FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended			Nine Months Ended September 30,		
	Sep 30, 2018	Jun 30, 2018	% Change	**2018**	2017	% Change
Financial highlights						
Oil sales	**85,946**	83,516	3 %	**233,954**	152,973	53 %
NGL sales	**3,598**	2,486	45 %	**8,546**	6,680	28 %
Natural gas sales	**1,492**	1,092	37 %	**3,920**	11,995	(67)%
Total oil, natural gas, and NGL revenue	**91,036**	87,094	5 %	**246,420**	171,648	44 %
Cash flow from operating activities	**37,197**	33,725	10 %	**95,137**	65,042	46 %
Per share - basic ($)	**0.16**	0.15	7 %	**0.41**	0.29	41 %
Adjusted funds flow[1]	**40,638**	38,596	5 %	**107,403**	71,643	50 %
Per share - basic ($)[1]	**0.18**	0.17	6 %	**0.46**	0.32	44 %
Total exploration and development expenditures	**28,701**	23,344	23 %	**86,954**	75,757	15 %
Total acquisitions & dispositions	**6,279**	28,939	(78)%	**28,733**	72,097	(60)%
Total capital expenditures	**34,980**	52,283	(33)%	**115,687**	147,854	(22)%
Net debt[1], end of period	**282,394**	276,140	2 %	**282,394**	246,398	15 %
Operating highlights						
Production:						
Oil (bbls per day)	**13,560**	13,343	2 %	**13,120**	11,071	19 %
NGLs (bbls per day)	**669**	556	20 %	**595**	663	(10)%
Natural gas (mcf per day)	**22,797**	19,038	20 %	**20,004**	17,618	14 %
Total (boe per day) (6:1)	**18,029**	17,072	6 %	**17,049**	14,670	16 %
Average realized price (excluding hedges):						
Oil ($ per bbl)	**68.89**	68.78	— %	**65.32**	50.62	29 %
NGL ($ per bbl)	**58.46**	49.15	19 %	**52.57**	36.92	42 %
Natural gas ($ per mcf)	**0.71**	0.63	13 %	**0.72**	2.49	(71)%
Netback ($ per boe)						
Petroleum and natural gas revenue	**54.89**	56.06	(2)%	**52.94**	42.86	24 %
Realized loss on commodity contracts	**(1.91)**	(2.46)	(22)%	**(1.84)**	(0.71)	159 %
Royalties	**(8.32)**	(8.36)	— %	**(7.68)**	(5.49)	40 %
Net operating expenses[1]	**(14.36)**	(14.16)	1 %	**(14.37)**	(13.54)	6 %
Transportation expenses	**(1.55)**	(1.62)	(4)%	**(1.48)**	(1.48)	— %
Operating netback[2]	**28.75**	29.46	(2)%	**27.57**	21.64	27 %
G&A expense	**(1.98)**	(2.06)	(4)%	**(2.08)**	(1.94)	7 %
Interest expense	**(2.27)**	(2.56)	(11)%	**(2.42)**	(1.81)	34 %
Adjusted funds flow netback[2]	**24.50**	24.84	(1)%	**23.07**	17.89	29 %
Common shares outstanding, end of period	**233,618**	230,494	1 %	**233,618**	232,920	— %
Weighted average basic shares outstanding	**231,988**	230,812	1 %	**231,932**	226,623	2 %
Stock option dilution	**4,234**	5,265	(20)%	**4,736**	6,357	(25)%
Weighted average diluted shares outstanding	**236,222**	236,077	— %	**236,668**	232,980	2 %

1 This is a non-GAAP financial measure which is defined in the Non-GAAP Financial Measures section of this document.
2 This is an additional metric which is defined in the Additional Metrics 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, 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 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 interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Surge's Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A. This MD&A is dated November 6, 2018.

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 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.

