FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended			Nine Months Ended September 30,		
	Sep 30, 2020	Jun 30, 2020	% Change	**2020**	2019	% Change
Financial highlights						
Oil sales	**54,000**	28,432	90 %	**143,643**	289,333	(50)%
NGL sales	**1,161**	644	80 %	**2,868**	6,032	(52)%
Natural gas sales	**1,770**	1,429	24 %	**4,631**	7,194	(36)%
Total oil, natural gas, and NGL revenue	**56,931**	30,505	87 %	**151,142**	302,559	(50)%
Cash flow from operating activities	**15,082**	2,970	408 %	**61,190**	114,943	(47)%
Per share - basic ($)	**0.04**	0.01	300 %	**0.18**	0.37	(51)%
Adjusted funds flow[1]	**12,523**	8,854	41 %	**51,405**	134,106	(62)%
Per share - basic ($)[1]	**0.04**	0.03	33 %	**0.15**	0.43	(65)%
Net loss	**(13,184)**	(61,159)	(78)%	**(689,570)**	(14,863)	4,540 %
Per share basic ($)	**(0.04)**	(0.18)	(78)%	**(2.06)**	(0.05)	4,020 %
Total exploration and development expenditures	**2,477**	3,516	(30)%	**38,497**	88,705	(57)%
Total acquisitions & dispositions	**(762)**	(5,276)	(86)%	**(6,038)**	(44,896)	(87)%
Total capital expenditures	**1,715**	(1,760)	(197)%	**32,459**	43,809	(26)%
Net debt[1], end of period	**369,993**	376,907	(2)%	**369,993**	377,409	(2)%
Operating highlights						
Production:						
Oil (bbls per day)	**13,759**	13,813	— %	**14,817**	17,358	(15)%
NGLs (bbls per day)	**582**	528	10 %	**558**	713	(22)%
Natural gas (mcf per day)	**16,503**	16,664	(1)%	**16,857**	20,342	(17)%
Total (boe per day) (6:1)	**17,092**	17,118	— %	**18,185**	21,461	(15)%
Average realized price (excluding hedges):						
Oil ($ per bbl)	**42.66**	22.62	89 %	**35.38**	61.06	(42)%
NGL ($ per bbl)	**21.68**	13.41	62 %	**18.76**	30.97	(39)%
Natural gas ($ per mcf)	**1.17**	0.94	24 %	**1.00**	1.30	(23)%
Netback ($ per boe)						
Petroleum and natural gas revenue	**36.21**	19.58	85 %	**30.33**	51.64	(41)%
Realized gain (loss) on commodity and FX contracts	**(1.67)**	9.93	(117)%	**5.29**	(0.84)	(730)%
Royalties	**(4.00)**	(2.06)	94 %	**(3.61)**	(6.61)	(45)%
Net operating expenses[1]	**(14.16)**	(14.50)	(2)%	**(14.32)**	(14.36)	— %
Transportation expenses	**(1.39)**	(1.70)	(18)%	**(1.58)**	(1.58)	— %
Operating netback[1]	**14.99**	11.25	33 %	**16.11**	28.25	(43)%
G&A expense	**(1.91)**	(1.99)	(4)%	**(1.91)**	(1.82)	5 %
Interest expense	**(5.11)**	(3.57)	43 %	**(3.88)**	(3.54)	10 %
Adjusted funds flow[1]	**7.97**	5.69	40 %	**10.32**	22.89	(55)%
Common shares outstanding, end of period	**339,785**	335,069	1 %	**339,785**	324,215	5 %
Weighted average basic shares outstanding	**337,115**	335,069	1 %	**334,799**	313,876	7 %
Stock option dilution	**—**	—	— %	**—**	—	— %
Weighted average diluted shares outstanding	**337,115**	335,069	1 %	**334,799**	313,876	7 %

1 This is a non-GAAP financial measure which is defined in the Non-GAAP 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 and partnership arrangements, is for the three and nine months ended September 30, 2020 and 2019. 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").

Matters Relating to the COVID-19 Pandemic

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. In addition, global commodity prices have declined significantly due to a collapse in demand attributed to COVID-19 in combination with an oversupply of oil. Governments worldwide, including those in Canada, have enacted emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to businesses globally, resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions, however the success of these interventions is not currently determinable. The current economic environment may have significant adverse impacts on the Company including, but not limited to:

- Material declines in revenue and cash flows as a result of the decline in commodity prices;
- Declines in revenue and cash flows due to a reduced capital program and shut-in production;
- Increased impairment charges;
- Inability to comply with restrictions in lending agreements;
- Increased risk of non-performance by the Company's customers which could materially increase the risk of nonpayment of accounts receivable and customer defaults;
- Increased restructuring charges as the Company aligns its structure and personnel to the dynamic environment; and
- If the situation continues for prolonged periods it could jeopardize the Company's ability to continue as a going concern.

The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Company is not known at this time. Estimates and judgments made by management in the preparation of these financial statements are increasingly difficult and subject to a higher degree of measurement uncertainty during this volatile period.

At current forward pricing scenarios, exploration and production companies in Canada may not conform to the standard reserve-based lending ("RBL") structures. The Federal Government has acknowledged the challenges facing the oil and gas industry and has announced a support program intended to provide a liquidity backstop to RBL credit facilities which will be administered through the Export Development Bank of Canada ("EDC") and the Business Development Bank of Canada ("BDC"). EDC and BDC will work directly with the primary banking institutions to provide additional lending and credit capacity to qualifying oil and gas producers that (based on certain criteria) were deemed financially viable prior to the onset of the COVID-19 pandemic. The Company believes it meets the criteria for support under the announced program and is working with its banking syndicate to access this liquidity.

