FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended			Nine Months Ended September 30,		
	Sep 30, 2024	Jun 30, 2024	% Change	**2024**	2023	% Change
Financial highlights						
Oil sales	**158,463**	168,034	(6)%	**477,213**	479,634	(1)%
NGL sales	**3,333**	3,572	(7)%	**10,840**	9,433	15 %
Natural gas sales	**395**	1,567	(75)%	**5,478**	12,855	(57)%
Total petroleum and natural gas revenue	**162,191**	173,173	(6)%	**493,531**	501,922	(2)%
Cash flow from operating activities	**73,420**	73,604	— %	**213,809**	186,429	15 %
Per share - basic ($)	**0.73**	0.73	— %	**2.12**	1.90	12 %
Per share - diluted ($)	**0.72**	0.73	(1)%	**2.08**	1.85	12 %
Adjusted funds flow[1]	**72,710**	82,805	(12)%	**218,002**	214,845	1 %
Per share - basic ($)[1]	**0.72**	0.82	(12)%	**2.16**	2.19	(1)%
Per share - diluted ($)[1]	**0.71**	0.82	(13)%	**2.13**	2.13	— %
Net income (loss)	**17,263**	(64,693)	nm[2]	**(51,060)**	45,427	nm
Per share - basic ($)	**0.17**	(0.64)	nm	**(0.51)**	0.46	nm
Per share - diluted ($)[3]	**0.17**	(0.64)	nm	**(0.51)**	0.45	nm
Expenditures on property, plant and equipment	**51,361**	36,065	42 %	**136,826**	120,267	14 %
Net acquisitions and dispositions	**(20)**	(33,493)	(100)%	**(33,521)**	(2,143)	nm
Net capital expenditures	**51,341**	2,572	nm	**103,305**	118,124	(13)%
Net debt[1], end of period	**247,314**	234,707	5 %	**247,314**	286,295	(14)%
Operating highlights						
Production:						
Oil (bbls per day)	**19,988**	19,628	2 %	**20,078**	20,330	(1)%
NGLs (bbls per day)	**779**	856	(9)%	**832**	669	24 %
Natural gas (mcf per day)	**18,168**	18,805	(3)%	**19,167**	19,396	(1)%
Total (boe per day) (6:1)	**23,795**	23,618	1 %	**24,105**	24,232	(1)%
Average realized price (excluding hedges):						
Oil ($ per bbl)	**86.17**	94.07	(8)%	**86.74**	86.42	— %
NGL ($ per bbl)	**46.50**	45.85	1 %	**47.57**	51.63	(8)%
Natural gas ($ per mcf)	**0.24**	0.92	(74)%	**1.04**	2.43	(57)%
Netback ($ per boe)						
Petroleum and natural gas revenue	**74.09**	80.57	(8)%	**74.72**	75.87	(2)%
Realized loss on commodity and FX contracts	**(0.10)**	(1.47)	(93)%	**(0.49)**	(0.83)	(41)%
Royalties	**(14.88)**	(12.80)	16 %	**(13.66)**	(13.34)	2 %
Net operating expenses[1]	**(18.81)**	(20.31)	(7)%	**(20.33)**	(21.56)	(6)%
Transportation expenses	**(1.39)**	(1.22)	14 %	**(1.26)**	(1.56)	(19)%
Operating netback[1]	**38.91**	44.77	(13)%	**38.98**	38.58	1 %
G&A expense	**(2.35)**	(2.40)	(2)%	**(2.34)**	(2.13)	10 %
Interest expense	**(3.34)**	(3.86)	(13)%	**(3.64)**	(3.96)	(8)%
Adjusted funds flow[1]	**33.22**	38.51	(14)%	**33.00**	32.49	2 %
Common shares outstanding, end of period	**101,426**	100,460	1 %	**101,426**	100,314	1 %
Weighted average basic shares outstanding	**101,066**	100,582	— %	**100,728**	98,277	2 %
Stock-based compensation dilution[3]	**1,471**	—	nm	**1,843**	2,459	(25)%
Weighted average diluted shares outstanding	**102,537**	100,582	2 %	**102,571**	100,736	2 %

1 This is a non-GAAP and other financial measure which is defined in the Non-GAAP and Other Financial Measures section of this document.
2 The Company views this change calculation as not meaningful, or "nm".
3 Dilution is not reflected in the calculation of net loss for the nine months ended September 30, 2024.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the financial position and results of operations of Surge Energy Inc. ("Surge" or the "Company"), is for the three months and nine months ended September 30, 2024 and 2023. 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 dated March 6, 2024 for the year ended December 31, 2023 ("AIF"). These documents are available at www.sedarplus.ca.