CASH FLOW FROM OPERATING ACTIVITIES AND ADJUSTED FUNDS FLOW

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per share and per boe)	**Sep 30, 2018**	Jun 30, 2018	Sep 30, 2017	**2018**	2017
Cash flow from operating activities	**37,197**	33,725	24,589	**95,137**	65,042
Per share - basic ($)	**0.16**	0.15	0.11	**0.41**	0.29
Per share - diluted ($)	**0.16**	0.14	0.11	**0.40**	0.28
$ per boe	**22.43**	21.71	17.81	**20.44**	16.24
Adjusted funds flow	**40,638**	38,596	22,985	**107,403**	71,643
Per share - basic ($)	**0.18**	0.17	0.10	**0.46**	0.32
Per share - diluted ($)	**0.17**	0.17	0.10	**0.45**	0.31
$ per boe	**24.50**	24.84	16.65	**23.07**	17.89

Cash flow from operating activities for the third quarter of 2018 increased 10 percent compared to the second quarter of 2018 and increased 51 percent when compared to the third quarter of 2017. On a per basic share basis, cash flow from operating activities increased seven percent compared to the second quarter and increased 45 percent compared to the third quarter of 2017. Cash flow from operating activities for the nine months ended September 30, 2018 increased 46 percent when compared to the same period of the prior year and increased 41 percent on a per basic share basis.

Adjusted funds flow for the third quarter of 2018 increased five percent compared to the second quarter of 2018 and increased 77 percent when compared to the third quarter of 2017. On a per basic share basis, adjusted funds flow increased six percent compared to the second quarter of 2018 and increased 80 percent compared to the third quarter of 2017. Adjusted funds flow for the nine months ended September 30, 2018 increased 50 percent compared to the same period of 2017 and 47 percent on a per share basic share basis.

Both cash flow from operating activities and adjusted funds flow for the third quarter of 2018 increased when compared to the immediate preceding quarter primarily due to a six percent increase in production. Cash flow from operating activities and adjusted funds flow for the three and nine months ended September 30, 2018 increased when compared to the same periods of the prior year due to increases in production and favourable increases in realized liquids pricing which correlates to the increase in benchmark crude oil pricing.

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, 2018 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 2018	15.0	14.8	100%	99%
Q2 2018	5.0	5.0	100%	100%
Q3 2018	12.0	11.8	100%	98%
Total	**32.0**	**31.6**	**100%**	**99%**

Surge achieved a 100 percent success rate during the nine months ended September 30, 2018, drilling 32 gross (31.6 net) wells. During the third quarter of 2018, Surge drilled 12 gross (11.8 net) wells, including five gross (5.0 net) wells at Shaunavon, one gross (1.0 net) well at Valhalla and six gross (5.8 net) wells in southeast Alberta ("Sparky").

Production

	Three Months Ended			**Nine Months Ended Sep 30,**	
	Sep 30, 2018	Jun 30, 2018	Sep 30, 2017	**2018**	2017
Oil (bbls per day)	**13,560**	13,343	11,380	**13,120**	11,071
NGL (bbls per day)	**669**	556	627	**595**	663
Oil and NGL (bbls per day)	**14,229**	13,899	12,007	**13,715**	11,734
Natural gas (mcf per day)	**22,797**	19,038	17,997	**20,004**	17,618
Total (boe per day) (6:1)	**18,029**	17,072	15,007	**17,049**	14,670
% Oil and NGL	**79%**	81%	80%	**80%**	80%

Surge achieved production of 18,029 boe per day in the third quarter of 2018 (79 percent oil and NGLs), a six percent increase from the average production rate in the second quarter of 2018 and a 20 percent increase from the average production rate in the same period of 2017.

During the nine months ended September 30, 2018, Surge achieved production of 17,049 boe per day (80 percent oil and NGLs), a 16 percent increase when compared to the same period of 2017.

The increase in production during the third quarter of 2018 as compared to the second quarter of 2018 is primarily the result of a successful third quarter drilling program. Of the 11.8 net wells drilled during the period, 9.8 net wells were on production at quarter end with the remaining 2.0 net Shaunavon wells brought on production in the fourth quarter of 2018. Additionally, Surge's third quarter production benefited from a full three month period with its latest Central Alberta acquisition, which closed May 31, 2018 and added approximately 620 boe per day as compared to approximately 200 boe per day during the course of the second quarter of 2018.

The increase in Surge's production for the three and nine months ended September 30, 2018 as compared to the same periods of the prior year is primarily due to the successful 2017 and 2018 drilling programs combined with continued success from the Company's core area waterflood programs and three asset acquisitions in the Sparky area throughout 2017 and 2018. These asset acquisitions contributed combined average production of approximately 2,100 boe per day and 1,750 boe per day for the three and nine months ended September 30, 2018, respectively, as compared to the 950 boe per day and 530 boe per day for the same three and nine month periods of 2017.

