and \$9.24 (2021 - \$5.04) per RSA. In the case of PSAs, the award value is adjusted for a payout multiplier which can range from 0.0 to 2.0 and is dependent on the performance of the Company relative to pre-defined corporate performance measures for a particular period. On the vesting dates, the Company has the option of settling the award value in cash or common shares of the Company. For purposes of stock-based compensation a payout multiple of 1.0 was assumed for the PSAs granted during the period.

During the period ended December 31, 2022 the Company settled the tax withholdings on certain exercised awards amounting to 205,834 PSAs and 312,434 RSAs (2021 - nil) for \$4.8 million in cash.

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	648,135	529,944
Reinvested	36,406	51,433
Exercised	(722,635)	(428,795)
Forfeited	(121,988)	(55,510)
<b>Balance at December 31, 2022</b>	<b>1,465,379</b>	<b>2,214,024</b>

### DEPLETION AND DEPRECIATION

(\$000s except per boe)	Three Months Ended			Years Ended Dec 31,	
	Dec 31, 2022	Sep 30, 2022	Dec 31, 2021	2022	2021
Depletion and depreciation expense	<b>32,630</b>	38,223	37,529	<b>142,316</b>	112,217
\$ per boe	<b>16.05</b>	19.43	19.28	<b>18.34</b>	17.43

Depletion and depreciation are calculated based on total capital expenditures (including acquisitions and dispositions), production rates and proved and probable oil and gas reserves. Deducted from the Company's fourth quarter of 2022 depletion and depreciation calculation are costs associated with salvage values of \$83.4 million. Future development costs for proved and probable oil and gas reserves of 1,075.1 million have been included in the depletion calculation.

Depletion and depreciation expense for the three months ended December 31, 2022 decreased 15 percent and 13 percent when compared to the third quarter of 2022 and same period of the prior year primarily due to the Company recording a recovery of \$9.6 million to earnings related to changes in the discounted carrying value of estimated decommissioning obligations in respect of properties that had a nil carrying value ascribed. Depletion and depreciation expense for the year ended December 31, 2022 increased 27 percent when compared to same period of the prior year due to an increase in the depletable base as a result of the acquisition of certain assets from Enerplus Corp. and due to the Company realizing a full year end of depletion and depreciation on the assets acquired from the 2021 acquisitions of Astra Oil Corp. and Fire Sky Energy.

### IMPAIRMENT (REVERSAL)

(\$000s except per boe)	Three Months Ended			Years Ended Dec 31,	
	Dec 31, 2022	Sep 30, 2022	Dec 31, 2021	2022	2021
Impairment (reversal) of property, plant and equipment	—	—	(9,836)	—	(333,475)
\$ per boe	—	—	(5.05)	—	(51.79)

The Company identified six cash generating units as of December 31, 2022 based on the lowest level at which properties generate cash inflows while applying judgment to consider factors such as shared infrastructure, geographic proximity, petroleum type and similar exposures to market risk and materiality. The Company's CGUs at December 31, 2022 were geographically labeled Northwest Alberta, North Central Alberta, Central Alberta, Southeast Alberta, Southwest Saskatchewan and Southeast Saskatchewan.

For the year ended December 31, 2022, the Company determined that there were no indicators of potential impairment or indicators that impairment losses recognized in prior years no longer exist or have decreased for any of the Company's CGU's.

## NET INCOME

(\$000s except per share)	Three Months Ended			Years Ended Dec 31,	
	Dec 31, 2022	Sep 30, 2022	Dec 31, 2021	2022	2021
Net income	<b>103,502</b>	78,057	42,868	<b>231,718</b>	407,608
Per share - basic (\$)	<b>1.17</b>	0.93	0.54	<b>2.74</b>	7.42
Per share - diluted (\$)	<b>1.15</b>	0.91	0.53	<b>2.66</b>	7.28

Please refer to the consolidated financial statements for further information regarding the changes in net income over the period.

