FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended			Six Months Ended June 30,		
	Jun 30, 2018	Mar 31, 2018	% Change	**2018**	2017	% Change
Financial highlights						
Oil sales	**83,516**	64,492	29 %	**148,008**	102,410	45 %
NGL sales	**2,486**	2,461	1 %	**4,947**	4,522	9 %
Natural gas sales	**1,092**	1,337	(18)%	**2,429**	8,291	(71)%
Total oil, natural gas, and NGL revenue	**87,094**	68,290	28 %	**155,384**	115,223	35 %
Adjusted funds flow[1]	**38,596**	28,169	37 %	**66,765**	48,658	37 %
Per share basic ($)	**0.17**	0.12	42 %	**0.29**	0.22	32 %
Capital expenditures - petroleum & gas properties[2]	**23,344**	34,909	(33)%	**58,253**	49,105	19 %
Capital expenditures - acquisitions & dispositions[2]	**28,939**	(6,485)	nm	**22,454**	35,447	nm
Total capital expenditures[2]	**52,283**	28,424	84 %	**80,707**	84,552	(5)%
Net debt at end of period[3]	**276,140**	252,742	9 %	**276,140**	208,061	33 %
Operating highlights						
Production:						
Oil (bbls per day)	**13,343**	12,446	7 %	**12,897**	10,913	18 %
NGLs (bbls per day)	**556**	560	(1)%	**558**	681	(18)%
Natural gas (mcf per day)	**19,038**	18,128	5 %	**18,585**	17,425	7 %
Total (boe per day) (6:1)	**17,072**	16,027	7 %	**16,553**	14,498	14 %
Average realized price (excluding hedges):						
Oil ($ per bbl)	**68.78**	57.58	19 %	**63.40**	51.85	22 %
NGL ($ per bbl)	**49.15**	48.82	1 %	**48.99**	36.69	34 %
Natural gas ($ per mcf)	**0.63**	0.82	(23)%	**0.72**	2.63	(73)%
Netback ($ per boe)						
Oil, natural gas and NGL sales	**56.06**	47.34	18 %	**51.86**	43.91	18 %
Realized loss on commodity contracts	**(2.46)**	(1.10)	124 %	**(1.81)**	(1.15)	57 %
Royalties	**(8.36)**	(6.20)	35 %	**(7.32)**	(5.61)	30 %
Net operating expenses	**(14.16)**	(14.60)	(3)%	**(14.37)**	(13.44)	7 %
Transportation expenses	**(1.62)**	(1.26)	29 %	**(1.45)**	(1.52)	(5)%
Operating netback	**29.46**	24.18	22 %	**26.91**	22.19	21 %
G&A expense	**(2.06)**	(2.22)	(7)%	**(2.14)**	(1.94)	10 %
Interest expense	**(2.56)**	(2.44)	5 %	**(2.50)**	(1.70)	47 %
Corporate netback	**24.84**	19.52	27 %	**22.27**	18.55	20 %
Common shares outstanding, end of period	**230,494**	231,357	— %	**230,494**	225,766	2 %
Weighted average basic shares outstanding	**230,812**	233,007	(1)%	**231,904**	225,765	3 %
Stock option dilution	**5,265**	—	nm	**4,407**	3,598	nm
Weighted average diluted shares outstanding	**236,077**	233,007	1 %	**236,311**	229,363	3 %

1 Management uses adjusted funds flow (cash flow from operating activities before changes in non-cash working capital, decommissioning expenditures, transaction and other costs and cash settled stock-based compensation) to analyze operating performance and leverage. Adjusted funds flow as presented does not have any standardized meaning prescribed by IFRS and, therefore, may not be comparable with the calculation of similar measures for other entities.
2 Please see capital expenditures discussion in this MD&A.
3 The Company defines net debt as outstanding bank debt and the liability component of the convertible debenture plus or minus working capital, however, excluding the fair value of financial contracts and other current obligations.
4 The Company views this change calculation as not meaningful, or “nm”.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the consolidated financial position and results of operations of Surge Energy Inc. ("Surge" or the "Company"), which includes its subsidiaries and partnership arrangements, is for the three and six months ended June 30, 2018 and 2017. 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 interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

DESCRIPTION OF BUSINESS

Surge is an E&P company positioned to provide shareholders with attractive long term sustainability by exploiting the Company's assets in a financially disciplined manner and by acquiring additional long life oil and gas assets of a similar nature. Surge's assets are comprised primarily of operated oil-weighted properties characterized by large original oil in place ("OOIP") crude oil reservoirs with low recovery factors and an extensive inventory of more than seven hundred gross low risk development drilling locations and several high quality waterflood projects. Surge will continue to identify and actively pursue strategic acquisitions with synergistic characteristics such as existing long life producing assets or opportunities with significant, low risk upside potential.

NON-IFRS MEASURES

The terms "adjusted funds flow", "adjusted funds flow per share", "netback", "net debt", and "net operating expenses" used in this discussion are not recognized measures under IFRS. Management believes that in addition to net income (loss), adjusted funds flow, netback, net debt , and net operating expenses are useful supplemental measures as they provide an indication of the results generated by the Company's principal business activities before the consideration of how those activities are financed or how the results are taxed. Investors are cautioned, however, that these measures should not be construed as alternatives to net income and cash flow from operations determined in accordance with IFRS, as an indication of Surge's performance.