Surge's management is responsible for the integrity of the information contained in this report and for the consistency between the MD&A and condensed interim financial statements. In the preparation of the condensed interim 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 condensed interim 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 condensed interim financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board.

Surge's board of directors (the "Board") and Audit Committee have reviewed and approved the condensed interim financial statements and MD&A. This MD&A is dated November 6, 2024.

DESCRIPTION OF BUSINESS

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

CASH FLOW FROM OPERATING ACTIVITIES AND ADJUSTED FUNDS FLOW

	Three Months Ended			**Nine Months Ended Sep 30,**	
($000s except per share and per boe)	**Sep 30, 2024**	Jun 30, 2024	Sep 30, 2023	**2024**	2023
Cash flow from operating activities	**73,420**	73,604	71,315	**213,809**	186,429
Per share - basic ($)	**0.73**	0.73	0.72	**2.12**	1.90
Per share - diluted ($)	**0.72**	0.73	0.71	**2.08**	1.85
$ per boe	**33.54**	34.25	32.15	**32.37**	28.18
Adjusted funds flow	**72,710**	82,805	86,874	**218,002**	214,845
Per share - basic ($)	**0.72**	0.82	0.87	**2.16**	2.19
Per share - diluted ($)	**0.71**	0.82	0.86	**2.13**	2.13
$ per boe	**33.22**	38.51	39.16	**33.00**	32.49

Cash flow from operating activities for the three months ended September 30, 2024 was comparable to the immediately preceding quarter and the same period of the prior year.

Cash flow from operating activities for the nine months ended September 30, 2024 increased 15 percent when compared to the same period of the prior year. The increase in cash flow from operating activities compared to the same period of the prior year is primarily due to a decrease in operating and transportation expenses and the disposal of certain non-core assets in Central Alberta and Southwest Saskatchewan in the second quarter of 2024.

Adjusted funds flow for the three months ended September 30, 2024 decreased 12 percent and 16 percent when compared to the immediately preceding quarter and the same period of the prior year. The decrease in adjusted funds flow is primarily due to a decrease in petroleum and natural gas revenue resulting from a lower crude oil price environment.

Adjusted funds flow for the nine months ended September 30, 2024 was comparable to the same period of the prior year.

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, 2024 and see the Non-GAAP and Other Financial Measures section of this MD&A for further information regarding adjusted funds flow.

OPERATIONS

Drilling

	Drilling		Working interest (%)
	Gross	Net	
Q1 2024	24.0	21.4	89 %
Q2 2024	9.0	9.0	100 %
Q3 2024	27.0	24.2	90 %
Total	**60.0**	**54.6**	**91 %**

During the period ended September 30, 2024, the Company drilled 12 gross (12.0 net) wells in Southeast Alberta ("Sparky") and 15 gross (12.2 net) wells in Southeast Saskatchewan.

Production

	Three Months Ended			Nine Months Ended Sep 30,	
	Sep 30, 2024	Jun 30, 2024	Sep 30, 2023	**2024**	2023
Oil (bbls per day)	**19,988**	19,628	20,188	**20,078**	20,330
NGL (bbls per day)	**779**	856	659	**832**	669
Oil and NGL (bbls per day)	**20,767**	20,484	20,847	**20,910**	20,999
Natural gas (mcf per day)	**18,168**	18,805	19,564	**19,167**	19,396
Total (boe per day) (6:1)	**23,795**	23,618	24,108	**24,105**	24,232
% Oil and NGL	**87 %**	87 %	86 %	**87 %**	87 %

Surge averaged production of 23,795 boe per day in the third quarter of 2024 (87 percent oil and natural gas liquids ("NGLs")), comparable to the average production rate in the second quarter of 2024 and in the same period of the prior year. During the nine months ended September 30, 2024, Surge achieved production of 24,105 boe per day (87 percent oil and NGLs), comparable to the same period of the prior year.