## INCOME TAXES

The estimated tax pools in place at December 31, 2022 are as follows:

(\$000s)	Total
Canadian oil and gas property expenses	361,153
Canadian development expenses	187,152
Canadian exploration expenses	57,095
Undepreciated capital cost	171,013
Non-capital losses	649,070
Other	16,136
	<b>1,441,619</b>

## CAPITAL EXPENDITURES

### Capital Expenditure Summary

(\$000s)	Q1 2022	Q2 2022	Q3 2022	Q4 2022	2022 YTD	2021 YTD	% Change
Land	920	13,164	252	<b>4,227</b>	<b>18,563</b>	1,101	1,586 %
Seismic	389	945	325	<b>478</b>	<b>2,137</b>	2,607	(18)%
Drilling and completions	29,698	16,082	28,865	<b>26,956</b>	<b>101,601</b>	63,467	60 %
Facilities, equipment and pipelines	10,580	5,079	11,432	<b>13,191</b>	<b>40,282</b>	31,008	30 %
Other	1,381	1,620	1,484	<b>2,876</b>	<b>7,361</b>	5,603	31 %
Expenditures on property, plant and equipment	42,968	36,890	42,358	<b>47,728</b>	<b>169,944</b>	103,786	64 %
Expenditures on acquisitions	—	—	—	<b>169,275</b>	<b>169,275</b>	19,204	781 %
Share based consideration on acquisitions	—	—	—	<b>31,027</b>	<b>31,027</b>	148,800	(79)%
Cash from dispositions	—	(32)	—	—	<b>(32)</b>	(102,591)	(100)%
Net acquisitions & dispositions	—	(32)	—	<b>200,302</b>	<b>200,270</b>	65,413	206 %
Net capital expenditures	42,968	36,858	42,358	<b>248,030</b>	<b>370,214</b>	169,199	119 %

During the three months and year ended December 31, 2022, Surge invested a total of \$47.7 million and \$169.9 million on capital projects, excluding acquisitions and dispositions.

During the fourth quarter of 2022, Surge invested \$27.0 million to drill and complete 24 gross (17.9 net) wells in Southeast Alberta ("Sparky") and Southeast Saskatchewan. Production from an additional 6 gross (5.0 net) wells from the fourth quarter drilling program will be completed and brought on stream in the first quarter of 2023. The Company invested \$13.2 million to equip and tie-in wells drilled in the fourth quarter and complete scheduled facility turnarounds on operated facilities. An additional \$7.1 million was spent on land and other capital items during the quarter.

During the fourth quarter of 2022, the Company acquired certain assets from Enerplus for total consideration of \$197.8 million. More details on the acquisition can be found in note 5 of the consolidated financial statements. The Company also acquired certain oil infrastructure during the fourth quarter of 2022 for cash consideration of \$2.5 million.

## FACTORS THAT HAVE CAUSED VARIATIONS OVER THE QUARTERS

The fluctuations in Surge's revenue and net earnings from quarter to quarter are primarily caused by changes in production volumes, changes in realized commodity prices and the related impact on royalties, realized and unrealized gains or losses on derivative instruments, and changes in impairment charges and non-cash items. The change in production from the first quarter of 2021 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

	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Weighted common shares	<b>88,094,339</b>	83,626,295	83,357,221	83,357,221
Dilutive instruments (treasury method)	<b>2,096,748</b>	2,413,802	2,917,383	—
Weighted average diluted shares outstanding	<b>90,191,087</b>	86,040,097	86,274,604	83,357,221
	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Weighted common shares	79,468,797	57,379,790	42,444,687	39,974,675
Dilutive instruments (treasury method)	1,108,395	1,242,800	1,348,020	—
Weighted average diluted shares outstanding	80,577,192	58,622,590	43,792,707	39,974,675

On March 8, 2023, Surge had 98,334,459 common shares, 2,222,953 PSAs, and 1,454,730 RSAs outstanding.

### Share consolidation

On August 17, 2021, the shareholders of the Company approved a consolidation of common shares on the basis of a ratio of 8.5 pre-consolidation common shares for each one post-consolidation common share. The share consolidation was completed on August 18, 2021.