Surge's method of calculating adjusted funds flow may differ from that of other companies, and, accordingly, may not be comparable to measures used by other companies. Surge determines adjusted funds flow as cash flow from operating activities before changes in non-cash working capital, decommissioning expenditures, transaction and other costs and cash settled stock-based compensation.

Adjusted funds flow

($000s)	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Cash flow from operating activities	**$ 33,725**	$ 24,215	$ 28,640	$ 24,589	$ 24,628
Change in non-cash working capital	**2,897**	498	2,276	(2,954)	1,110
Decommissioning expenditures	**832**	2,748	829	686	366
Transaction and other costs	**60**	708	—	138	459
Cash settled stock-based compensation	**1,082**	—	428	526	455
Adjusted funds flow	**$ 38,596**	$ 28,169	$ 32,173	$ 22,985	$ 27,018
Per share - basic	**$ 0.17**	$ 0.12	$ 0.14	$ 0.10	$ 0.12

Adjusted funds flow per share is calculated using the same weighted average basic and diluted shares used in calculating income per share. Operating netbacks represent Surge's revenue, realized gains or losses on financial contracts, less royalties and operating and transportation expenses. Corporate netbacks represent Surge's operating netback, less general and administrative and interest expenses, in order to determine the amount of funds generated by production. Operating and corporate netbacks have been presented on a per barrels of oil equivalent ("boe") basis. This reconciliation is shown within the MD&A.

The Company defines net debt as outstanding bank debt and the liability component of the convertible debentures plus or minus working capital, however, excluding the fair value of financial contracts and other current long term obligations. Net operating expenses are determined by deducting processing and other revenue primarily generated by processing third party volumes at processing facilities where the Company has an ownership interest.

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, results of operations and adjusted funds flow.

Surge's Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A. This MD&A is dated August 8, 2018.

OPERATIONS

Drilling

	Drilling		Success rate (%) net	Working interest (%)
	Gross	Net		
Q1 2018	15.0	14.8	100%	99%
Q2 2018	5.0	5.0	100%	100%
Total	**20.0**	**19.8**	**100%**	**99%**

Surge achieved a 100 percent success rate during the second quarter of 2018, drilling 5 gross (5.0 net) wells. During the period, Surge drilled two gross (2.0 net) wells at Valhalla and three gross (3.0 net) wells in southeast Alberta ("Sparky").

Production

	Three Months Ended			**Six Months Ended June 30,**	
	Jun 30, 2018	Mar 31, 2018	Jun 30, 2017	**2018**	2017
Oil (bbls per day)	**13,343**	12,446	11,522	**12,897**	10,913
NGL (bbls per day)	**556**	560	678	**558**	681
Oil and NGL (bbls per day)	**13,899**	13,006	12,200	**13,455**	11,594
Natural gas (mcf per day)	**19,038**	18,128	17,547	**18,585**	17,425
Total (boe per day) (6:1)	**17,072**	16,027	15,125	**16,553**	14,498
% Oil and NGL	**81%**	81%	81%	**81%**	80%

Surge achieved production of 17,072 boe per day in the second quarter of 2018 (81 percent oil and NGLs), a seven percent increase from the average production rate in the first quarter of 2018 and a 13 percent increase from the average production rate in the same period of 2017.

During the six months ended June 30, 2018, Surge achieved production of 16,553 boe per day (81 percent oil and NGLs), a 14 percent increase when compared to the same period of 2017.

The increase in production during the second quarter of 2018 as compared to the first quarter of 2018 is primarily the result of a successful first half 2018 drilling program. In addition to the five wells drilled and brought on production during the second quarter of 2018, Surge also realized a full quarter of production from the 15 gross (14.8 net) wells drilled throughout the first quarter of 2018. Production adds from these wells, combined with continued success from the Company's core area waterflood programs, more than offset natural declines during the period. Additionally, Surge closed an asset acquisition in its core Sparky area on May 31, 2018, contributing approximately 200 boe per day of production to the second quarter of 2018.

The increase in Surge's production for the three and six months ended June 30, 2018 as compared to the same periods of the prior year is primarily due to the successful 2017 and 1H 2018 drilling programs combined with three asset acquisitions in the Sparky area during 2017/2018. These asset acquisitions contributed combined average production of approximately 1,700 boe per day for the three and six months ended June 30, 2018.

Revenue, Realized Prices and Benchmark Pricing

	Three Months Ended			Six Months Ended June 30,	
($000s except per amount)	**Jun 30, 2018**	Mar 31, 2018	Jun 30, 2017	**2018**	2017
Revenue					
Oil	**83,516**	64,492	54,216	**148,008**	102,410
NGL	**2,486**	2,461	2,282	**4,947**	4,522
Oil and NGL	**86,002**	66,953	56,498	**152,955**	106,932
Natural gas	**1,092**	1,337	4,275	**2,429**	8,291
Total oil, natural gas and NGL revenue	**87,094**	68,290	60,773	**155,384**	115,223
Realized Prices					
Oil ($ per bbl)	**68.78**	57.58	51.71	**63.40**	51.85
NGL ($ per bbl)	**49.15**	48.82	36.99	**48.99**	36.69
Oil and NGL ($ per bbl)	**68.00**	57.20	50.89	**62.81**	50.96
Natural gas ($ per mcf)	**0.63**	0.82	2.68	**0.72**	2.63
Total oil, natural gas, and NGL revenue before realized commodity contracts ($ per boe)	**56.06**	47.34	44.16	**51.86**	43.91
Benchmark Prices					
WTI (US$ per bbl)	**67.88**	62.87	48.28	**65.38**	50.10
CAD/USD exchange rate	**1.29**	1.27	1.34	**1.28**	1.33
WTI (C$ per bbl)	**87.56**	79.51	64.69	**83.69**	66.63
Edmonton Light Sweet (C$ per bbl)	**80.62**	72.18	61.83	**76.40**	62.85
WCS (C$ per bbl)	**62.82**	48.77	49.98	**55.80**	49.68
AECO Daily Index (C$ per mcf)	**1.18**	2.08	2.78	**1.63**	2.73