The third quarter of 2024 represents the first full quarter following the disposal of certain non-core assets in Central Alberta and Southwest Saskatchewan, which accounted for 610 boe per day in the second quarter of 2024, 1,147 boe per day in the third quarter of the prior year, and 554 boe per day during the nine months ended September 30, 2024.

Additionally, production from the successful third quarter 2024 drilling program more than offset production associated with the disposed assets during the previous quarter and natural declines during the period. 21 gross (18.2 net) of the 27 gross (24.2 net) wells drilled during the third quarter were on stream as at September 30, 2024. 6 gross (6.0 net) wells from the third quarter drilling program will be completed and brought on stream in the fourth quarter of 2024.

Petroleum and Natural Gas Revenue, Realized Prices and Benchmark Pricing

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per amount)	**Sep 30, 2024**	Jun 30, 2024	Sep 30, 2023	**2024**	2023
Petroleum and Natural Gas Revenue					
Oil	**158,463**	168,034	177,440	**477,213**	479,634
NGL	**3,333**	3,572	3,173	**10,840**	9,433
Oil and NGL	**161,796**	171,606	180,613	**488,053**	489,067
Natural gas	**395**	1,567	3,862	**5,478**	12,855
Total petroleum and natural gas revenue	**162,191**	173,173	184,475	**493,531**	501,922
Realized Prices					
Oil ($ per bbl)	**86.17**	94.07	95.53	**86.74**	86.42
NGL ($ per bbl)	**46.50**	45.85	52.34	**47.57**	51.63
Oil and NGL ($ per bbl)	**84.69**	92.06	94.17	**85.18**	85.31
Natural gas ($ per mcf)	**0.24**	0.92	2.15	**1.04**	2.43
Total petroleum and natural gas revenue before realized commodity and FX contracts ($ per boe)	**74.09**	80.57	83.17	**74.72**	75.87
Benchmark Prices					
WTI (US$ per bbl)	**75.10**	80.57	82.26	**77.54**	77.39
CAD/USD exchange rate	**1.36**	1.37	1.34	**1.36**	1.35
WTI (C$ per bbl)	**102.13**	110.38	110.23	**105.45**	104.47
Edmonton Light Sweet (C$ per bbl)	**97.90**	105.32	107.85	**98.48**	100.79
WCS (C$ per bbl)	**84.03**	91.71	93.07	**84.50**	80.47
AECO Daily Index (C$ per mcf)	**0.69**	1.18	2.59	**1.45**	2.75

Total petroleum and natural gas revenue for the third quarter of 2024 decreased 6 percent and 12 percent when compared to the immediately preceding quarter and the same period of 2023. The decrease is primarily due to an 8 percent and 11 percent decrease in average realized revenue per boe as compared to the immediately preceding quarter and the same period of 2023. The decrease in realized pricing correlates to a 7 percent decrease in WTI (C$ per bbl) during the period, as compared to the second quarter of 2024. The decrease compared to the same period of 2023 is also partially due to a widening of Edmonton light sweet differentials throughout the period.

Total petroleum and natural gas revenue for the nine months ended September 30, 2024 was comparable to the same period of 2023.

ROYALTIES

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2024**	Jun 30, 2024	Sep 30, 2023	**2024**	2023
Royalties	**32,581**	27,501	33,384	**90,226**	88,278
% of petroleum and natural gas revenue	**20 %**	16 %	18 %	**18 %**	18 %
$ per boe	**14.88**	12.80	15.05	**13.66**	13.34

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, 2024 increased 25 percent (from 16 percent to 20 percent) when compared to the immediately preceding quarter and increased 11 percent (from 18 percent to 20 percent) when compared to the same period of the prior year. This is primarily due to the disposal of certain non-core assets during the second quarter of 2024 which had a lower royalty rate than the Company's historical average in addition to certain wells coming off of royalty holiday during the period.

Royalties as a percentage of revenue for the nine months ended September 30, 2024 was comparable to the same period of the prior year.