Going Concern

As at September 30, 2020, the Company had $296.1 million drawn on a total commitment of $335.0 million available under its syndicated RBL credit facility. The facility is comprised of a $155.0 million revolving term commitment, a $167.5 million non-revolving term commitment, and a $12.5 million operating loan facility (refer to note 7 "Bank Debt" in the financial statements for additional information). The revolving term commitment will continue to revolve until the next scheduled borrowing base redetermination date of December 15, 2020. The further extension of the credit facility is dependent on the Company's ability to repay or extend the term of the $167.5 million non-revolving term commitment that matures and requires repayment on March 31, 2021. Management is working with its syndicate of lenders to address the non-revolving term commitment and extend the maturity date of the credit facility, however there can be no assurances with respect thereto. Should the Company fail to secure an extension, it could result in a failure to meet the terms of the lending agreement and the lender would have the right, but not the obligation, to demand repayment of amounts drawn on the credit facility. If the amount drawn is demanded and not repaid, this would constitute a default under the credit facility. A default under the credit facility would also constitute a default under the unsecured convertible debentures thereby allowing the holders to demand repayment of amounts outstanding.

The Company's ability to continue as a going concern is dependent upon the Company's ability to maintain the credit facility at or above amounts currently drawn and its ability to renew the credit facility prior to its repayment/maturity date. There can be no assurances that the facility will be renewed or additional sources of funding will be available for the Company. These matters cause material uncertainty which may cast significant doubt on the Company’s ability to continue as a going concern.

The condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern assumption were not appropriate, adjustments would be necessary in the carrying value of the Company's assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. These adjustments could be material.

Surge’s Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A. This MD&A is dated November 3, 2020.

DESCRIPTION OF BUSINESS

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

CASH FLOW FROM OPERATING ACTIVITIES AND ADJUSTED FUNDS FLOW

	Three Months Ended			**Nine Months Ended Sep 30,**	
($000s except per share and per boe)	**Sep 30, 2020**	Jun 30, 2020	Sep 30, 2019	**2020**	2019
Cash flow from operating activities	**15,082**	2,970	40,228	**61,190**	114,943
Per share - basic ($)	**0.04**	0.01	0.13	**0.18**	0.37
Per share - diluted ($)	**0.04**	0.01	0.13	**0.18**	0.37
$ per boe	**9.59**	1.91	20.61	**12.28**	19.62
Adjusted funds flow	**12,523**	8,854	41,513	**51,405**	134,106
Per share - basic ($)	**0.04**	0.03	0.13	**0.15**	0.43
Per share - diluted ($)	**0.04**	0.03	0.13	**0.15**	0.43
$ per boe	**7.97**	5.69	21.26	**10.32**	22.89

Cash flow from operating activities for the third quarter of 2020 increased 408 percent when compared to the second quarter of 2020 and decreased 63 percent when compared to the third quarter of 2019. On a per basic share basis, cash flow from operating activities increased 300 percent compared to the second quarter of 2020 and decreased 69 percent compared to the third quarter of 2019. Cash flow from operating activities for the nine months ended September 30, 2020 decreased 47 percent when compared to the same period of the prior year and decreased 51 percent on a per basic share basis.

Adjusted funds flow for the third quarter of 2020 increased 41 percent when compared to the second quarter of 2020 and decreased 70 percent when compared to the third quarter of 2019. On a per basic share basis, adjusted funds flow increased 33 percent when compared to the second quarter of 2020 and decreased 69 percent compared to the third quarter of 2019. Adjusted funds flow for the nine months ended September 30, 2020 decreased 62 percent when compared to the same period of the prior year and decreased 65 percent on a per basic share basis.

Cash flow from operating activities and adjusted funds flow for the third quarter of 2020 increased when compared to the immediate preceding quarter primarily due to the increase in petroleum and natural gas revenue, partially offset with a realized loss on financial contracts during the period as compared to a realized gain on financial contracts during the second quarter of 2020. The decrease in cash flow from operating activities and adjusted funds flow for the three and nine months ended September 30, 2020 when compared to the same periods of the prior year is primarily a result of a decrease in petroleum and natural gas revenue.

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, 2020 and see the Non-GAAP Financial Measures section of this MD&A for further information regarding adjusted funds flow.

OPERATIONS

Drilling

	Drilling		Success	Working
	Gross	Net	rate (%) net	interest (%)
Q1 2020	19.0	19.0	100 %	100 %
Q2 2020	—	—	—	—
Q3 2020	—	—	—	—
Total	**19.0**	**19.0**	**100 %**	**100 %**

Effective March 2020, the Company suspended all major capital expenditures providing for an increased level of operational and financial flexibility for the balance of 2020. As such, no wells were drilled during the second and third quarters of 2020.

Production

	Three Months Ended			**Nine Months Ended Sep 30,**	
	Sep 30, 2020	Jun 30, 2020	Sep 30, 2019	**2020**	2019
Oil (bbls per day)	**13,759**	13,813	17,170	**14,817**	17,358
NGL (bbls per day)	**582**	528	769	**558**	713
Oil and NGL (bbls per day)	**14,341**	14,341	17,939	**15,375**	18,071
Natural gas (mcf per day)	**16,503**	16,664	19,668	**16,857**	20,342
Total (boe per day) (6:1)	**17,092**	17,118	21,217	**18,185**	21,461
% Oil and NGL	**84 %**	84 %	85 %	**85 %**	84 %

Surge averaged production of 17,092 boe per day in the third quarter of 2020 (84 percent oil and NGLs), comparable to the average production rate in the second quarter of 2020 and a 19 percent decrease from the average production rate in the same period of 2019.

During the nine months ended September 30, 2020, Surge achieved production of 18,185 boe per day (85 percent oil and NGLs), a 15 percent decrease when compared to the same period of 2019.

Production during the third quarter of 2020 is consistent with the second quarter of 2020, primarily due to the successful reactivation of the 2,700 boe per day of production that was temporarily curtailed in the second quarter. The majority of curtailed production was brought back on by September 30, 2020 due to improved commodity prices and tightening differentials combined with operating cost optimizations.