Revenue, Realized Prices and Benchmark Pricing

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per amount)	**Sep 30, 2018**	Jun 30, 2018	Sep 30, 2017	**2018**	2017
Revenue					
Oil	**85,946**	83,516	50,563	**233,954**	152,973
NGL	**3,598**	2,486	2,158	**8,546**	6,680
Oil and NGL	**89,544**	86,002	52,721	**242,500**	159,653
Natural gas	**1,492**	1,092	3,704	**3,920**	11,995
Total oil, natural gas and NGL revenue	**91,036**	87,094	56,425	**246,420**	171,648
Realized Prices					
Oil ($ per bbl)	**68.89**	68.78	48.29	**65.32**	50.62
NGL ($ per bbl)	**58.46**	49.15	37.42	**52.57**	36.92
Oil and NGL ($ per bbl)	**68.40**	68.00	47.73	**64.76**	49.84
Natural gas ($ per mcf)	**0.71**	0.63	2.24	**0.72**	2.49
Total oil, natural gas, and NGL revenue before realized commodity contracts ($ per boe)	**54.89**	56.06	40.87	**52.94**	42.86
Benchmark Prices					
WTI (US$ per bbl)	**69.50**	67.88	48.20	**66.75**	49.47
CAD/USD exchange rate	**1.31**	1.29	1.25	**1.29**	1.30
WTI (C$ per bbl)	**91.05**	87.56	60.25	**86.11**	64.31
Edmonton Light Sweet (C$ per bbl)	**81.91**	80.62	56.62	**78.24**	60.77
WCS (C$ per bbl)	**61.78**	62.82	47.90	**57.79**	49.09
AECO Daily Index (C$ per mcf)	**1.19**	1.18	1.46	**1.63**	2.31

Total oil, natural gas and NGL revenue for the third quarter of 2018 increased five percent as compared to the second quarter of 2018. The increase is primarily due to a six percent increase in production, which more than offset a slightly lower averaged realize price per boe.

Total oil, natural gas and NGL revenue for the third quarter of 2018 increased 61 percent when compared to the same period of 2017. The increase is primarily due to the 20 percent increase in production, particularly higher value oil production, which increased 19 percent compared to the third quarter of 2017. Surge also benefited from an increase in average realized price per barrel of oil during the third quarter of 2018, increasing 43 percent compared to the third quarter of 2017, correlating with the rising benchmark prices during the same period.

Total oil, natural gas and NGL revenue for the nine months ended September 30, 2018 increased 44 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 16 percent increase in production. Surge's average realized price per barrel of oil during the first nine months of 2018 increased 29 percent compared to the same period of 2017. This compares to a 29 percent increase in Edmonton light sweet and 18 percent increase in WCS during the same period. These increases were partially offset by a decrease in natural gas realized and benchmark pricing.

ROYALTIES

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2018**	Jun 30, 2018	Sep 30, 2017	**2018**	2017
Royalties	**13,803**	12,982	7,276	**35,725**	21,993
% of Revenue	**15%**	15%	13%	**14%**	13%
$ per boe	**8.32**	8.36	5.27	**7.68**	5.49

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 months ended September 30, 2018 is comparable to the immediate preceding period. Royalties as a percentage of revenue for the three and nine months ended September 30, 2018 increased as compared to the same periods of the prior year primarily as a result of the higher crude oil pricing environment.

NET OPERATING EXPENSES

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2018**	Jun 30, 2018	Sep 30, 2017	**2018**	2017
Operating expenses	**24,360**	22,823	19,911	**69,123**	56,221
Less processing and other revenue	**(537)**	(824)	(961)	**(2,242)**	(2,000)
Net operating expenses	**23,823**	21,999	18,950	**66,881**	54,221
$ per boe	**14.36**	14.16	13.73	**14.37**	13.54

Net operating expenses per boe for the three months ended September 30, 2018 is comparable to the immediate preceding quarter. Net operating expenses per boe during the three and nine months ended September 30, 2018 increased five and six percent, respectively, when compared to the same periods of the prior year. The increase is primarily attributable to recently acquired properties in the Central Alberta 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 121 percent and 119 percent for the three and nine months ended September 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 plants that are being decommissioned, weather related demand increase, and low wind power generation.

TRANSPORTATION EXPENSES

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2018**	Jun 30, 2018	Sep 30, 2017	**2018**	2017
Transportation expenses	**2,574**	2,518	1,939	**6,907**	5,930
$ per boe	**1.55**	1.62	1.40	**1.48**	1.48

Transportation expenses per boe for the third quarter of 2018 decreased four percent when compared to the second quarter of 2018. Surge realized an incremental $0.10 per boe transportation expenses above normal levels during the second quarter of 2018 to avoid shutting in oil production during a third-party plant turn around in the Valhalla operating area.