The number of common shares and share based rewards have been adjusted retrospectively to reflect the 8.5:1 share consolidation.

## Quarterly Financial Information

	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Oil, Natural gas & NGL sales	<b>165,808</b>	179,297	212,999	169,124
Net income (loss)	<b>103,502</b>	78,057	72,027	(21,868)
Net income (loss) per share (\$):				
Basic	<b>1.17</b>	0.93	0.86	(0.26)
Diluted	<b>1.15</b>	0.91	0.83	(0.26)
Cash flow from operating activities	<b>78,975</b>	69,170	75,798	52,182
Cash flow from operating activities per share (\$):				
Basic	<b>0.90</b>	0.83	0.91	0.63
Diluted	<b>0.88</b>	0.80	0.88	0.63
Adjusted funds flow	<b>71,807</b>	80,294	78,561	62,893
Adjusted funds flow per share (\$):				
Basic	<b>0.82</b>	0.96	0.94	0.75
Diluted	<b>0.80</b>	0.93	0.91	0.75
Average daily sales				
Oil (bbls/d)	<b>18,127</b>	17,639	17,110	16,760
NGL (bbls/d)	<b>695</b>	647	799	691
Natural gas (mcf/d)	<b>19,647</b>	18,561	18,565	18,592
Barrels of oil equivalent (boe per day) (6:1)	<b>22,097</b>	21,380	21,003	20,550
Average sales price				
Natural gas (\$/mcf)	<b>5.24</b>	5.21	6.86	4.56
Oil (\$/bbl)	<b>91.43</b>	102.59	126.19	104.38
NGL (\$/bbl)	<b>60.51</b>	65.91	67.95	65.17
Barrels of oil equivalent (\$/boe)	<b>81.56</b>	91.16	111.44	91.45

## Quarterly Financial Information

	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Oil, Natural gas & NGL sales	<b>143,381</b>	105,104	80,844	80,694
Net income (loss)	<b>42,868</b>	67,612	307,113	(9,985)
Net income (loss) per share (\$):				
Basic	<b>0.54</b>	1.18	7.24	(0.25)
Diluted	<b>0.53</b>	1.15	7.01	(0.25)
Cash flow from operating activities	<b>50,417</b>	26,263	8,254	15,550
Cash flow from operating activities per share (\$):				
Basic	<b>0.63</b>	0.46	0.19	0.39
Diluted	<b>0.63</b>	0.46	0.19	0.39
Adjusted funds flow	<b>43,320</b>	27,804	13,557	15,757
Adjusted funds flow per share (\$):				
Basic	<b>0.55</b>	0.48	0.32	0.39
Diluted	<b>0.54</b>	0.47	0.31	0.39
Average daily sales				
Oil (bbls/d)	<b>17,192</b>	14,264	12,202	13,422
NGL (bbls/d)	<b>720</b>	575	521	583
Natural gas (mcf/d)	<b>19,503</b>	16,815	14,456	15,462
Barrels of oil equivalent (boe per day) (6:1)	<b>21,163</b>	17,642	15,132	16,582
Average sales price				
Natural gas (\$/mcf)	<b>4.75</b>	3.34	2.01	6.32
Oil (\$/bbl)	<b>82.84</b>	74.12	68.81	57.91
NGL (\$/bbl)	<b>58.10</b>	50.31	38.53	37.12
Barrels of oil equivalent (\$/boe)	<b>73.65</b>	64.76	58.74	54.07

## Annual Financial Information

(\$000s except per share)	Years Ended December 31,		
	2022	2021	2020
Total petroleum and natural gas revenue	<b>727,228</b>	410,063	211,049
Net income (loss)	<b>231,718</b>	407,608	(747,297)
Net income (loss) per share (\$):			
Basic	<b>2.74</b>	7.42	(18.90)
Diluted	<b>2.66</b>	7.28	(18.90)
Total assets	<b>1,550,077</b>	1,275,447	707,964
Total long-term financial liabilities	<b>316,658</b>	283,384	135,895
Dividends declared	<b>21,274</b>	—	5,863
Dividends declared per share (\$):			
Basic	<b>0.25</b>	—	0.15
Diluted	<b>0.24</b>	—	0.15