NET OPERATING EXPENSES

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2024**	Jun 30, 2024	Sep 30, 2023	**2024**	2023
Operating expenses	**43,242**	45,896	47,988	**141,075**	148,654
Less processing income	**(2,054)**	(2,254)	(1,812)	**(6,812)**	(6,046)
Net operating expenses	**41,188**	43,642	46,176	**134,263**	142,608
$ per boe	**18.81**	20.31	20.82	**20.33**	21.56

Total net operating expenses for the third quarter of 2024 decreased 6 percent and 11 percent when compared to the immediately preceding quarter and the same period of the prior year. Total operating expenses for the nine months ended September 30, 2024 decreased 6 percent when compared to the same period of the prior year.

Decreases during the three and nine months ended September 30, 2024 are primarily a result of the disposal of certain non-core assets in Central Alberta and Southwest Saskatchewan, in addition to lower power costs throughout 2024, a primary cost driver in the Company's operating areas.

TRANSPORTATION EXPENSES

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2024**	Jun 30, 2024	Sep 30, 2023	**2024**	2023
Transportation expenses	**3,035**	2,630	2,902	**8,328**	10,344
$ per boe	**1.39**	1.22	1.31	**1.26**	1.56

Transportation expenses for the three months ended September 30, 2024 increased 15 percent and 5 percent when compared to the immediately preceding quarter and same period of the prior year, primarily due to higher trucking costs for new drills that are not yet pipeline connected.

Transportation expenses for the nine months ended September 30, 2024 decreased 19 percent when compared to the same period of the prior year, primarily due to the Company's focus on tying in wells drilled during the 2023 winter drilling program and due to the disposal of certain assets in Central Alberta and Southwest Saskatchewan during the second quarter of 2024. This was slightly offset by higher trucking costs during the third quarter of 2024, for new drills that are not yet pipeline connected.

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2024**	Jun 30, 2024	Sep 30, 2023	**2024**	2023
G&A expenses	**6,857**	7,059	6,363	**20,924**	18,966
Recoveries and capitalized amounts	**(1,703)**	(1,902)	(1,647)	**(5,487)**	(4,849)
Net G&A expenses	**5,154**	5,157	4,716	**15,437**	14,117
$ per boe	**2.35**	2.40	2.13	**2.34**	2.13

Total net G&A expenses for the third quarter of 2024 was comparable to the immediately preceding quarter. Total net G&A expenses for the three and nine months ended September 30, 2024 increased 9 percent when compared to the same periods of the prior year. The net increase is primarily a result of additional labour requirements to meet the Company's objectives, in addition to the continued impact of inflationary pressures.

TRANSACTION AND OTHER COSTS

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2024**	Jun 30, 2024	Sep 30, 2023	**2024**	2023
Transaction and other costs	**5,655**	702	310	**7,132**	986
$ per boe	**2.58**	0.33	0.14	**1.08**	0.15

During the three months ended September 30, 2024, the Company incurred transaction and other costs related to debt settlement costs from repaying the Company's remaining non-revolving second-lien term facility.

During the nine months ended September 30, 2024, the Company incurred transaction and other costs primarily attributable to debt settlement costs related to the early repayment of the Company's non-revolving second-lien term facility and costs related to the disposal of certain assets in Central Alberta and Southwest Saskatchewan during the second quarter of 2024.

FINANCE EXPENSES

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2024**	Jun 30, 2024	Sep 30, 2023	**2024**	2023
Interest on bank debt and term debt	**4,786**	7,232	8,168	**19,369**	24,037
Interest on senior unsecured notes	**1,027**	—	—	**1,027**	—
Interest on convertible debentures	**1,026**	1,006	582	**3,058**	1,747
Interest on lease and other obligations	**467**	490	581	**1,476**	1,820
Realized gain on interest contracts	**—**	(439)	(443)	**(884)**	(1,389)
Total interest expense	**7,306**	8,289	8,888	**24,046**	26,215
$ per boe	**3.34**	3.86	4.01	**3.64**	3.96
Accretion expense	**4,556**	3,249	2,969	**10,811**	8,417
Unrealized loss on interest contracts	**—**	296	390	**705**	887
Total finance expense	**11,862**	11,834	12,247	**35,562**	35,519
$ per boe	**5.42**	5.51	5.52	**5.38**	5.37
Average principal amount					
Bank debt	**10,755**	42,755	13,787	**29,202**	21,248
Senior unsecured notes	**175,000**	—	—	**175,000**	—
Term debt	**70,069**	150,859	235,662	**122,386**	243,820
Convertible debentures	**48,300**	48,300	34,500	**48,300**	34,500
Average total principal amount of debt outstanding	**304,124**	241,914	283,949	**374,888**	299,568