Transportation expenses per boe for the third quarter of 2018 increased 11 percent when compared to the same period of the prior year primarily due to additional costs incurred to transport product away from pipeline constrained operating areas.

Transportation expenses per boe for the nine months ended September 30, 2018 were comparable to the same period of the prior year as increased trucking costs incurred throughout 2018 are continued to be offset by focusing the Company's drilling program in areas with existing pipeline infrastructure.

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2018**	Jun 30, 2018	Sep 30, 2017	**2018**	2017
G&A expenses	**4,623**	4,544	3,833	**13,725**	11,454
Recoveries and capitalized amounts	**(1,346)**	(1,344)	(1,160)	**(4,048)**	(3,692)
Net G&A expenses	**3,276**	3,200	2,673	**9,677**	7,762
Net G&A expenses $ per boe	**1.98**	2.06	1.94	**2.08**	1.94

Net G&A expenses per boe for the third quarter of 2018 decreased four percent as compared to the second quarter of 2018 primarily a result of increased production while maintaining comparable net G&A expenses. Net G&A expenses per boe for the three and nine months ended September 30, 2018 increased two and seven 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			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2018**	Jun 30, 2018	Sep 30, 2017	**2018**	2017
Transaction and other costs	**1,016**	60	138	**1,784**	1,155
$ per boe	**0.61**	0.04	0.10	**0.38**	0.29

During the nine months ended September 30, 2018, the Company incurred transaction and other costs of $0.38 per boe primarily related to the acquisition Mount Bastion Oil & Gas Corp. that closed subsequent to the period and the second quarter 2018 Sparky area asset acquisition in addition to severance costs.

FINANCE EXPENSES

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2018**	Jun 30, 2018	Sep 30, 2017	**2018**	2017
Interest on bank debt	**2,997**	3,211	2,649	**8,973**	6,882
$ per boe	**1.81**	2.07	1.92	**1.93**	1.72
Interest on convertible debentures	**640**	640	—	**1,919**	—
$ per boe	**0.39**	0.41	—	**0.41**	—
Interest on finance lease	**119**	119	122	**358**	367
$ per boe	**0.07**	0.08	0.09	**0.08**	0.09
Total interest expense	**3,756**	3,970	2,771	**11,250**	7,249
$ per boe	**2.27**	2.56	2.01	**2.42**	1.81
Accretion expense	**1,400**	1,358	1,085	**4,065**	2,789
$ per boe	**0.84**	0.87	0.79	**0.87**	0.70
Total finance expense	**5,156**	5,328	3,856	**15,315**	10,038
$ per boe	**3.11**	3.43	2.79	**3.29**	2.51

Total interest expense for the third quarter of 2018 decreased five percent as compared to the second quarter of 2018 and increased 36 percent as compared to the third quarter of 2017. Total interest expense for the nine months ended September 30, 2018 increased 55 percent as compared to the same period of the prior year.

The decrease in interest expense during the third quarter of 2018 as compared to the second quarter of 2018 is primarily due to a lower effective bank interest rate during the period. Interest on convertible debentures and finance leases during the third quarter of 2018 was comparable to the second quarter of 2018.

The increase in interest expense for the three and nine months ended September 30, 2018 as compared to the same periods of 2017 is primarily due to higher debt levels as a result of the third quarter 2017 and second quarter 2018 asset acquisitions. Additionally, the Company incurred $1.9 million of interest expense related to convertible debentures during the first nine 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 in the third quarter of 2018 was comparable to the immediate preceding quarter and increased as compared to the third quarter of 2017 primarily due to an increase in the decommissioning liability resulting from additional liability associated with assets acquired during the third quarter of 2017 and second quarter of 2018.