The decrease in production for the three and nine months ended September 30, 2020 as compared to the same periods of the prior year is primarily the result of temporary production curtailments and natural production declines more than offsetting production additions from the Company's first quarter 2020 drilling program. In addition, the Company sold approximately 300 boe per day of production resulting from the disposition of non-core assets in Central Alberta and Northwest Alberta during the nine months ended September 30, 2020.

Petroleum and Natural Gas Revenue, Realized Prices and Benchmark Pricing

	Three Months Ended			**Nine Months Ended Sep 30,**	
($000s except per amount)	**Sep 30, 2020**	Jun 30, 2020	Sep 30, 2019	**2020**	2019
Petroleum and Natural Gas Revenue					
Oil	**54,000**	28,432	93,818	**143,643**	289,333
NGL	**1,161**	644	1,958	**2,868**	6,032
Oil and NGL	**55,161**	29,076	95,776	**146,511**	295,365
Natural gas	**1,770**	1,429	1,250	**4,631**	7,194
Total petroleum and natural gas revenue	**56,931**	30,505	97,026	**151,142**	302,559
Realized Prices					
Oil ($ per bbl)	**42.66**	22.62	59.39	**35.38**	61.06
NGL ($ per bbl)	**21.68**	13.41	27.69	**18.76**	30.97
Oil and NGL ($ per bbl)	**41.81**	22.28	58.04	**34.78**	59.87
Natural gas ($ per mcf)	**1.17**	0.94	0.69	**1.00**	1.30
Total petroleum and natural gas revenue before realized commodity and FX contracts ($ per boe)	**36.21**	19.58	49.71	**30.33**	51.64
Benchmark Prices					
WTI (US$ per bbl)	**40.93**	27.85	56.45	**38.32**	57.05
CAD/USD exchange rate	**1.33**	1.39	1.32	**1.35**	1.33
WTI (C$ per bbl)	**54.44**	38.71	74.51	**51.73**	75.88
Edmonton Light Sweet (C$ per bbl)	**49.55**	29.57	68.20	**43.58**	69.40
WCS (C$ per bbl)	**42.40**	22.42	58.39	**32.98**	60.27
AECO Daily Index (C$ per mcf)	**2.24**	1.99	0.91	**2.09**	1.52

Total petroleum and natural gas revenue for the third quarter of 2020 increased 87 percent as compared to the second quarter of 2020 primarily due to a 47 percent increase in WTI crude oil pricing during the period. Realized oil prices increased 89 percent in the third quarter, correlating to a 68 percent increase in Edmonton light sweet and an 89 percent increase in WCS during the same period.

Total petroleum and natural gas revenue for the three and nine months ended September 30, 2020 decreased 41 percent and 50 percent when compared to the same periods of 2019. The decrease is primarily due to a decrease in average realized oil prices, correlating to a decrease in crude oil benchmark pricing, along with a decrease in production during the periods.

ROYALTIES

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2020**	Jun 30, 2020	Sep 30, 2019	**2020**	2019
Royalties	**6,285**	3,215	13,892	**18,005**	38,741
% of petroleum and natural gas revenue	**11 %**	11 %	14 %	**12 %**	13 %
$ per boe	**4.00**	2.06	7.12	**3.61**	6.61

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 2020 are comparable to the immediate preceding quarter.

Royalties as a percentage of revenue for the three and nine months ended September 30, 2020 decreased as compared to the same periods of the prior year primarily as a result of the lower crude oil pricing environment and production levels.

NET OPERATING EXPENSES

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2020**	Jun 30, 2020	Sep 30, 2019	**2020**	2019
Operating expenses	**23,204**	**23,706**	28,680	**75,109**	86,890
Less processing income	**(934)**	**(1,112)**	(1,483)	**(3,766)**	(2,740)
Net operating expenses	**22,270**	**22,594**	27,197	**71,343**	84,150
$ per boe	**14.16**	**14.50**	13.93	**14.32**	14.36

Net operating expenses per boe and total net operating expenses for the third quarter of 2020 decreased as compared to the immediate preceding quarter primarily due to operational efficiencies. Net operating expenses per boe for the three months ended September 30, 2020 are two percent higher than the same period of the prior year primarily due to limited drilling activity in low operating cost areas during the year following the suspension of the Company's capital program in March 2020.

Net operating expenses per boe for the nine months ended September 30, 2020 is comparable to the same period of the prior year due to the cost savings realized by the temporary production curtailment of high operating cost areas in the second quarter of 2020 and subsequent field cost optimizations, offset by limited drilling activity in low operating cost areas during the year following the suspension of the Company's capital program in March 2020.

TRANSPORTATION EXPENSES

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2020**	Jun 30, 2020	Sep 30, 2019	**2020**	2019
Transportation expenses	**2,187**	2,641	2,763	**7,874**	9,242
$ per boe	**1.39**	1.70	1.42	**1.58**	1.58

Transportation expenses per boe for the third quarter of 2020 decreased when compared to the second quarter of 2020 primarily due to the pipeline connection of wells brought on production in the first quarter of 2020 that was temporarily trucked during the second quarter of 2020.

Transportation expenses per boe for the nine months ended September 30, 2020 is comparable to the same period of the prior year.

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2020**	Jun 30, 2020	Sep 30, 2019	**2020**	2019
G&A expenses	**3,430**	3,790	4,787	**11,973**	14,640
Recoveries and capitalized amounts	**(430)**	(688)	(1,262)	**(2,455)**	(3,993)
Net G&A expenses	**3,000**	3,102	3,525	**9,518**	10,647
Net G&A expenses $ per boe	**1.91**	1.99	1.81	**1.91**	1.82

Net G&A expenses per boe for the third quarter of 2020 decreased four percent when compared to the second quarter of 2020. Net G&A expenses per boe for the three and nine months ended September 30, 2020 increased six percent and five percent, respectively, when compared to the same periods of the prior year. The increase in net G&A per boe is primarily attributable to lower recoveries and capitalized amounts resulting from reduced capital activity in combination with lower production.