Total oil, natural gas and NGL revenue for the second quarter of 2018 increased 28 percent as compared to the first quarter of 2018. The increase is primarily due to a 19 percent increase in Surge's average realized price per barrel of oil and a seven percent increase in oil production.

Total oil, natural gas and NGL revenue for the second quarter of 2018 increased 43 percent when compared to the same period of 2017. The increase is primarily due to the 13 percent increase in production, particularly higher value oil production, which increased 16 percent compared to the second quarter of 2017. Surge also benefited from an increase in average realized price per barrel of oil during the second quarter of 2018, increasing 33 percent compared to the second quarter of 2017, correlating with the rising benchmark prices during the same period.

Total oil, natural gas and NGL revenue for the six months ended June 30, 2018 increased 35 percent when compared to the same period of 2017. The increase is primarily due to a significant increase in realized oil pricing, which is directly correlated with an increase in benchmark pricing, combined with a 14 percent increase in production. Surge's average realized price per barrel of oil during the first six months of 2018 increased 22 percent compared to the same period of 2017. This compares to a 22 percent increase in Edmonton light sweet and 12 percent increase in WCS during the same period. These increases were partially offset by a decrease in natural gas benchmark pricing.

ROYALTIES

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**Jun 30, 2018**	Mar 31, 2018	Jun 30, 2017	**2018**	2017
Royalties	**12,982**	8,940	7,680	**21,922**	14,717
% of Revenue	**15%**	13%	13%	**14%**	13%
$ per boe	**8.36**	6.20	5.58	**7.32**	5.61

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 three and six months ended June 30, 2018 increased as compared to the immediate preceding period and same periods of the prior year primarily as a result of the higher crude oil pricing environment.

NET OPERATING EXPENSES

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**Jun 30, 2018**	Mar 31, 2018	Jun 30, 2017	**2018**	2017
Operating expenses	**22,823**	21,940	18,545	**44,763**	36,310
Less processing and other revenue	**(824)**	(881)	(679)	**(1,705)**	(1,039)
Net operating expenses	**21,999**	21,059	17,866	**43,058**	35,271
$ per boe	**14.16**	14.60	12.98	**14.37**	13.44

Net operating expenses per boe decreased three percent during the second quarter of 2018, when compared to the first quarter of 2018. The Company experienced increased winter related maintenance expenses and increased fuel and chemical costs in the first quarter of 2018 as a result of extreme cold weather conditions. As the winter weather conditions subsided throughout the second quarter of 2018, operating costs per boe returned to a normalized level within Surge's expectations.

Net operating expenses per boe during the three and six months ended June 30, 2018 increased nine and seven percent, respectively, when compared to the same periods of the prior year. The increase is primarily attributable to recently acquired properties in the Sparky area with higher operating expenses per boe than the Company's historical average. In particular, Surge's electrical consumption has increased approximately 50 percent when compared to the same period of the prior year due to the increase in ownership of high electrical consumption water injection facilities. Additionally, the average Alberta power pool price also increased by 190 percent and 118 percent for the three and six months ended June 30, 2018, respectively, when compared to the same periods of the prior year. The increase in power price during these periods related mainly to a reduction in power supply from coal plant mothballs, weather related demand increase, and low wind power generation.

The increase net operating expenses per boe during the three and six months ended June 30, 2018 was partially offset by operational cost savings resulting from the integration of recently acquired assets in Surge's existing core areas and economies of scale with increased production from the Company's successful 2018 drilling program.

TRANSPORTATION EXPENSES

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**Jun 30, 2018**	Mar 31, 2018	Jun 30, 2017	**2018**	2017
Transportation expenses	**2,518**	1,815	2,033	**4,333**	3,991
$ per boe	**1.62**	1.26	1.48	**1.45**	1.52

Transportation expenses per boe for the second quarter of 2018 increased 29 percent and nine percent, respectively, when compared to the first quarter of 2018 and second quarter of 2017. The increase in transportation expenses is primarily attributable to higher gas transportation fees of approximately $0.10 per boe incurred during the quarter to avoid shutting in oil production during a third-party plant turn around in the Valhalla operating area.

Transportation expenses per boe for the six months ended June 30, 2018 decreased five percent when compared to the same period of the prior year as the Company's drilling program continued to focus in areas with existing pipeline infrastructure.