NETBACKS

	Three Months Ended			Nine Months Ended Sep 30,	
($ per boe, except production)	**Sep 30, 2018**	Jun 30, 2018	Sep 30, 2017	**2018**	2017
Average production (boe per day)	**18,029**	17,072	15,007	**17,049**	14,670
Revenue	**54.89**	56.06	40.87	**52.94**	42.86
Realized gain (loss) on commodity contracts	**(1.91)**	(2.46)	0.12	**(1.84)**	(0.71)
Royalties	**(8.32)**	(8.36)	(5.27)	**(7.68)**	(5.49)
Net operating costs	**(14.36)**	(14.16)	(13.73)	**(14.37)**	(13.54)
Transportation costs	**(1.55)**	(1.62)	(1.40)	**(1.48)**	(1.48)
Operating netback	**28.75**	29.46	20.59	**27.57**	21.64
G&A expense	**(1.98)**	(2.06)	(1.94)	**(2.08)**	(1.94)
Interest expense	**(2.27)**	(2.56)	(2.01)	**(2.42)**	(1.81)
Adjusted funds flow netback	**24.50**	24.84	16.64	**23.07**	17.89

Surge's operating netback for the third quarter of 2018 was comparable to the second quarter of 2018 and increased 40 percent compared to the same period of 2017.

The increase in Surge's operating netback as compared to the third quarter of 2017 is primarily attributable to an increase in revenue per boe, partially offset by an increase in royalties per boe, transportation costs per boe and a loss on commodity contracts of $1.91 per boe as compared to a gain of $0.12 per boe in the third quarter of 2017. The adjusted funds flow netback was further impacted by increases in G&A expense per boe and interest expense per boe as compared to the third quarter of 2017.

Surge's operating netback for the nine months ended September 30, 2018 increased 27 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 adjusted funds flow netback was further impacted by increases in G&A expense per boe and interest expense per boe as compared to the same period of 2017.

STOCK-BASED COMPENSATION

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2018**	Jun 30, 2018	Sep 30, 2017	**2018**	2017
Stock-based compensation	**4,073**	3,026	6,322	**8,214**	10,121
Capitalized stock-based compensation	**(1,619)**	(917)	(3,359)	**(2,773)**	(6,613)
Net stock-based compensation	**2,454**	2,109	2,963	**5,441**	3,508
Net stock-based compensation $ per boe	**1.48**	1.36	2.15	**1.17**	0.88

Net stock-based compensation expense for the third quarter of 2018 increased $0.3 million when compared to the immediate preceding quarter. The increase in net stock-based compensation is primarily the result of a $1.3 million PSA performance multiplier adjustment for awards that vested in the third quarter of 2018 partially offset by a $0.9 million expense related to the SARs during the second quarter of 2018 as compared to $nil expense during the current period.

Net stock-based compensation expense for the third quarter of 2018 decreased $0.5 million when compared to the same period of the prior year. The decrease in net stock-based compensation is primarily the result of a $1.3 million PSA performance multiplier adjustment for awards that vested in the third quarter of 2018 as compared to a $1.6 million PSA performance multiplier adjustment in the third quarter of 2017 in addition to a $0.1 million expense related to SARS during the third quarter of 2017 as compared to $nil expense during the current period.

Net stock based compensation expense for the nine months ended September 30, 2018 increased $1.9 million as compared to the same period of 2017, primarily as a result of the $2.3 million recovery related to SARs in the prior year period as compared to $nil in the current period.

The stock-based compensation recorded in the three and nine months ended September 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 September 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 September 30, 2018. The weighted average fair value of awards granted for the nine month period ended September 30, 2018 is $2.16 per PSA and $2.13 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	1,967,084	1,954,847
Reinvested [1]	127,373	179,784
Added by performance factor	—	1,229,646
Exercised	(2,082,603)	(2,826,590)
Forfeited	(310,532)	(1,496,023)
Balance at September 30, 2018	**3,710,165**	**5,205,646**

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

During the period ended September 30, 2018 the Company settled the tax withholdings on certain exercised awards amounting to 423,967 RSAs and 1,130,903 PSAs (2017 - nil) for $3.4 million in cash.

DEPLETION AND DEPRECIATION

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2018**	Jun 30, 2018	Sep 30, 2017	**2018**	2017
Depletion and depreciation expense	**26,307**	25,691	22,261	**74,930**	65,461
$ per boe	**15.86**	16.54	16.12	**16.10**	16.35

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 third quarter of 2018 depletion and depreciation calculation are costs associated with salvage values of $125.2 million. Future development costs for proved and probable reserves of $465.6 million have been included in the depletion calculation.

Depletion and depreciation expense for the three and nine months ended September 30, 2018 increased compared to the second 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			Nine Months Ended Sep 30,	
($000s except per share)	**Sep 30, 2018**	Jun 30, 2018	Sep 30, 2017	**2018**	2017
Net income (loss)	**9,034**	3,015	(8,188)	**10,940**	6,405
Per share - basic ($)	**0.04**	0.01	(0.04)	**0.04**	0.03
Per share - diluted ($)	**0.04**	0.01	(0.04)	**0.04**	0.03

Net income and net income per basic share for the third quarter of 2018 increased as compared to the second quarter of 2018 primarily due to increased production levels in addition to a $2.9 million unrealized gain on financial contracts in the current period as compared to a $3.9 million unrealized loss on financial contracts in the second quarter of 2018.