## LIQUIDITY AND CAPITAL RESOURCES

On December 31, 2022, Surge had \$30.6 million drawn on its credit facilities, \$252.3 million drawn on its term facility, excluding unamortized issue costs of \$5.5 million, \$34.5 million principal amount of convertible subordinated unsecured debentures ("Debentures"), and total net debt of \$352.2 million, an increase in total net debt of 6 percent compared to the same date in 2021. At December 31, 2022, Surge had approximately \$119.4 million of borrowing capacity in relation to the \$150 million credit facilities. The following tables sets forth the consolidated capitalization of Surge and the change in the components of the Debentures:

### Consolidated Capitalization

(\$000s)	Outstanding as at December 31, 2022
<b>Shareholder Equity</b>	
Share capital	1,765,442
Common shares outstanding	96,477
Debentures - equity	2,715
<b>Debt</b>	
Credit Facilities	
Total Commitment	150,000
Amount drawn	30,597
Term Facilities	
Total Commitment	260,000
Amount drawn	252,319
Amount drawn net of unamortized issue costs	246,787
Emissions Reduction Fund and other	9,245
Debentures - liability	32,491

### 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	—	2,696	—
Other finance expenses	—	360	—
Redeemed	(44,500)	(44,500)	(3,551)
<b>Balance at December 31, 2022</b>	<b>34,500</b>	<b>\$ 32,491</b>	<b>\$ 2,715</b>

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.

During the year ended December 31, 2022, approximately \$3.3 million was granted to Surge through the Alberta Site Rehabilitation Program ("SRP") to pay service companies to complete abandonment and reclamation work.

**Net Debt**

(\$000s)	As at December 31, 2022
Bank debt	(30,597)
Term debt	(256,032)
Accounts receivable	60,623
Prepaid expenses and deposits	3,032
Accounts payable and accrued liabilities	(93,373)
Dividends payable	(3,375)
Convertible debentures	(32,491)
<b>Total</b>	<b>(352,213)</b>

**Bank Debt**

As at December 31, 2022, the Company had a total commitment of \$150 million, being the aggregate of a committed revolving term facility of \$120 million and an operating loan facility of \$30 million, with a syndicate of banks. A review and redetermination of the borrowing base is scheduled to occur semi-annually on or before May 31 and November 30 of each year. The facility is available on a revolving basis until December 19, 2023. On December 19, 2023, at the Company's discretion, the facility is available on a non-revolving basis for a one-year period, at the end of which time the facility would be due and payable. Alternatively, the facilities may be extended for a further 364-day period at the request of the Company and subject to the approval of the syndicate. As the available lending limits of the facilities are based on the syndicate's interpretation of the Company's reserves, commodity prices and decommissioning obligations, there can be no assurance that the amount of the available facilities will not decrease at the next scheduled review. In the current pricing environment, there is an increased risk that the lenders may decrease the amount available under the credit facility and the decreases could be material. Interest rates vary depending on the ratio of Senior Debt to EBITDA (as defined in the lending agreement). As at December 31, 2022, the Company had an effective interest rate of prime plus 1.75 percent on the revolving term/operating loan facilities (December 31, 2021 – prime plus 2.00 percent).

The facilities are secured by a general assignment of book debts, debentures of \$0.8 billion with a floating charge over all assets of the Company with a negative pledge and undertaking to provide fixed charges on the major producing petroleum and natural gas properties at the request of the bank.

**Term Debt**

As at December 31, 2022, the Company had a non-revolving first-lien term facility of \$60 million with a syndicate of banks, maturing on December 19, 2024. As at December 31, 2022, the term facility had an effective interest rate of prime plus 2.75 percent.

The principal amount is repayable in scheduled quarterly repayments, commencing on March 31, 2023, in the amount of \$4,000,000.

As at December 31, 2022, the Company had a non-revolving second-lien term loan commitment of \$192.3 million, excluding unamortized issue costs, being the aggregate of two term facilities of \$160 million, maturing on December 9, 2026 (Term Facility A) and \$40 million, maturing on April 30, 2025 (Term Facility B).