Total net G&A expenses decreased as compared to the three and nine months ended September 30, 2019 primarily due to the receipt of the Canada Emergency Wage Subsidy ("CEWS") in the second and third quarters of 2020 that was recorded to salaries and wages expense.

TRANSACTION COSTS

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2020**	Jun 30, 2020	Sep 30, 2019	**2020**	2019
Transaction costs	**—**	—	481	**98**	1,373
$ per boe	**—**	—	0.25	**0.02**	0.23

The Company did not incur any transaction costs during the third quarter of 2020.

Transaction costs during the three and nine months ended September 30, 2019 primarily related to an asset acquisition in Southeast Alberta during the third quarter of 2019, a non-core asset disposition in Northwest Alberta during the first quarter of 2019 and a disposal of a 1.7 percent gross overriding royalty ("GORR") at the end of the second quarter of 2019, in addition to severance costs.

FINANCE EXPENSES

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2020**	Jun 30, 2020	Sep 30, 2019	**2020**	2019
Interest on bank debt	**5,308**	2,863	4,658	**11,644**	16,059
$ per boe	**3.38**	1.84	2.39	**2.34**	2.74
Interest on convertible debentures	**1,222**	1,222	1,222	**3,666**	2,847
$ per boe	**0.78**	0.78	0.63	**0.74**	0.49
Interest on lease and other obligations	**813**	850	477	**2,548**	1,605
$ per boe	**0.52**	0.55	0.24	**0.51**	0.27
Realized loss on interest contracts	**696**	628	105	**1,485**	235
$ per boe	**0.44**	0.40	0.05	**0.30**	0.04
Total interest expense	**8,039**	5,563	6,462	**19,343**	20,746
$ per boe	**5.11**	3.57	3.31	**3.88**	3.54
Accretion expense	**1,381**	1,337	1,704	**4,528**	4,947
$ per boe	**0.88**	0.86	0.87	**0.91**	0.84
Unrealized loss (gain) on interest contracts	**(471)**	353	(197)	**5,563**	3,164
$ per boe	**(0.30)**	0.23	(0.10)	**1.12**	0.54
Total finance expense	**8,949**	7,253	7,969	**29,434**	28,857
$ per boe	**5.69**	4.66	4.08	**5.91**	4.92

Total interest expense for the third quarter of 2020 increased when compared to the immediate preceding quarter and same period of 2019, primarily due to higher average interest rates on bank debt during the period.

The decrease in interest expense for the nine months ended September 30, 2020 as compared to the same period of 2019 is due to lower average bank debt during the period, partially offset by an increase in realized loss on interest contracts, interest on convertible debentures and interest on lease and other obligations.

Total finance expense includes accretion, representing the change in the time value of the decommissioning liability and convertible debentures as well as unrealized gains and losses on financial interest contracts. Accretion expense for the third quarter of 2020 was comparable to the second quarter of 2020 and accretion expense for the three and nine months ended September 30, 2020 decreased as compared to the three and nine months ended September 30, 2019, primarily due to a reduction in the discount rate during the periods. Unrealized loss on financial interest contracts decreased compared to the immediate preceding quarter due to the change in forward floating interest rates and increased as compared to the same periods of 2019 due to higher notional amounts hedged in combination with a decrease in floating interest rates and the semi-annual step up over the period.

NETBACKS

	Three Months Ended			Nine Months Ended Sep 30,	
($ per boe, except production)	**Sep 30, 2020**	Jun 30, 2020	Sep 30, 2019	**2020**	2019
Average production (boe per day)	**17,092**	17,118	21,217	**18,185**	21,461
Petroleum and natural gas revenue	**36.21**	19.58	49.71	**30.33**	51.64
Realized gain (loss) on commodity and FX contracts	**(1.67)**	9.93	(0.86)	**5.29**	(0.84)
Royalties	**(4.00)**	(2.06)	(7.12)	**(3.61)**	(6.61)
Net operating expenses	**(14.16)**	(14.50)	(13.93)	**(14.32)**	(14.36)
Transportation expenses	**(1.39)**	(1.70)	(1.42)	**(1.58)**	(1.58)
Operating netback	**14.99**	11.25	26.38	**16.11**	28.25
G&A expense	**(1.91)**	(1.99)	(1.81)	**(1.91)**	(1.82)
Interest expense	**(5.11)**	(3.57)	(3.31)	**(3.88)**	(3.54)
Adjusted funds flow	**7.97**	5.69	21.26	**10.32**	22.89

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

STOCK-BASED COMPENSATION

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2020**	Jun 30, 2020	Sep 30, 2019	**2020**	2019
Stock-based compensation	**1,797**	1,987	5,224	**5,661**	8,833
Capitalized stock-based compensation	**—**	—	(2,210)	**(757)**	(3,625)
Net stock-based compensation	**1,797**	1,987	3,014	**4,904**	5,208
Net stock-based compensation $ per boe	**1.14**	1.28	1.54	**0.98**	0.89

Net stock-based compensation expense for the third quarter of 2020 decreased as compared to the immediate preceding quarter and to the three and nine months ended September 30, 2019. Capitalized stock-based compensation was nil for the three months ended September 30, 2020 and June 30, 2020 due to reduced capital activity. The decrease in net stock-based compensation is primarily the result of a nil PSA performance multiplier adjustment for awards that vested in the third quarter of 2020 as compared to a $1.6 million PSA multiplier adjustment in the third quarter of 2019.