Net income and net income per basic share for the third quarter of 2018 increased as compared to the net loss per basic share in the third quarter of 2017 primarily due to increased production levels and higher realized pricing during the current period along with a $2.9 million unrealized gain on financial contracts in the current period as compared to a $4.4 million unrealized loss on financial contracts in the third quarter of 2017.

Net income and net income per basic share for the nine months ended September 30, 2018 increased as compared to the same period of 2017 primarily due to increased production levels and higher realized pricing during the current period, partially offset by a $4.7 million unrealized loss on financial contracts in the current period as compared to a $13.8 million unrealized gain on financial contracts in the prior year.

CAPITAL EXPENDITURES

Capital Expenditure Summary

($000s)	Q1 2018	Q2 2018	Q3 2018	**2018 YTD**	2017 YTD	% Change
Land	704	1,877	463	**3,044**	3,289	(7)%
Seismic	373	153	473	**999**	1,922	(48)%
Drilling and completions	25,331	15,741	20,470	**61,542**	55,033	12 %
Facilities, equipment and pipelines	7,100	4,001	5,785	**16,886**	11,151	51 %
Other	1,401	1,572	1,510	**4,483**	4,362	3 %
Total exploration and development	34,909	23,344	28,701	**86,954**	75,757	15 %
Acquisitions - cash consideration	174	29,179	6,345	**35,698**	72,642	(51)%
Property dispositions	(6,659)	(240)	(66)	**(6,965)**	(545)	1,178 %
Total acquisitions & dispositions	(6,485)	28,939	6,279	**28,733**	72,097	(60)%
Total capital expenditures	28,424	52,283	34,980	**115,687**	147,854	(22)%

During the three and nine months ended September 30, 2018, Surge invested a total of $28.7 million and $87.0 million, excluding acquisitions and dispositions.

During the third quarter of 2018, Surge invested $16.3 million to drill, complete and bring on stream five gross (5.0 net) wells in the Shaunavon area, one gross (1.0 net) well in the Valhalla area and four gross (4.0 net) wells in the Sparky area. Two additional wells in the Sparky area that were drilled during the second quarter of 2018 were completed and brought on stream at the cost of $2.2 million. A further $2.0 million was spent during the third quarter of 2018 to partially drill an additional two gross (2.0 net) wells in the Sparky area that will be completed and brought on stream during the fourth quarter of 2018.

During the third quarter of 2018, Surge invested $5.8 million in facilities, pipelines, waterflood expansions and pilots. An additional $2.4 million was spent on land and seismic acquisitions and other capital items during the quarter.

FACTORS THAT HAVE CAUSED VARIATIONS OVER THE QUARTERS

The fluctuations in Surge's revenue and net earnings from quarter to quarter are primarily caused by changes in production volumes, changes in realized commodity prices and the related impact on royalties, and realized and unrealized gains or losses on derivative instruments. The change in production from the fourth 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

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

	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Weighted common shares	228,309,427	225,766,393	225,763,917	225,277,907
Dilutive instruments (treasury method)	—	3,790,055	3,427,489	—
Weighted average diluted shares outstanding	228,309,427	229,556,448	229,191,406	225,277,907

On November 6, 2018, Surge had 309,049,225 common shares, 5,205,646 PSAs, and 3,702,761 RSAs outstanding.

Quarterly Financial Information

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

Quarterly Financial Information

	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Oil, Natural gas & NGL sales	56,425	60,773	54,450	50,235
Net earnings (loss)	(8,188)	6,926	7,667	(14,816)
Net earnings (loss) per share ($):				
Basic	(0.04)	0.03	0.03	(0.07)
Diluted	(0.04)	0.03	0.03	(0.07)
Cash flow from operating activities	24,589	24,628	15,825	16,199
Cash flow from operating activities per share ($):				
Basic	0.11	0.11	0.07	0.07
Diluted	0.11	0.11	0.07	0.07
Adjusted funds flow	22,985	27,018	21,640	21,534
Adjusted funds flow per share ($):				
Basic	0.10	0.12	0.10	0.10
Diluted	0.10	0.12	0.09	0.10
Average daily sales				
Oil (bbls/d)	11,380	11,522	10,298	9,832
NGL (bbls/d)	627	678	684	504
Natural gas (mcf/d)	17,997	17,547	17,302	15,036
Barrels of oil equivalent (boe per day) (6:1)	15,007	15,125	13,866	12,842
Average sales price				
Natural gas ($/mcf)	2.24	2.68	2.58	2.60
Oil ($/bbl)	48.29	51.71	52.00	50.14
NGL ($/bbl)	37.42	36.99	36.39	27.69
Barrels of oil equivalent ($/boe)	40.87	44.16	43.63	42.52