Total interest expense for the third quarter of 2024 decreased 12 percent when compared to the immediately preceding quarter due to lower average bank debt and term debt balances during the period. This was partially offset by interest incurred on the senior unsecured notes that were issued during the period.

Total interest expense for the three and nine months ended September 30, 2024 decreased 18 percent and 8 percent when compared to the same periods of the prior year due to a lower average term debt balance, partially offset by higher average convertible debentures and senior unsecured notes balances during the period.

Total finance expense includes accretion, representing the change in the time value of the decommissioning liability, term debt, convertible debentures and senior unsecured notes as well as unrealized gains and losses on financial interest contracts. Accretion expense for the three months ended September 30, 2024 increased 40 percent when compared to the immediately preceding quarter. Accretion expense for the three and nine months ended September 30, 2024 increased 53 percent and 28 percent compared to the same periods of the prior year. These increases are primarily due to additional accretion recorded related to the early repayment of the non-revolving second-lien term facility and on the senior unsecured notes that were issued during the period.

NETBACKS

	Three Months Ended			Nine Months Ended Sep 30,	
($ per boe, except production)	**Sep 30, 2024**	Jun 30, 2024	Sep 30, 2023	**2024**	2023
Average production (boe per day)	**23,795**	23,618	24,108	**24,105**	24,232
Petroleum and natural gas revenue	**74.09**	80.57	83.17	**74.72**	75.87
Realized loss on commodity and FX contracts	**(0.10)**	(1.47)	(0.69)	**(0.49)**	(0.83)
Royalties	**(14.88)**	(12.80)	(15.05)	**(13.66)**	(13.34)
Net operating expenses	**(18.81)**	(20.31)	(20.82)	**(20.33)**	(21.56)
Transportation expenses	**(1.39)**	(1.22)	(1.31)	**(1.26)**	(1.56)
Operating netback	**38.91**	44.77	45.30	**38.98**	38.58
G&A expense	**(2.35)**	(2.40)	(2.13)	**(2.34)**	(2.13)
Interest expense	**(3.34)**	(3.86)	(4.01)	**(3.64)**	(3.96)
Adjusted funds flow	**33.22**	38.51	39.16	**33.00**	32.49

Operating netback for the three months ended September 30, 2024 decreased 13 percent when compared to the immediately preceding quarter, primarily due to lower realized commodity pricing, higher royalty expenses and higher transportation expenses. Operating netback for the three months ended September 30, 2024 decreased 14 percent when compared to the same period of the prior year, primarily due to lower realized commodity pricing, partially offset by lower net operating expenses.

Operating netback for the nine months ended September 30, 2024 was comparable to the same period of the prior year.

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

STOCK-BASED COMPENSATION

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per boe)	**Sep 30, 2024**	Jun 30, 2024	Sep 30, 2023	**2024**	2023
Stock-based compensation	**3,909**	2,638	3,722	**9,140**	11,106
Capitalized stock-based compensation	**(1,151)**	(698)	(1,420)	**(2,796)**	(4,249)
Net stock-based compensation	**2,758**	1,940	2,302	**6,344**	6,857
$ per boe	**1.26**	0.90	1.04	**0.96**	1.04

Net stock-based compensation expense for the third quarter of 2024 increased 42 percent when compared to the immediately preceding quarter, primarily due to an upward performance share award multiplier adjustment for awards that vested during the period. For the three months ended September 30, 2024, net stock-based compensation increased 20 percent as compared to the same period of 2023, primarily the result of expensing awards during the period with a higher initial grant price. For the nine months ended September 30, 2024, net stock-based compensation decreased 7 percent as compared to the same period of 2023, primarily due to a lower number of awards outstanding and a decrease in the Company's share price over the period.