The principal amount of Term Facility A is repayable in scheduled quarterly repayments, commencing on December 31, 2023.

- i. Q4 2022 - Q4 2023: \$1,000,000
- ii. Q1 2024 - Q4 2024: \$2,000,000
- iii. Q1 2025 - Q4 2025: \$3,000,000
- iv. Q1 2026 - Q4 2026: \$4,000,000



Under Term Facility A, 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.

The principal amount of Term Facility B is due and repayable in scheduled quarterly repayments, commencing on March 31, 2023, equal to 2.50% of the initial principal.

Under Term Facility B, the Company is required to make an additional principal repayment in each calendar month based on the applicable level of the WTI band for the prior month commodity price, commencing on May 31, 2024.

Interest on the outstanding term loan of both term facilities is due and payable quarterly by the Company. Interest on borrowings is summarized as follows:

- i. for the period between December 19, 2022 and December 9, 2024, at a per annum fixed rate equal to 8.85 percent of 35 percent of the aggregate principal amount and a floating rate of CDOR Rate plus 8.4125 percent of the remainder;
- ii. thereafter, at the floating rate of CDOR Rate plus 8.4125 percent.

#### Financial Covenants

The Company is subject to certain financial covenants under the first lien and second lien facilities including:

For so long as the covenant applies to the term debt facility, the Company's ratio of Total Debt to EBITDA shall not exceed 2.5:1.00, calculated quarterly effective of the last day of each fiscal quarter. The EBITDA used in the covenant calculation is net income and comprehensive income for an annualized period adjusted for lease payments, non-cash items, non-recurring transaction costs and extraordinary and non-recurring items such as material acquisitions or dispositions. The Total Debt used in the covenant calculation includes first lien bank debt and second lien term debt.

Commencing in the fiscal year ending December 31, 2022 and for so long as the covenant applies to the term debt facility, the Company must maintain an Asset Coverage Ratio of not less than 1.50:1.00, calculated as of December 31 of each Fiscal Year. The ratio is calculated annually as the proved developed producing reserves of the Company (before income tax; discounted at 10 percent), as evaluated by an independent third-party engineering report and evaluated on strip commodity pricing, divided by the Total Debt of the Company.

As at December 31, 2022, the Company was compliant with all restrictions and covenants in its first and second lien credit agreements.

#### Emissions Reduction Fund

During the period ended December 31, 2021, the Company assumed two five-year, interest free term loans with the Federal Government of Canada via the Emissions Reduction Fund ("ERF") administered by the Department of Natural Resources. The ERF will provide Surge with up to \$11.2 million for the Company's planned gas emission reduction program which will see the Company build infrastructure to eliminate greenhouse gas emissions in specific operating areas. Loan repayments will begin on March 31 2025, when 10.0 percent of the repayable portion will be repaid, followed by 33.3 percent on March 31, 2026 and the remaining 56.7 percent on March 31, 2027.

As at December 31, 2022, the Company had a \$7.2 million (December 31, 2021 - \$6.6 million) loan repayable relating to the Government of Canada Emissions Reduction Fund ("ERF"). As at December 31, 2022, the Company had 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 year ended December 31, 2022.

## CONTRACTUAL OBLIGATIONS

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

As at December 31, 2022, Surge had future minimum payments relating to its variable office rent payments and firm transport commitments totaling \$25.7 million, as summarized below:

	December 31, 2022
Less than 1 year	\$ 4,771
1 - 3 years	7,930
3 - 5 years	6,198
5+ years	6,762
<b>Total commitments</b>	<b>\$ 25,661</b>

## LEASES

The Company has recognized the following lease and other obligations:

	Total
Lease obligations at December 31, 2020	\$ 40,792
Dispositions	(6,453)
Additions	5,205
Interest expense	2,810
Payments	(11,292)
Lease and other obligations at December 31, 2021	\$ 31,062
Dispositions	(5,131)
Additions	8,628
Interest expense	2,291
Payments	(8,051)
<b>Lease and other obligations at December 31, 2022</b>	<b>\$ 28,799</b>
<b>Current portion</b>	<b>6,412</b>
<b>Long term portion</b>	<b>22,387</b>