The stock-based compensation recorded in the period ended September 30, 2020 relates to the restricted share awards ("RSAs") and performance share awards ("PSAs") grants. Subject to terms and conditions of the plan, each RSA entitles the holder to an award value not limited to, but typically paid as to one-third on each of the first, second and third anniversaries of the date of grant. Each PSA entitles the holder to an award value to be typically paid on the third anniversary of the date of grant. For the purpose of calculating share-based compensation, the fair value of each award is determined at the grant date using the closing price of the common shares. A weighted average forfeiture rate of 8% (September 30, 2019 - 7%) for PSAs and 6% (September 30, 2019 - 8%) for RSAs was used to value all awards granted for the period ended September 30, 2020. The weighted average fair value of awards granted for the period ended September 30, 2020 is $0.33 (September 30, 2019 - $1.05) per PSA and $0.33 (September 30, 2019 - $1.06) per RSA. In the case of PSAs, the award value is adjusted for a payout multiplier which can range from 0.0 to 2.0 and is dependent on the performance of the Company relative to pre-defined corporate performance measures for a particular period.

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

	Number of restricted share awards	Number of performance share awards
Balance at December 31, 2019	5,775,594	7,602,333
Granted	7,309,130	6,538,409
Reinvested [1]	242,971	320,027
Exercised	(2,669,765)	(2,046,058)
Forfeited	(114,561)	(16,885)
Balance at September 30, 2020	**10,543,369**	**12,397,826**

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

DEPLETION AND DEPRECIATION

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2020**	Jun 30, 2020	Sep 30, 2019	**2020**	2019
Depletion and depreciation expense	**22,250**	22,101	42,093	**80,464**	123,687
$ per boe	**14.15**	14.19	21.57	**16.15**	21.11

Depletion and depreciation are calculated based on total capital expenditures (including acquisitions and dispositions), production rates and proved plus probable reserves. Deducted from the Company's third quarter of 2020 depletion and depreciation calculation are costs associated with salvage values of $59.6 million. Future development costs for proved and probable reserves of $883.0 million have been included in the depletion calculation.

Depletion and depreciation expense for the three months ended September 30, 2020 was comparable to the immediate preceding quarter and decreased compared to the same periods of 2019 primarily due to a reduction of the depletable base as a result of the first quarter of 2020 and fourth quarter of 2019 impairment expense.

IMPAIRMENT

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2020**	Jun 30, 2020	Sep 30, 2019	**2020**	2019
Impairment	**—**	—	—	**590,628**	—
$ per boe	**—**	—	—	**118.54**	—

The Company identified six cash generating units as of September 30, 2020 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 September 30, 2020, which are unchanged from December 31, 2019, were geographically labeled Northwest Alberta, North Central Alberta, Northeast Alberta, Central Alberta, Southeast Alberta and Southwest Saskatchewan.

For the period ended September 30, 2020, the Company determined there were no indicators of impairment in any of the six cash generating units and no indications that impairment losses recognized in prior periods no longer exist or have decreased.

For the period ended March 31, 2020, due to declines in forward oil and natural gas prices, the Company determined an indication of potential impairment was present in all of its six CGUs. As a result, the Company completed an impairment test. Recoverable value was estimated at value in use based on before tax discounted cash flows from oil and gas proved plus probable reserves. It was determined that the carrying value of the Northwest Alberta CGU exceeded the recoverable amount of $139.5 million, the carrying value of the North Central Alberta CGU exceeded the recoverable amount of $124.4 million, the carrying value of the Northeast Alberta CGU exceeded the recoverable amount of $31.3 million, the carrying value of the Central Alberta CGU exceeded the recoverable amount of $5.2 million, the carrying value of the Southeast Alberta CGU exceeded the recoverable amount of $303.0 million, and the carrying value of the Southwest Saskatchewan CGU exceeded the recoverable amount of $100.0 million and a $590.6 million impairment was recognized. The before tax discount rate applied in the value in use calculation as at March 31, 2020 was 13 - 25 percent.

Under IFRS, deferred income tax assets may only be recognized to the extent that it is probable that future taxable profits will be available against which the unused tax losses and deductible temporary differences can be utilized. Accordingly, the Company has not recognized a total deferred income tax asset of approximately $193.8 million as at September 30, 2020.

NET LOSS

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per share)	**Sep 30, 2020**	Jun 30, 2020	Sep 30, 2019	**2020**	2019
Net loss	**(13,184)**	(61,159)	(4,269)	**(689,570)**	(14,863)
Per share - basic ($)	**(0.04)**	(0.18)	(0.01)	**(2.06)**	(0.05)
Per share - diluted ($)	**(0.04)**	(0.18)	(0.01)	**(2.06)**	(0.05)

The Company realized a net loss and net loss per basic share for the third quarter of 2020. The loss is primarily due to the realized and unrealized losses on financial contracts.

The Company realized a higher net loss and net loss per basic share for the three and nine months ended September 30, 2020 as compared to the same periods of 2019. The loss is primarily due to the recognition of an impairment expense recognized in the first quarter of 2020, an unrealized loss on financial contracts, along with a decrease in average realized price per barrel of oil during the periods.

CAPITAL EXPENDITURES

Capital Expenditure Summary

($000s)	Q1 2020	Q2 2020	Q3 2020	**2020 YTD**	2019 YTD	% Change
Land	376	90	99	**565**	6,558	(91)%
Seismic	260	—	—	**260**	138	88 %
Drilling and completions	22,411	—	423	**22,834**	61,028	(63)%
Facilities, equipment and pipelines	7,902	2,984	1,520	**12,406**	16,791	(26)%
Other	1,555	442	435	**2,432**	4,190	(42)%
Total exploration and development	32,504	3,516	2,477	**38,497**	88,705	(57)%
Acquisitions - cash consideration	—	—	—	**—**	12,350	(100)%
Property dispositions	—	(5,276)	(762)	**(6,038)**	(57,246)	(89)%
Total acquisitions & dispositions	—	(5,276)	(762)	**(6,038)**	(44,896)	(87)%
Total capital expenditures	32,504	(1,760)	1,715	**32,459**	43,809	(26)%

During the three and nine months ended September 30, 2020, Surge invested a total of $2.5 million and $38.5 million, excluding acquisitions and dispositions.