The weighted average fair value of awards granted for the nine months ended September 30, 2024 is $6.78 (2023 - $8.36) per performance share award ("PSA") and $6.77 (2023 - $8.62) per restricted share award ("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 RSAs and PSAs outstanding are as follows:

	Number of restricted share awards	Number of performance share awards
Balance at December 31, 2023	1,707,543	2,222,763
Granted	856,383	1,081,826
Reinvested	79,813	118,316
Exercised	(1,052,710)	(1,399,251)
Forfeited	(74,720)	(39,342)
Balance at September 30, 2024	**1,516,309**	**1,984,312**

DEPLETION AND DEPRECIATION

	Three Months Ended			**Nine Months Ended Sep 30,**	
($000s except per boe)	**Sep 30, 2024**	Jun 30, 2024	Sep 30, 2023	**2024**	2023
Depletion and depreciation expense	**46,786**	44,831	50,658	**138,454**	139,755
$ per boe	**21.37**	20.86	22.84	**20.96**	21.13

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

Depletion and depreciation expense for the three months ended September 30, 2024 is comparable to the immediately preceding quarter.

Depletion and depreciation expense for the three months ended September 30, 2024 decreased 8 percent when compared to the same period of 2023. This is due to a lower depletable base, as a result of the disposal of certain non-core assets in Central Alberta and Southwest Saskatchewan and the impairment recognized on the Company's non-core properties in the second quarter of 2024.

Depletion and depreciation expense for the nine months ended September 30, 2024 is comparable to the same period of 2023.

IMPAIRMENT

	Three Months Ended			**Nine Months Ended Sep 30,**	
($000s except per boe)	**Sep 30, 2024**	Jun 30, 2024	Sep 30, 2023	**2024**	2023
Impairment of property, plant and equipment	**—**	96,495	—	**96,495**	—
$ per boe	**—**	44.90	—	**14.61**	—

The Company identified five cash generating units ("CGUs") as of September 30, 2024 based on the lowest level at which properties generate cash inflows while applying judgment to consider factors such as shared infrastructure, geographic proximity, petroleum type and similar exposures to market risk and materiality. The Company's CGUs at September 30, 2024 were geographically labeled Northwest Alberta, North Central Alberta, Central Alberta, Southeast Alberta and Southeast Saskatchewan.

As at September 30, 2024, the Company determined there were no indicators of impairment in any of the five CGUs and no indications that impairment losses recognized in prior periods no longer exist or have decreased.

For the period ended June 30, 2024, there were observable indications of impairment for the Company's non-core properties. As a result, an impairment test was performed. The recoverable value was estimated at fair value less costs to sell based on before tax discounted cash flows from proved and probable oil and gas reserves.

It was determined that the carrying value exceeded the recoverable amount and a $96.5 million impairment was recognized. The before tax discount rate applied in the calculation as at June 30, 2024 was 17 - 40 percent.

The results of the Company's impairment tests are sensitive to changes in any of the key significant assumptions including forecasted oil and gas commodity prices, forecasted production, forecasted operating costs, royalty costs and future development costs which impact the estimate of cash flows from proved and probable oil and gas reserves, in addition to the discount rate, of which changes could decrease or increase the estimated recoverable amounts of CGUs and result in additional impairment charges or in the recovery of previously recorded impairment charges.

NET INCOME (LOSS)

	Three Months Ended			Nine Months Ended Sep 30,	
($000s except per share)	**Sep 30, 2024**	Jun 30, 2024	Sep 30, 2023	**2024**	2023
Net income (loss)	**17,263**	(64,693)	16,583	**(51,060)**	45,427
Per share - basic ($)	**0.17**	(0.64)	0.17	**(0.51)**	0.46
Per share - diluted ($)	**0.17**	(0.64)	0.16	**(0.51)**	0.45

Please refer to the condensed interim financial statements and the other applicable sections of this MD&A for further information regarding the changes in net income (loss) over the period.