The Company has recognized the following right-of-use assets:

	Total
Right-of-use assets at December 31, 2021	\$ 32,545
Dispositions	(6,124)
Additions	8,628
Depreciation	(3,104)
<b>Right-of-use assets at December 31, 2022</b>	<b>\$ 31,945</b>

Future minimum payments relating to lease and other obligations at December 31, 2022 are as follows:

	December 31, 2022
Less than 1 year	\$ 6,963
1 - 3 years	13,579
3+ years	15,900
<b>Lease and other obligation payments</b>	<b>\$ 36,442</b>

## FINANCIAL INSTRUMENTS

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

The following table summarizes the Company's financial derivatives as at March 8, 2023 by period and by product.

### Commodity Contracts

#### West Texas Intermediate Crude Oil Derivative Contracts (WTI)

Period	Bought Put		Collars		
	Volumes (bbls/d)	Average Price (CAD/bbl)	Volumes (bbls/d)	Average Bought Put (CAD/bbl)	Average Sold Call (CAD/bbl)
Qtr. 1 2023	—	—	5,500	\$80.62	\$145.38
Qtr. 2 2023	5,665	\$88.01	—	—	—
Qtr. 3 2023	5,500	\$86.78	—	—	—
Qtr. 4 2023	674	\$88.01	4,826	\$84.28	\$138.81
Qtr. 1 2024	—	—	4,076	\$84.37	\$126.61

### 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)	Volumes (GJ/d)	Average Price (CAD/GJ)	Volumes (GJ/d)	Average Bought Put (CAD/GJ)	Average Sold Call (CAD/GJ)
Qtr. 1 2023	—	—	—	—	—	4,000	\$3.66	2,000	\$2.90	\$3.91
Qtr. 2 2023	1,000	\$5.42	\$11.17	1,000	\$(1.81)	—	—	4,000	\$2.75	\$3.67
Qtr. 3 2023	3,000	\$5.42	\$11.17	3,000	\$(1.95)	—	—	2,000	\$2.75	\$3.73
Qtr. 4 2023	4,326	\$5.42	\$11.69	4,326	\$(2.03)	—	—	674	\$2.75	\$3.73
Qtr. 1 2024	4,500	\$5.42	\$13.24	4,500	\$(2.25)	—	—	—	—	—
Qtr. 2 2024	—	—	—	2,000	\$(1.56)	—	—	—	—	—
Qtr. 3 2024	—	—	—	2,000	\$(1.56)	—	—	—	—	—
Qtr. 4 2024	—	—	—	674	\$(1.56)	—	—	—	—	—

### 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
Average Rate Collar	Nov 2022 - Dec 2023	\$5,000,000	1.3333	1.3850

### Interest Rate Derivative Contracts

Type	Term	Notional Amount (CAD\$)	Surge Receives	Surge Pays	Fixed Rate SGY Pays
Fixed-to-Floating Rate Swap	Jul 2019 - Jun 2024	\$50,000,000	Floating Rate	Fixed Rate	1.7850%

### SUBSEQUENT EVENT

On March 1, 2023, the Company issued 1,850,000 flow-through shares related to Canadian development expenditures at a price of \$10.61 per share for total gross proceeds of \$19.6 million.

### 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.

As of the year ended December 31, 2022, an evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, was performed by the Company's Management with the oversight of the Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's DCP are effective as of December 31, 2022.

Further, there were no changes in the Company's DC&P during the year ended December 31, 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.

Management, with the oversight of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's internal control over financial reporting, as defined under NI 52-109 as at December 31, 2022. In making its evaluation, Management used the Committee of Sponsoring Organizations of the Treadway Commission framework. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's ICFR was effective as of December 31, 2022.