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**Jun 30, 2018**	Mar 31, 2018	Jun 30, 2017	**2018**	2017
G&A expenses	**4,544**	4,558	3,929	**9,102**	7,621
Recoveries and capitalized amounts	**(1,344)**	(1,357)	(1,249)	**(2,701)**	(2,532)
Net G&A expenses	**3,200**	3,201	2,680	**6,401**	5,089
Net G&A expenses $ per boe	**2.06**	2.22	1.95	**2.14**	1.94

Net G&A expenses per boe for the second quarter of 2018 decreased seven percent as compared to the first quarter of 2018. Net G&A expenses per boe for the three and six months ended June 30, 2018 increased six and 10 percent, respectively, when compared to the same periods of the prior year.

The increase in net G&A expenses per boe is the result of additional labour requirements to meet the Company's objectives following significant production growth and recently acquired assets.

TRANSACTION AND OTHER COSTS

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**Jun 30, 2018**	Mar 31, 2018	Jun 30, 2017	**2018**	2017
Transaction and other costs	**60**	708	459	**768**	1,017
$ per boe	**0.04**	0.49	0.33	**0.26**	0.39

During the six months ended June 30, 2018, the Company incurred transaction and other costs of $0.26 per boe related to the Sparky area asset acquisition and severance costs incurred during the period.

FINANCE EXPENSES

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**Jun 30, 2018**	Mar 31, 2018	Jun 30, 2017	**2018**	2017
Interest on bank debt	**3,211**	2,764	2,344	**5,975**	4,232
$ per boe	**2.07**	1.92	1.70	**1.99**	1.61
Interest on convertible debentures	**640**	640	—	**1,279**	—
$ per boe	**0.41**	0.44	—	**0.43**	—
Interest on finance lease	**119**	120	123	**240**	246
$ per boe	**0.08**	0.08	0.09	**0.08**	0.09
Total interest expense	**3,970**	3,524	2,467	**7,494**	4,478
$ per boe	**2.56**	2.44	1.79	**2.50**	1.70
Accretion expense	**1,358**	1,307	920	**2,665**	1,704
$ per boe	**0.87**	0.91	0.67	**0.89**	0.65
Total finance expense	**5,328**	4,831	3,387	**10,159**	6,182
$ per boe	**3.43**	3.35	2.46	**3.39**	2.35

Total interest expense for the second quarter of 2018 increased 13 percent as compared to the first quarter of 2018 and 61 percent as compared to the second quarter of 2017. Total interest expense for the six months ended June 30, 2018 increased 67 percent as compared to the same period of the prior year.

The increase in interest expense during the second quarter of 2018 as compared to the first quarter of 2018 is primarily due to a higher average debt level during the period. Interest on convertible debentures and finance leases during the second quarter 2018 was comparable to the first quarter of 2018.

The increase in interest expense for the three and six months ended June 30, 2018 as compared to the same period of 2017 is primarily due to higher debt levels as a result of the third quarter 2017 and second quarter 2018 asset acquisitions in addition to a higher effective interest rate. Additionally, the Company incurred $1.3 million of accrued interest expense related to convertible debentures in the during the first six months of 2018 (2017 - $nil).

Accretion represents the change in the time value of the decommissioning liability, the convertible debenture and firm transportation agreements. Accretion expense increased in the second quarter of 2018 as compared to the first quarter of 2018 primarily due to an increase in the decommissioning liability resulting from an unfavorable change in estimate and additional liability associated with assets acquired during the second quarter of 2018.

NETBACKS

	Three Months Ended			Six Months Ended June 30,	
($ per boe, except production)	**Jun 30, 2018**	Mar 31, 2018	Jun 30, 2017	**2018**	2017
Average production (boe per day)	**17,072**	16,027	15,125	**16,553**	14,498
Revenue	**56.06**	47.34	44.16	**51.86**	43.91
Realized gain (loss) on commodity contracts	**(2.46)**	(1.10)	(0.75)	**(1.81)**	(1.15)
Royalties	**(8.36)**	(6.20)	(5.58)	**(7.32)**	(5.61)
Net operating costs	**(14.16)**	(14.60)	(12.98)	**(14.37)**	(13.44)
Transportation costs	**(1.62)**	(1.26)	(1.48)	**(1.45)**	(1.52)
Operating netback	**29.46**	24.18	23.37	**26.91**	22.19
G&A expense	**(2.06)**	(2.22)	(1.95)	**(2.14)**	(1.94)
Interest expense	**(2.56)**	(2.44)	(1.79)	**(2.50)**	(1.70)
Corporate netback	**24.84**	19.52	19.63	**22.27**	18.55

Surge's operating netback for the second quarter of 2018 increased 22 percent compared to the first quarter of 2018 and increased 26 percent compared to the same period of 2017.

The increase in Surge's operating netback as compared to the first quarter of 2018 and second quarter of 2017 is primarily attributable to an increase in revenue per boe, partially offset with increases in realized loss on commodity contracts, royalties per boe and transportation costs per boe. The corporate netback was further impacted by decreases in G&A expense per boe, offset with increase in interest expense per boe as compared to the first quarter of 2018 and increases in G&A expense per boe and interest expense per boe as compared to the second quarter of 2017.

Surge's operating netback for the six months ended June 30, 2018 increased 21 percent as compared to the same period of 2017. The increase is primarily attributable to an increase in revenue per boe, partially offset with increases in realized loss on commodity contracts, royalties per boe and net operating costs per boe. The corporate netback was further impacted by increases in G&A expense per boe and interest expense per boe as compared to the same period of 2018.