During the third quarter of 2020, Surge invested $0.4 million on maintenance capital at Greater Sawn and Shaunavon, $1.5 million on anticipated facility maintenance and turnarounds at Sparky and Valhalla. An additional $0.5 million was spent on land and other capital items during the quarter.

During the period ended September 30, 2020, the Company disposed of certain non-core assets in Central Alberta for cash proceeds of $0.8 million.

Due to the COVID-19 outbreak and decreases in global commodity prices, Surge has suspended its previously announced 2020 guidance and capital program of $98.5 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 expense and non-cash items. The change in production from the fourth quarter of 2018 through the current quarter is due to Surge's drilling programs and acquisitions and dispositions over that period. Please refer to the Financial and Operating Results section and other sections of this MD&A for detailed discussions on variations during the comparative quarters and to Surge's previously issued interim and annual MD&A for changes in prior quarters.

Share Capital and Option Activity

	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Weighted common shares	**337,115,352**	335,068,916	332,187,964	324,835,793
Dilutive instruments (treasury method)	**—**	—	—	—
Weighted average diluted shares outstanding	**337,115,352**	335,068,916	332,187,964	324,835,793

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

On November 3, 2020, Surge had 339,784,739 common shares, 12,397,826 PSAs, and 10,543,369 RSAs outstanding.

Quarterly Financial Information

	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Oil, Natural gas & NGL sales	**56,931**	30,505	63,706	91,789
Net loss	**(13,184)**	(61,159)	(615,227)	(143,801)
Net loss per share ($):				
Basic	**(0.04)**	(0.18)	(1.85)	(0.44)
Diluted	**(0.04)**	(0.18)	(1.85)	(0.44)
Cash flow from operating activities	**15,082**	2,970	43,138	34,474
Cash flow from operating activities per share ($):				
Basic	**0.04**	0.01	0.13	0.11
Diluted	**0.04**	0.01	0.13	0.11
Adjusted funds flow	**12,523**	8,854	30,028	38,881
Adjusted funds flow per share ($):				
Basic	**0.04**	0.03	0.09	0.12
Diluted	**0.04**	0.03	0.09	0.12
Average daily sales				
Oil (bbls/d)	**13,759**	13,813	16,891	16,441
NGL (bbls/d)	**582**	528	564	630
Natural gas (mcf/d)	**16,503**	16,664	17,409	19,521
Barrels of oil equivalent (boe per day) (6:1)	**17,092**	17,118	20,357	20,325
Average sales price				
Natural gas ($/mcf)	**1.17**	0.94	0.90	1.56
Oil ($/bbl)	**42.66**	22.62	39.82	57.46
NGL ($/bbl)	**21.68**	13.41	20.72	35.84
Barrels of oil equivalent ($/boe)	**36.21**	19.58	34.39	49.09

Quarterly Financial Information

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

LIQUIDITY AND CAPITAL RESOURCES

On September 30, 2020, Surge had $296.1 million drawn on its credit facility, $79.0 million principal amount of convertible subordinated unsecured debentures ("Debentures"), and total net debt of $370.0 million, a decrease in total net debt of two percent as compared to the same date in 2019. At September 30, 2020, Surge had approximately $38.9 million of borrowing capacity in relation to the $335 million credit facility. The following tables set forth the consolidated capitalization of Surge and the change in the components of the Debentures:

Consolidated Capitalization

($000s)	Outstanding as at September 30, 2020
Shareholder Equity	
Share capital	1,482,249
Common shares outstanding	339,785
Debentures - equity	6,266
Debt	
Credit Facilities	
Total Commitment	335,000
Amount drawn	296,055
Debentures - liability	70,536

Convertible Debentures

	Number of convertible debentures	Liability Component ($000s)	Equity Component ($000s)
Balance at December 31, 2018	44,500	37,973	3,551
Issuance of convertible debentures	34,500	30,551	3,949
Issue costs	—	(1,776)	(230)
Deferred income tax liability	—	—	(1,004)
Accretion of discount	—	1,951	—
Balance at December 31, 2019	79,000	68,699	6,266
Accretion of discount	—	1,837	—
Balance at September 30, 2020	**79,000**	**70,536**	**6,266**

Surge monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives. Effective March 2020, the Company suspended all major capital expenditures providing for an increased level of operational and financial flexibility for the balance of 2020. Surge anticipates that for the remainder of 2020, future maintenance 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 facility 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 three month period ended September 30, 2020, approximately $0.7 million was granted to Surge through the Alberta Site Rehabilitation Program ("SRP") to pay service companies to complete abandonment and reclamation work. Surge has been approved for an additional $9.4 million of SRP grants that are expected to be incurred in the fourth quarter of 2020 and in 2021.

Due to decreases in crude oil prices, effective March 2020, the dividend was decreased to $0.000833 per share per month. Due to a further decrease in crude oil prices, effective April 2020, the dividend was suspended until such time as Surge's management and Board see a sustainable recovery in world crude oil prices.

Net Debt

($000s)	**As at September 30, 2020**
Bank debt	(296,055)
Accounts receivable	25,205
Prepaid expenses and deposits	4,900
Accounts payable and accrued liabilities	(33,507)
Dividends payable	—
Convertible debentures	(70,536)
Total	**(369,993)**

As at September 30, 2020, the Company had a total commitment of $335.0 million, being the aggregate of a committed revolving term facility of $155.0 million, a committed non-revolving term facility of $167.5 million, and an operating loan facility of $12.5 million, with a syndicate of banks. The revolving term commitment will continue to revolve until the next scheduled borrowing base redetermination date of December 15, 2020. The further extension of the credit facility is dependent on the Company's ability to repay or extend the term of the $167.5 million committed non-revolving term facility that matures and requires repayment on March 31, 2021. 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 September 30, 2020, the Company had an effective interest rate of prime plus 3.25 percent on the revolving term facility (December 31, 2019 – prime plus 1.25 percent on a $350 million revolving term/operating loan facility) and an effective interest rate of prime plus 6.25 percent on the non-revolving term facility (December 31, 2019 - not applicable).