Further, there were no changes in the Company's ICFR during the year ended December 31, 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 Economic Uncertainty” in this MD&A or under “Risk Factors” in the Company’s AIF for the year ended December 31, 2022, which can be found on [www.sedar.com](http://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 expectations regarding the majority of cash flow's associated with its proved and probable reserves being realized prior to the elimination of carbon based energy; 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 COVID-19 pandemic and the Russian invasion of Ukraine and the potential impacts on the Company and the oil and gas industry generally; underlying causes of the fluctuations in Surge's revenue and net earnings from quarter to quarter; fair value of forward contracts, swaps, options and costless collars entered into by the Company; expected payments and forfeiture rates of RSAs and PSAs granted under the Company's Stock Incentive Plan; estimated tax pools; expectations with respect to its underlying decommissioning liabilities; 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 the Russian invasion of Ukraine) 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 8, 2023 which has been filed on SEDAR and can be accessed at [www.sedar.com](http://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			Years Ended Dec 31,	
	Dec 31, 2022	Sep 30, 2022	Dec 31, 2021	2022	2021
Cash flow from operating activities	<b>78,975</b>	69,170	50,417	<b>276,125</b>	100,484
Change in non-cash working capital	<b>(14,152)</b>	7,164	(15,659)	<b>4,271</b>	(18,144)
Decommissioning expenditures	<b>2,367</b>	3,532	2,089	<b>7,895</b>	6,738
Cash settled transaction and other costs	<b>4,617</b>	428	6,473	<b>5,264</b>	11,360
Adjusted funds flow	<b>\$ 71,807</b>	\$ 80,294	\$ 43,320	<b>\$ 293,555</b>	\$ 100,438
Per share - basic	<b>\$ 0.82</b>	\$ 0.96	\$ 0.55	<b>\$ 3.47</b>	\$ 1.83

## 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 or minus working capital, 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		
	Dec 31, 2022	Sep 30, 2022	Dec 31, 2021
Bank debt	(30,597)	(9,758)	(98,066)
Term debt	(256,032)	(159,108)	(133,993)
Accounts receivable	60,623	62,984	55,738
Prepaid expenses and deposits	3,032	3,055	3,152
Accounts payable and accrued liabilities	(93,373)	(82,298)	(84,330)
Convertible debentures	(32,491)	(76,197)	(73,935)
Dividends payable	(3,375)	(2,939)	—
<b>Total</b>	<b>(352,213)</b>	<b>(264,261)</b>	<b>(331,434)</b>

## 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:

### Operating Netback & Adjusted Funds Flow per boe

(\$000s)	Three Months Ended			Years Ended Dec 31,	
	Dec 31, 2022	Sep 30, 2022	Dec 31, 2021	2022	2021
Petroleum and natural gas revenue	165,808	179,297	143,381	727,228	410,063
Processing income	1,926	1,941	1,336	7,242	4,575
Royalties	(27,449)	(33,964)	(23,414)	(127,548)	(58,465)
Realized loss on commodity and FX contracts	(9,580)	(13,790)	(31,048)	(98,145)	(91,990)
Operating expenses	(44,570)	(39,920)	(34,257)	(160,133)	(116,413)
Transportation expenses	(2,846)	(2,554)	(2,468)	(11,272)	(7,098)
Operating netback	83,289	91,010	53,530	337,372	140,672
G&A expense	(4,190)	(4,218)	(3,894)	(16,626)	(13,238)
Interest expense	(7,292)	(6,498)	(6,317)	(27,191)	(26,996)
Adjusted funds flow	71,807	80,294	43,320	293,555	100,438
Barrels of oil equivalent (boe)	2,032,892	1,966,876	1,946,873	7,760,455	6,439,384
<b>Operating netback (\$ per boe)</b>	<b>\$ 40.97</b>	<b>\$ 46.27</b>	<b>\$ 27.49</b>	<b>\$ 43.47</b>	<b>\$ 21.84</b>
<b>Adjusted funds flow (\$ per boe)</b>	<b>\$ 35.32</b>	<b>\$ 40.83</b>	<b>\$ 22.25</b>	<b>\$ 37.83</b>	<b>\$ 15.59</b>

## **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.