ADJUSTED FUNDS FLOW AND CASH FLOW FROM OPERATING ACTIVITIES

	Three Months Ended			Six Months Ended June 30,	
($000s except per share and per boe)	**Jun 30, 2018**	Mar 31, 2018	Jun 30, 2017	**2018**	2017
Adjusted funds flow	**38,596**	28,169	27,018	**66,765**	48,658
Per share - basic ($)	**0.17**	0.12	0.12	**0.29**	0.22
Per share - diluted ($)	**0.17**	0.12	0.12	**0.28**	0.21
$ per boe	**24.84**	19.53	19.63	**22.28**	18.54
Cash flow from operating activities	**33,725**	24,215	24,628	**57,940**	40,453

Adjusted funds flow for the second quarter of 2018 increased 37 percent compared to the first quarter of 2018 and increased 43 percent when compared to the second quarter of 2017. On a per basic share basis, adjusted funds flow increased 42 percent compared to the same first quarter of 2018 and second quarter of 2017.

Adjusted funds flow for the six months ended June 30, 2018 increased 37 percent compared to the same period of 2017 and 32 percent on a per share basic share basis.

Cash flow from operating activities differs from adjusted funds flow principally due to the inclusion of changes in non-cash working capital. Included in cash flow from operating activities is a decrease in non-cash working capital of $2.9 million in the second quarter of 2018.

STOCK-BASED COMPENSATION

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**Jun 30, 2018**	Mar 31, 2018	Jun 30, 2017	**2018**	2017
Stock-based compensation	**3,026**	1,115	2,151	**4,141**	3,799
Capitalized stock-based compensation	**(917)**	(237)	(1,656)	**(1,154)**	(3,254)
Net stock-based compensation	**2,109**	878	495	**2,987**	545
Net stock-based compensation $ per boe	**1.36**	0.61	0.36	**1.00**	0.21

Net stock-based compensation expense for the second quarter of 2018 increased $1.2 million when compared to the immediate preceding quarter and increased $1.6 million as compared to the same period of 2017. The increase is primarily the result of a $0.9 million expense related to the SARs during the second quarter of 2018 as compared to a $0.2 million recovery in the first quarter of 2018 and a $0.9 million recovery in the same period of 2017.

Net stock based compensation expense for the six months ended June 30, 2018 increased $2.4 million as compared to the same period of 2017, primarily as a result of the $1.1 million expense related to SARs in the current period as compared to a $2.3 million recovery in the same period of 2017.

The stock-based compensation recorded in the three and six months ended June 30, 2018 relates to the stock appreciation rights ("SARs"), restricted share awards ("RSAs") and performance share awards ("PSAs") grants. During the second quarter of 2018, 2.0 million SARs were exercised for cash consideration of $1.1 million. As at June 30, 2018, nil SARs are outstanding. 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. An estimated forfeiture rate of 15% was used to value all awards granted for the period ended June 30, 2018. The weighted average fair value of awards granted for the six month period ended June 30, 2018 is $1.81 per PSA and $1.91 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, 2017	4,008,843	6,163,982
Granted	223,000	15,000
Reinvested [1]	88,139	125,963
Exercised	(230,000)	—
Forfeited	(211,127)	(907,147)
Balance at June 30, 2018	**3,878,855**	**5,397,798**

[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			Six Months Ended June 30,	
($000s except per boe)	**Jun 30, 2018**	Mar 31, 2018	Jun 30, 2017	**2018**	2017
Depletion and depreciation expense	**25,691**	22,932	22,475	**48,623**	43,200
$ per boe	**16.54**	15.90	16.33	**16.23**	16.46

Depletion and depreciation are calculated based upon total capital expenditures (including acquisitions and dispositions), production rates and proved plus probable reserves. Deducted from the Company's second quarter of 2018 depletion and depreciation calculation are costs associated with salvage values of $126.0 million. Future development costs for proved and probable reserves of $445.6 million have been included in the depletion calculation.

Depletion and depreciation expense for the three and six months ended June 30, 2018 increased as compared to the first quarter of 2018 and the same periods of 2017 primarily due to increased production levels and larger depletable base resulting from the first half 2018 drilling program and second quarter 2018 acquisition.

NET INCOME (LOSS)

	Three Months Ended			Six Months Ended June 30,	
($000s except per share)	**Jun 30, 2018**	Mar 31, 2018	Jun 30, 2017	**2018**	2017
Net income (loss)	**3,015**	(1,109)	6,926	**1,906**	14,593
Per share - basic ($)	**0.01**	(0.01)	0.03	**—**	0.06
Per share - diluted ($)	**0.01**	(0.01)	0.03	**—**	0.06

Net income and net income per basic share for the second quarter of 2018 increased as compared to the first quarter of 2018 primarily due to increased production levels along with a 19 percent increase in average realized price per barrel of oil.

Net income and net income per basic share for the six months ended June 30, 2018 decreased as compared to the same period of 2017 primarily due to an unrealized loss on financial contracts of $7.6 million during the six months ended June 30, 2018 as compared to an $18.2 million gain on financial contracts during the six months ended June 30, 2017.