LIQUIDITY AND CAPITAL RESOURCES

On September 30, 2018, Surge had $250.7 million drawn on its credit facility, $44.5 million principal amount of convertible subordinated unsecured debentures ("Debentures") with a 5.75 percent interest rate, and total net debt of $282.4 million, an increase in total net debt of 15 percent as compared to the same date in 2017. At September 30, 2018, Surge had approximately $100 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 Debentures:

Consolidated Capitalization

($000s)	Outstanding as at Sept 30, 2018
Shareholder Equity	
Share capital	1,288,201
Common shares outstanding	233,618
Debentures - equity	3,551
Debt	
Credit Facilities	
Authorized	350,000
Amount drawn	250,684
Debentures - liability	37,646

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	—	931	—
Balance at September 30, 2018	**44,500**	**37,646**	**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.

Net Debt

($000s)	**As at September 30, 2018**
Bank debt	(250,684)
Accounts receivable	35,940
Prepaid expenses and deposits	7,111
Convertible debentures	(37,646)
Accounts payable and accrued liabilities	(35,168)
Dividends payable	(1,947)
Total	**(282,394)**

As at September 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.

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 September 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 nine months ended September 30, 2018.

CONTRACTUAL OBLIGATIONS

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

As at September 30, 2018, Surge had future minimum payments relating to its operating lease and firm transport commitments totaling $51.9 million, as summarized below:

Commitments

($000s)		
2018	$	3,146
2019		11,651
2020		9,719
2021		8,080
2022		5,356
2023+		13,973
Total	**$**	**51,925**

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 6, 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	—
WTI	1H 2019	1,000	USD	$53.00	$60.00	$81.25	—
WTI	2H 2019	2,000	USD	$53.00	$60.00	$82.79	—

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
Chicago Swap	Nov 2018-Mar 2019	4,000 mmbtu/d	USD	$3.4850 per mmbtu	$3.4850 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%

SUBSEQUENT EVENTS

On October 25, 2018, the Company acquired all of the issued and outstanding common shares of Mount Bastion Oil and Gas Corp. ("MBOG") for aggregate consideration consisting of approximately $145.0 million in cash and 75,431,034 common shares. As a result of the acquisition, the Company's credit facility was increased by 57 percent from $350 million to $550 million.

CONTROLS AND PROCEDURES

The Chief Executive Officer and Controller 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 Controller have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Controller by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

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

There were no changes in the Company's ICFR during the quarter ended September 30, 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 Controller 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 September 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 Controller, Surge conducted an evaluation of the design of the Company's ICFR as at September 30, 2018 based on the COSO framework. Based on this evaluation, the officers concluded that as of September 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. On January 1, 2019 the Company will adopt IFRS 16 and plans to use the modified retrospective approach. The Company has substantially completed a detailed assessment on the potential impact on the consolidated financial statements and expects that the most significant impact from the standard will be the recognition of lease obligations on operating leases for office space.

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 and business plan; Surge's continued pursuit of strategic acquisitions; drilling locations; enhanced recovery activities; operating expenses of acquired assets; Surge's assets and the characteristics thereof; 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 payments and 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; the impact of certain new IFRS; continued support of Surge's lenders; Surge's dividend and the continued efforts by management and the Board to assess such dividend; 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 and any acquired assets, the successful application of drilling, completion and seismic technology, the determination of decommissioning liabilities, the ability to obtain approval from syndicate to increase credit facility; prevailing weather conditions, exchange rates, licensing requirements, the impact of completed facilities on operating costs and the availability, costs of capital, labour and services, and the creditworthiness of industry partners.