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

The financial covenant, whereby the Company's ratio of Net Senior Debt to EBITDA shall not exceed 3.00:1.00, was removed effective June 19, 2020.

As at September 30, 2020, the Company was compliant with all restrictions in the credit agreement. Refer to note 2 "Basis of Preparation" in the financial statements for additional information. Copies of the Company's credit agreements may be accessed through the SEDAR website (www.sedar.com).

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, 2020.

CONTRACTUAL OBLIGATIONS

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

As at September 30, 2020, Surge had future minimum payments relating to its variable office rent payments and firm transport commitments totaling $26.7 million, as summarized below:

	September 30, 2020	December 31, 2019
Less than 1 year	$ 10,144	$ 11,046
1 - 3 years	8,381	13,605
3 - 5 years	6,881	4,838
5+ years	1,325	5,343
Total commitments	$ 26,731	$ 34,832

During the year ended December 31, 2019, the Company sold a 1.7 percent gross overriding royalty ("GORR") on the total revenue from the Company's Southwest Saskatchewan, Southeast Alberta and North Central Alberta assets, effective May 1, 2019. The Company has a drilling commitment on the GORR lands that must be fulfilled by April 30, 2022. In the event that the Company fails to fulfill the drilling commitment, the GORR shall increase from 1.7 percent to 2.7 percent. For the nine month period ended September 30, 2020, Surge has drilled 38 out of the 100 wells that are required to meet the drilling commitment.

LEASES

The Company has recognized the following lease and other obligations:

	Total
Lease and other obligations at December 31, 2019	$ 46,684
Interest expense	2,548
Payments	(8,566)
Lease and other obligations at September 30, 2020	$ 40,666
Current portion	7,863
Long term portion	32,803

FINANCIAL INSTRUMENTS

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

The following table summarizes the Company's financial derivatives as at November 3, 2020 by period and by product.

Commodity Contracts

West Texas Intermediate Crude Oil Derivative Contracts (WTI)

	Swaps		Three-way Collar			
Period	Volumes (bbls/d)	Average Price (CAD/bbl)	Volumes (bbls/d)	Average Sold Call (CAD/bbl)	Average Bought Put (CAD/bbl)	Average Sold Put (CAD/bbl)
Qtr. 4 2020	2,133	$45.20	4,000	$57.42	$66.18	$45.08
Qtr. 1 2021	4,550	$52.18	2,000	$54.33	$63.87	$42.33
Qtr. 2 2021	3,884	$52.76	500	$52.00	$68.00	$41.33
Qtr. 3 2021	2,868	$55.48	250	$57.33	$68.00	$46.67
Qtr. 4 2021	2,750	$55.92	250	$57.33	$68.00	$46.67

Western Canadian Select Derivative Contracts (WCS)

	Swaps		Collars		
Period	Volumes (bbls/d)	Average Price (CAD/bbl)	Volumes (bbls/d)	Average Sold Call (CAD/bbl)	Average Bought Put (CAD/bbl)
Qtr. 4 2020	2,663	$(19.98)	2,500	$(26.64)	$(20.19)
Qtr. 1 2021	6,000	$(18.20)	—	—	—
Qtr. 2 2021	6,000	$(18.20)	—	—	—
Qtr. 3 2021	3,000	$(17.99)	—	—	—
Qtr. 4 2021	500	$(20.53)	—	—	—

Mixed Sweet Blend Derivative Contracts (MSW)

	Swaps	
Period	Volumes (bbls/d)	Average Price (CAD/bbl)
Qtr. 4 2020	337	$(6.70)
Qtr. 1 2021	2,000	$(6.90)
Qtr. 2 2021	2,000	$(6.90)
Qtr. 3 2021	1,500	$(6.62)
Qtr. 4 2021	1,500	$(6.62)

Natural Gas Derivative Contracts

	Chicago Swaps		Chicago Collars			AECO Swaps	
Period	Volumes (MMBtu/d)	Average Price (CAD/MMBtu)	Volumes (MMBtu/d)	Average Sold Call (CAD/MMBtu)	Average Bought Put (CAD/ MMBtu)	Volumes (GJ/d)	Average Price (CAD/GJ)
Qtr. 4 2020	3,000	$3.15	3,000	$2.91	$3.87	8,326	$1.77
Qtr. 1 2021	3,000	$3.36	3,000	$2.87	$3.87	6,000	$2.37
Qtr. 2 2021	3,000	$3.36	3,000	$2.87	$3.87	4,000	$2.40
Qtr. 3 2021	3,000	$3.36	3,000	$2.87	$3.87	2,000	$2.12
Qtr. 4 2021	1,011	$3.36	1,011	$2.87	$3.87	3,326	$2.36
Qtr. 1 2022	—	—	—	—	—	2,000	$2.83

CAD/USD FX Hedges

Type	Term	Monthly Notional Amount (USD$)	Total Notional Amount (USD$)	Swap Rate (CAD$ per USD$)
Avg Rate Forward	Q2 2020 - Q4 2020	$1,000,000	$9,000,000	$1.3245

Interest Rate Hedges

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

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

There were no changes in the Company's DC&P during the quarter ended September 30, 2020 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 quarter ended September 30, 2020 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

CRITICAL ACCOUNTING ESTIMATES

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

Reserves

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

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

Forecasted Commodity Prices

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

Business Combinations

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

Decommissioning Liability

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

Derivative Financial Instruments

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

Stock-based Compensation

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

Deferred Income Taxes

Management makes various assumptions in determining the 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, 2019, which can be found on www.sedar.com. Many risks are discussed below and in the AIF, but these risk factors should not be construed as exhaustive. There are numerous factors, both known and unknown, that could cause actual results or events to differ materially from forecast results.