CAPITAL EXPENDITURES

Capital Expenditure Summary

($000s)	Q1 2018	Q2 2018	**2018 YTD**	2017 YTD	% Change
Land	704	1,877	**2,581**	1,864	38 %
Seismic	373	153	**526**	436	21 %
Drilling and completions	25,331	15,741	**41,072**	35,703	15 %
Facilities, equipment and pipelines	7,100	4,001	**11,101**	7,990	39 %
Other	1,401	1,572	**2,973**	3,112	(4)%
Total exploration and development	34,909	23,344	**58,253**	49,105	19 %
Acquisitions - cash consideration	174	29,179	**29,353**	35,992	(18)%
Property dispositions	(6,659)	(240)	**(6,899)**	(545)	nm
Total acquisitions & dispositions	(6,485)	28,939	**22,454**	35,447	(37)%
Total capital expenditures	28,424	52,283	**80,707**	84,552	(5)%

During the three and six months ended June 30, 2018, Surge invested a total of $23.3 million and $58.3 million, excluding acquisitions and dispositions.

During the second quarter of 2018, Surge invested $11.5 million to drill, complete and bring onstream 2 gross (2 net) wells in the Valhalla area and 3 gross (3 net) wells in the Sparky area. An additional well in the Valhalla area that was drilled during the first quarter of 2018 was completed and brought on stream at the cost of $2.1 million. A further $2.0 million was spent during the second quarter of 2018 to partially drill an additional 3 gross (3 net) wells in the Sparky area that will be completed and brought on stream during the third quarter of 2018. The Company's successful 2018 drilling program combined with a core area asset acquisition that closed on May 31, 2018, resulted in an increase in production of seven percent when compared to the first quarter of 2018.

During the second quarter of 2018, Surge invested $4.0 million in facilities, pipelines, waterflood expansions and pilots. An additional $3.6 million was spent on land and seismic acquisitions and other capital items during the quarter as the Company spend $1.9 million on Crown and Freehold land and Mineral fee title acquisitions in the Sparky area.

FACTORS THAT HAVE CAUSED VARIATIONS OVER THE QUARTERS

The fluctuations in Surge's revenue and net earnings from quarter to quarter are primarily caused by changes in production volumes, changes in realized commodity prices and the related impact on royalties, and realized and unrealized gains or losses on derivative instruments. The change in production from the third quarter of 2016 through the current quarter is due to Surge's successful drilling programs and asset acquisitions over that period. Please refer to the Financial and Operating Results section and other sections of this MD&A for detailed discussions on variations during the comparative quarters and to Surge's previously issued interim and annual MD&A for changes in prior quarters.

Share Capital and Option Activity

	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Weighted common shares	**230,812,437**	233,006,881	232,928,730	228,309,427
Dilutive instruments (treasury method)	**5,264,860**	—	—	—
Weighted average diluted shares outstanding	**236,077,297**	233,006,881	232,928,730	228,309,427

	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Weighted common shares	225,766,393	225,763,917	225,277,907	221,615,072
Dilutive instruments (treasury method)	3,790,055	3,427,489	—	—
Weighted average diluted shares outstanding	229,556,448	229,191,406	225,277,907	221,615,072

During the six months ended June 30, 2018 the Company purchased and cancelled 2,725,631 common shares through a normal course issuer bid at a weighted average price of $2.00 per share. On August 8, 2018, Surge had 230,493,868 common shares, 5,397,798 PSAs, and 3,878,855 RSAs outstanding.

Quarterly Financial Information

	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Oil, Natural gas & NGL sales	**87,094**	68,290	69,260	56,425
Net earnings (loss)	**3,015**	(1,109)	(13,078)	(8,188)
Net earnings (loss) per share ($):				
Basic	**0.01**	(0.01)	(0.06)	(0.04)
Diluted	**0.01**	(0.01)	(0.06)	(0.04)
Adjusted funds flow	**38,596**	28,169	32,173	22,985
Adjusted funds flow per share ($):				
Basic	**0.17**	0.12	0.14	0.10
Diluted	**0.17**	0.12	0.14	0.10
Average daily sales				
Oil (bbls/d)	**13,343**	12,446	12,169	11,380
NGL (bbls/d)	**556**	560	571	627
Natural gas (mcf/d)	**19,038**	18,128	17,607	17,997
Barrels of oil equivalent (boe per day) (6:1)	**17,072**	16,027	15,675	15,007
Average sales price				
Natural gas ($/mcf)	**0.63**	0.82	1.41	2.24
Oil ($/bbl)	**68.78**	57.58	57.36	48.29
NGL ($/bbl)	**49.15**	48.82	52.41	37.42
Barrels of oil equivalent ($/boe)	**56.06**	47.34	48.03	40.87

Quarterly Financial Information

	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Oil, Natural gas & NGL sales	60,773	54,450	50,235	45,244
Net earnings (loss)	6,926	7,667	(14,816)	(3,840)
Net earnings (loss) per share ($):				
Basic	0.03	0.03	(0.07)	(0.02)
Diluted	0.03	0.03	(0.07)	(0.02)
Adjusted funds flow	27,018	21,640	21,534	19,138
Adjusted funds flow per share ($):				
Basic	0.12	0.10	0.10	0.09
Diluted	0.12	0.09	0.10	0.09
Average daily sales				
Oil (bbls/d)	11,522	10,298	9,832	9,807
NGL (bbls/d)	678	684	504	597
Natural gas (mcf/d)	17,547	17,302	15,036	16,296
Barrels of oil equivalent (boe per day) (6:1)	15,125	13,866	12,842	13,120
Average sales price				
Natural gas ($/mcf)	2.68	2.58	2.60	2.22
Oil ($/bbl)	51.71	52.00	50.14	45.06
NGL ($/bbl)	36.99	36.39	27.69	22.86
Barrels of oil equivalent ($/boe)	44.16	43.63	42.52	37.48