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

NON-GAAP FINANCIAL MEASURES

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

Adjusted funds flow & Adjusted funds flow per share

The Company adjusts cash flow from operating activities in calculating adjusted funds flow for changes in non-cash working capital, decommissioning expenditures, transaction and other costs, and cash settled stock-based compensation plans, particularly cash used to settle withholding obligations on stock-based compensation arrangements that are settled in shares. Management believes the timing of collection, payment or incurrence of these items involves a high degree of discretion and as such may not be useful for evaluating Surge’s cash flows.

Changes in non-cash working capital are a result of the timing of cash flows related to accounts receivable and accounts payable, which management believes reduces comparability between periods. Management views decommissioning expenditures predominately as a discretionary allocation of capital, with flexibility to determine the size and timing of decommissioning programs to achieve greater capital efficiencies and as such, costs may vary between periods. Transaction and other costs represent expenditures associated with acquisitions, which management believes do not reflect the ongoing cash flows of the business, and as such reduces comparability. Subsequent to the third quarter of 2018, all of the Company’s stock-based compensation plans are equity classified as the Company has the intention of settling all awards with shares. Cash settled stock-based compensation currently represents the statutory tax withholdings required on stock-based compensation awards and is a discretionary allocation of capital. The Company has the option to either require the holder to sell shares earned in the stock-based compensation plan to satisfy tax withholdings, or the Company can issue less shares to the individual and remit a cash payment to satisfy tax withholding requirements. Each of these expenditures, due to their nature, are not considered principal business activities and vary between periods, which management believes reduces comparability.

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

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

	Three Months Ended			**Nine Months Ended Sep 30,**	
($000s except per share)	**Sep 30, 2018**	Jun 30, 2018	Sep 30, 2017	**2018**	2017
Cash flow from operating activities	**37,197**	33,725	24,589	**95,137**	65,042
Change in non-cash working capital	**(2,269)**	2,897	(2,954)	**1,126**	2,368
Decommissioning expenditures	**1,329**	832	686	**4,909**	1,628
Transaction and other costs	**1,016**	60	138	**1,784**	1,155
Cash settled stock-based compensation	**3,365**	1,082	526	**4,447**	1,450
Adjusted funds flow	**$ 40,638**	$ 38,596	$ 22,985	**$ 107,403**	$ 71,643
Per share - basic	**$ 0.18**	$ 0.17	$ 0.10	**$ 0.47**	$ 0.32

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 and other long term liabilities. 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.

Net Debt

($000s)	As at September 30, 2018	As at September 30, 2017
Bank debt	(250,684)	(247,774)
Accounts receivable	35,940	31,104
Prepaid expenses and deposits	7,111	4,068
Convertible debentures	(37,646)	—
Accounts payable and accrued liabilities	(35,168)	(31,952)
Dividends payable	(1,947)	(1,844)
Total	**(282,394)**	**(246,398)**

Net Operating Expenses

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

ADDITIONAL METRICS

This document contains additional metrics commonly used in the oil and natural gas industry. These terms have been calculated by Management and do not have a standardized meaning. Management uses these oil and gas metrics to further analyze the performance of the Company over time and to compare the results of the Company with others in the industry. Additional metrics used in this document are as follows:

Operating Netback & Adjusted Funds Flow Netback

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

Operating Netback & Adjusted Funds Flow Netback

	Three Months Ended		Nine Months Ended Sep 30,	
($000s)	**Sep 30, 2018**	Sep 30, 2017	**2018**	2017
Petroleum and natural gas revenue	**91,036**	56,425	**246,420**	171,648
Processing and other income	**537**	961	**2,242**	2,000
Royalties	**(13,803)**	(7,276)	**(35,725)**	(21,993)
Realized gain (loss) on financial contracts	**(3,166)**	169	**(8,577)**	(2,850)
Operating expenses	**(24,360)**	(19,911)	**(69,123)**	(56,221)
Transportation expenses	**(2,574)**	(1,939)	**(6,907)**	(5,930)
Operating netback	**47,670**	28,429	**128,330**	86,654
G&A expense	**(3,276)**	(2,673)	**(9,677)**	(7,762)
Interest expense	**(3,756)**	(2,771)	**(11,250)**	(7,249)
Adjusted funds flow netback	**40,638**	22,985	**107,403**	71,643
Barrels of oil equivalent (boe)	**1,658,668**	1,380,644	**4,654,377**	4,004,910
Operating netback ($ per boe)	**$ 28.75**	$ 20.59	**$ 27.57**	$ 21.64
Adjusted funds flow netback ($ per boe)	**$ 24.50**	$ 16.64	**$ 23.07**	$ 17.89