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

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

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

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

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

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

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

BOE PRESENTATION

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

FORWARD-LOOKING STATEMENTS

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

More particularly, this MD&A contains statements concerning: sustainability of production; forecast commodity prices, inflation rates and currency prices; the Company's long term prospects and business plan; Surge's assets and the characteristics thereof; estimates regarding the future values for certain of the Company's assets and liabilities; the potential extension of the Company's credit facility and the impact of the failure of the Company to secure an extension; the potential impact of the current economic environment on the Company; the COVID-19 pandemic and the potential impacts on the Company and the oil and gas industry generally; the ability of Surge to meet the criteria for support under government programs related to COVID-19; underlying causes of the fluctuations in Surge's revenue and net earnings from quarter to quarter; management's expectations regarding net operating, transportation and G&A expenses for the remainder of 2020; the Company's expectations relating to the funding of future maintenance capital requirements for the remainder of 2020; the Company's expectations regarding SRP grants for the remainder of 2020 and for 2021; Surge's financial flexibility, including borrowing capacity under its credit facility; the ability of Surge to continue as a going concern; fair value of forward contracts, swaps, options and costless collars entered into by the Company; expected payments and forfeiture rates of RSAs and PSAs granted under the Company's Stock Incentive Plan; estimations of the fair value of acquired assets; estimated tax pools; potential impairments of CGUs and the assumptions used to assess such impairments; expectations with respect to its underlying decommissioning liabilities; ability of Surge to increase or maintain its credit facility; ability of Surge to avoid default under its credit facility or its convertible debentures; terms of the Company's bank line following any redetermination, including interest rates payable thereunder; the suspension of the Company's dividend program; the ongoing assessment of management and the Board of market conditions and other relevant considerations; and expectations on corporate royalty rates applicable to the Company.

The forward-looking statements are based on certain key expectations and assumptions made by Surge, including expectations and assumptions concerning the performance of existing wells and success obtained in drilling new wells, anticipated expenses, cash flow and capital expenditures, 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 facility; prevailing weather conditions, exchange rates, licensing requirements, the impact of completed facilities on operating costs, and the availability, costs of capital, labour and services, and the creditworthiness of industry partners.

Although Surge believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Surge can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the 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, 2020 which has been filed on SEDAR and can be accessed at www.sedar.com.

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

NON-GAAP FINANCIAL MEASURES

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

Adjusted funds flow & Adjusted funds flow per share

The Company adjusts cash flow from operating activities in calculating adjusted funds flow for changes in non-cash working capital, decommissioning expenditures and transaction 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 costs represent expenditures associated with acquisitions, which management believes do not reflect the ongoing cash flows of the business, and as such reduces comparability. Each of these expenditures, due to their nature, are not considered principal business activities and vary between periods, which management believes reduces comparability.

Adjusted funds flow per share is calculated using the same weighted average basic and diluted shares used in calculating income per share.

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

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per share)	**Sep 30, 2020**	Jun 30, 2020	Sep 30, 2019	**2020**	2019
Cash flow from operating activities	**15,082**	2,970	40,228	**61,190**	114,943
Change in non-cash working capital	**(2,622)**	5,733	(475)	**(11,637)**	13,693
Decommissioning expenditures	**63**	151	1,279	**1,754**	4,097
Transaction costs	**—**	—	481	**98**	1,373
Adjusted funds flow	**$ 12,523**	$ 8,854	$ 41,513	**$ 51,405**	$ 134,106
Per share - basic	**$ 0.04**	$ 0.03	$ 0.13	**$ 0.15**	$ 0.43

Net Debt

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

	As at		
($000s)	**Sep 30, 2020**	Jun 30, 2020	Sep 30, 2019
Bank debt	**(296,055)**	(306,549)	(308,335)
Accounts receivable	**25,205**	27,503	40,562
Prepaid expenses and deposits	**4,900**	5,828	6,200
Accounts payable and accrued liabilities	**(33,507)**	(33,782)	(45,016)
Convertible debentures	**(70,536)**	(69,907)	(68,118)
Dividends payable	**—**	—	(2,702)
Total	**(369,993)**	(376,907)	(377,409)

Operating Netback & Adjusted Funds Flow per boe

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

Operating Netback & Adjusted Funds Flow per boe

	Three Months Ended			Nine Months Ended Sep 30,	
($000s)	**Sep 30, 2020**	Jun 30, 2020	Sep 30, 2019	**2020**	2019
Petroleum and natural gas revenue	**56,931**	30,505	97,026	**151,142**	302,559
Processing income	**934**	1,112	1,483	**3,766**	2,740
Royalties	**(6,285)**	(3,215)	(13,892)	**(18,005)**	(38,741)
Realized gain (loss) on commodity and FX contracts	**(2,627)**	15,464	(1,674)	**26,346**	(4,927)
Operating expenses	**(23,204)**	(23,706)	(28,680)	**(75,109)**	(86,890)
Transportation expenses	**(2,187)**	(2,641)	(2,763)	**(7,874)**	(9,242)
Operating netback	**23,562**	17,519	51,500	**80,266**	165,499
G&A expense	**(3,000)**	(3,102)	(3,525)	**(9,518)**	(10,647)
Interest expense	**(8,039)**	(5,563)	(6,462)	**(19,343)**	(20,746)
Adjusted funds flow	**12,523**	8,854	41,513	**51,405**	134,106
Barrels of oil equivalent (boe)	**1,572,407**	1,557,700	1,951,893	**4,982,521**	5,859,104
Operating netback ($ per boe)	**$ 14.99**	$ 11.25	$ 26.38	**$ 16.11**	$ 28.25
Adjusted funds flow ($ per boe)	**$ 7.97**	$ 5.69	$ 21.26	**$ 10.32**	$ 22.89

Net Operating Expenses

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