LIQUIDITY AND CAPITAL RESOURCES

On June 30, 2018, Surge had $246.8 million drawn on its credit facility, convertible subordinated unsecured debentures ("Debentures") at a 5.75 percent interest rate, and total net debt of $276.1 million, an increase in total net debt of 33 percent as compared to the same date in 2017. At June 30, 2018, Surge had approximately $103.2 million of borrowing capacity in relation to the $350 million credit facility, providing Surge financial flexibility through 2018. The following tables set forth the consolidated capitalization of Surge and the change in the components of the convertible debentures:

($000s)	**Outstanding as at June 30, 2018**
Shareholder Equity	
Share capital	1,281,317
Common shares outstanding	230,494
Debentures - equity	3,551
Debt	
Credit Facilities	
Authorized	350,000
Amount drawn	246,811
Debentures - liability	37,328

Convertible Debentures

	Number of convertible debentures	Liability Component ($000s)	Equity Component ($000s)
Balance at December 31, 2016	—	—	—
Issuance of convertible debentures	44,500	39,273	5,227
Issue costs	—	(2,713)	(362)
Deferred income tax liability	—	—	(1,314)
Accretion of discount	—	155	—
Balance at December 31, 2017	44,500	36,715	3,551
Accretion of discount	—	613	—
Balance at June 30, 2018	**44,500**	**37,328**	**3,551**

Surge monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives. Currently, Surge anticipates that the future capital requirements will be funded through a combination of internal cash flow, divestitures, debt and/or equity financing. Furthermore, the Company's flexible capital program and unused bank line further add to Surge's ability to fund future capital requirements. There is no assurance that debt and equity financing will be available on terms acceptable to the Company to meet its capital requirements.

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

The Company defines net debt as outstanding bank debt and the liability component of the convertible debenture plus or minus working capital, however, excluding the fair value of financial contracts and other current obligations as follows:

Net Debt

($000s)	As at June 30, 2018
Bank debt	(246,811)
Accounts receivable	36,207
Prepaid expenses and deposits	8,209
Convertible debentures	(37,328)
Accounts payable and accrued liabilities	(34,496)
Dividends payable	(1,921)
Total	**(276,140)**

As at June 30, 2018, the Company had an extendible, revolving term credit facility of $350 million with a syndicate of Canadian banks bearing interest at bank rates. This is an increase of $45 million when compared to the first quarter of 2018. This increase will provide Surge with approximately $103.2 million of borrowing capacity in relation to the $350 million credit facility, providing Surge further financial flexibility through 2018.

The facility is available on a revolving basis until May 27, 2019. On May 27, 2019, at the Company's discretion, the facility is available on a non-revolving basis for a one-year period, at the end of which time the facility would be due and payable. Alternatively, the facility may be extended for a further 364-day period at the request of the Company and subject to the approval of the syndicate. As the available lending limits of the facility is based on the syndicate's interpretation of the Company's reserves and future commodity prices, there can be no assurance that the amount of the available facility will not decrease at the next scheduled review. Interest rates vary depending on the ratio of net debt to cash flow. The facility had an effective interest rate of prime plus 1.25 percent as at June 30, 2018 (December 31, 2017 – prime plus 1.90 percent).

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

RELATED-PARTY AND OFF-BALANCE-SHEET TRANSACTIONS

Surge was not involved in any off-balance-sheet transactions or related party transactions during the three and six months ended June 30, 2018.

CONTRACTUAL OBLIGATIONS

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

As at June 30, 2018, Surge had future minimum payments relating to its operating lease and firm transport commitments totaling $55.7 million, as summarized below:

Commitments

($000s)		
2018	$	6,566
2019		11,760
2020		9,785
2021		8,144
2022		5,417
2023+		14,005
Total	**$**	**55,677**

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 August 8, 2018 by period and by product.

Commodity Contracts

WTI Oil Hedges

Type	Term	bbl/d	Currency	Put Sold (per bbl)	Put Acquired (per bbl)	Call Sold (per bbl)	Call Acquired (per bbl)
WTI	2H 2018	1,500	USD	—	$50.00	—	—
WTI	2H 2018	1,000	USD	$55.00	$60.00	—	—
WTI	2018	750	USD	—	$45.00	$58.00	—
WTI	2018	500	CAD	—	$60.00	$68.91	—
WTI	2018	500	USD	—	—	—	$57.45
WTI	2H 2018 - Q1 2019	500	USD	$50.00	$60.00	$71.50	—
WTI	2H 2018 - Q1 2019	500	USD	$50.00	$57.50	$78.10	—
WTI	Q2 2019	500	USD	$50.00	$57.50	$72.50	—
WTI	1H 2019	500	USD	$47.50	$57.50	$75.50	—
WTI	1H 2019	500	CAD	$50.00	$60.00	$73.34	—

Natural Gas Hedges

Type	Term	Volume	Currency	Floor	Ceiling
AECO Swap	Nov 2017-Oct 2018	2,000 GJ/d	CAD	$2.30 per GJ	$2.30 per GJ
Chicago Collar	Nov 2018-Mar 2019	4,000 mmbtu/d	USD	$2.65 per mmbtu	$3.30 per mmbtu

CAD/USD FX Hedges

Type	Term	Monthly Notional Amount (US$)	Total Notional Amount (US$)	Swap Rate (CAD$ per USD$)
Avg Rate Forward	2018	$4,000,000	$48,000,000	$1.2879
Avg Rate Forward	2019	$1,000,000	$12,000,000	$1.2726
Avg Rate Forward	2H 2018 - 1H 2019	$3,000,000	$36,000,000	$1.2850

Interest Rate Hedges

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

CONTROLS AND PROCEDURES

The Chief Executive Officer and Chief Financial Officer are responsible for designing internal controls over financial reporting ("ICFR") 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 June 30, 2018 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Disclosure Controls

Disclosure controls and procedures have been designed to ensure that information to be disclosed by the Company is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosures.

The President and Chief Executive Officer and the Chief Financial Officer of Surge evaluated the design and operating effectiveness of the Company's disclosure controls and procedures ("DC&P"). Based on that evaluation, the officers concluded that Surge's DC&P were designed properly as at June 30, 2018.

Internal Controls over Financial Reporting

Internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with IFRS.

Under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, Surge conducted an evaluation of the design of the Company's ICFR as at June 30, 2018 based on the COSO framework. Based on this evaluation, the officers concluded that as of June 30, 2018, Surge's ICFR was properly designed.

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

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

Stock-based Compensation

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

Deferred Income Taxes

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

CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING POLICY CHANGE

As of January 1, 2018, the Company adopted the following International Financial Reporting Standards ("IFRS"):

- IFRS 15 "Revenue From Contracts with Customers" - IFRS 15 was issued in May 2014 and replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The Company used the cumulative effect method to adopt the new standard. Under this method, prior period financial statements have not been restated and the cumulative effect on net earnings of the application of IFRS 15 to revenue contracts in progress at January 1, 2018 is nil. Surge reviewed its sales contracts with customers using the IFRS 15 five step model and determined that there are no material changes to the consolidated financial statements other than enhanced disclosures.
- IFRS 9 "Financial Instruments"- IFRS 9 was amended in July 2014 to include guidance to assess and recognize impairment losses on financial assets based on an expected loss model. Surge completed its review of financial instruments and the expected credit loss impairment model and determined there are no material changes to the consolidated financial statements other than enhanced disclosures.

Further information about changes to our accounting policies resulting from the adoption of IFRS 9 and IFRS 15 can be found in Note 3 of the second quarter 2018 condensed consolidated interim financial statements.

In future accounting periods, the Company will adopt the following IFRS:

- IFRS 16 "Leases" - IFRS 16 was issued January 2016 and replaces IAS 17 Leases. The standard introduces a single lessee accounting model for leases with required recognition of assets and liabilities for most leases. The standard is effective for fiscal years beginning on or after January 1, 2019 with early adoption permitted if the Company is also applying IFRS 15 Revenue from Contracts with Customers. IFRS 16 will be adopted by the Company on January 1, 2019 and the Company is currently reviewing contracts that are currently identified as leases and evaluating the impact of the standard on the consolidated financial statements.

RISK FACTORS

Additional risk factors can be found under “Risk Factors” in the Company’s AIF for the year ended December 31, 2017, 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; strategic acquisitions; drilling locations; enhanced recovery activities; operating expenses of acquired assets; operating, interest and G&A expense trends; the availability of Surge’s bank line to fund Surge’s future capital requirements; funding of future capital requirements through internal cash flow, divestitures, debt and/or equity financing; future development costs for proved and probable reserves; Surge’s financial flexibility; the expected sources of funding of future capital expenditures; expected forfeiture rates of RSAs and PSAs granted under the Company’s Stock Incentive Plan; expectations as to the payout multiplier for PSAs granted under the Company’s Stock Incentive Plan; estimations of the fair value of acquired assets; expectations about Surge’s realized natural gas price; potential impairments of cash generating units; expectations with respect to its underlying decommissioning liabilities; ability of Surge to increase credit facility; additional financial flexibility as a result of the increase to the credit facility; expectations with respect to environmental legislation; expectations on corporate royalty rates applicable to the Company; expectations with respect to transportation expense; and expectations with respect to the Company’s ability to operate and succeed in the current commodity price environment.

The forward-looking statements are based on certain key expectations and assumptions made by Surge, including expectations and assumptions concerning the performance of existing wells and success obtained in drilling new wells, anticipated expenses, cash flow and capital expenditures, the application of regulatory and royalty regimes, prevailing commodity prices and economic conditions, 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, the successful application of drilling, completion and seismic technology, the successful completion of the convertible debenture financing, the determination of decommissioning liabilities, the ability to obtain approval from syndicate to increase credit facility; prevailing weather conditions, exchange rates, licensing requirements, the impact of completed facilities on operating costs and the availability, costs of capital, labour and services, and the creditworthiness of industry partners.

Although Surge believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Surge can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; inability of Surge to fund its future capital requirements; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), commodity price and exchange rate fluctuations and constraint in the availability of services, adverse weather or break-up conditions, uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures, failure to obtain the continued support of the lenders under Surge’s current bank line or the inability to obtain consent of lenders to increase bank line. Certain of these risks are set out in more detail in this MD&A under the heading ‘Risk Factors’ and in Surge’s AIF dated March 14, 2018 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.