CAPITAL EXPENDITURES

Capital Expenditure Summary

($000s)	Q1 2024	Q2 2024	Q3 2024	**2024 YTD**	2023 YTD	% Change
Land	310	3,420	769	**4,499**	5,209	(14)%
Seismic	62	784	625	**1,471**	819	80 %
Drilling and completions	36,352	20,693	36,859	**93,904**	69,657	35 %
Facilities, equipment and pipelines	10,436	8,790	11,271	**30,497**	38,351	(20)%
Other	2,240	2,378	1,837	**6,455**	6,231	4 %
Expenditures on property, plant and equipment	49,400	36,065	51,361	**136,826**	120,267	14 %
Expenditures on acquisitions	—	3,535	—	**3,535**	246	nm[1]
Cash from dispositions	(8)	(37,028)	(20)	**(37,056)**	(2,389)	nm
Net acquisitions & dispositions	(8)	(33,493)	(20)	**(33,521)**	(2,143)	nm
Net capital expenditures	49,392	2,572	51,341	**103,305**	118,124	(13)%

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

During the third quarter of 2024, Surge invested a total of $51.4 million, excluding acquisitions and dispositions, investing $36.9 million to drill and complete 12 gross (12.0 net) wells in the Sparky area and 15 gross (12.2 net) wells in Southeast Saskatchewan. Of this amount, $26.3 million was spent on drilling; $7.8 million on completions; and $2.8 million on workovers. Production from 6 gross (6.0 net) wells from the third quarter drilling program will be completed and brought on stream in the fourth quarter of 2024.

The Company invested $11.3 million to equip and tie-in wells drilled in the third quarter in addition to completing scheduled turnarounds on operated facilities. Of this amount, $5.9 million was spent on facilities and $5.4 million was spent on equipment and pipelines. An additional $3.2 million was spent on land, seismic and other capital items during the quarter.

During the second quarter of 2024, the Company disposed of certain assets in Central Alberta and Southwest Saskatchewan for total consideration of $37.0 million. More details on the disposals can be found in note 4 of the condensed interim financial statements. The Company also acquired certain oil infrastructure during the second quarter of 2024 for cash consideration of $3.5 million.

FACTORS THAT HAVE CAUSED VARIATIONS OVER THE QUARTERS

Share Capital and Option Activity

	Q3 2024	Q2 2024	Q1 2024	Q4 2023
Weighted common shares	**101,066,498**	100,581,954	100,529,046	100,314,111
Dilutive instruments (treasury method)	**1,471,234**	—	—	1,808,477
Weighted average diluted shares outstanding	**102,537,732**	100,581,954	100,529,046	102,122,588

	Q3 2023	Q2 2023	Q1 2023	Q4 2022
Weighted common shares	99,384,440	98,334,459	97,086,527	88,094,339
Dilutive instruments (treasury method)	1,588,786	2,853,449	2,296,200	2,096,748
Weighted average diluted shares outstanding	100,973,226	101,187,908	99,382,727	90,191,087

On November 6, 2024, Surge had 101,102,178 common shares, 1,997,640 PSAs, and 1,518,489 RSAs outstanding.

Quarterly Financial Information

($000s except per share and per boe)	**Q3 2024**	Q2 2024	Q1 2024	Q4 2023
Oil, Natural gas & NGL sales	**162,191**	173,173	158,167	168,453
Net income (loss)	**17,263**	(64,693)	(3,630)	(29,676)
Net income (loss) per share ($):				
Basic	**0.17**	(0.64)	(0.04)	(0.30)
Diluted	**0.17**	(0.64)	(0.04)	(0.29)
Cash flow from operating activities	**73,420**	73,604	66,785	79,712
Cash flow from operating activities per share ($):				
Basic	**0.73**	0.73	0.66	0.79
Diluted	**0.72**	0.73	0.66	0.78
Adjusted funds flow	**72,710**	82,805	62,487	77,001
Adjusted funds flow per share ($):				
Basic	**0.72**	0.82	0.62	0.77
Diluted	**0.71**	0.82	0.62	0.75
Average daily sales				
Oil (bbls/d)	**19,988**	19,628	20,620	20,741
NGL (bbls/d)	**779**	856	860	808
Natural gas (mcf/d)	**18,168**	18,805	20,539	21,005
Barrels of oil equivalent (boe per day) (6:1)	**23,795**	23,618	24,903	25,050
Average sales price				
Natural gas ($/mcf)	**0.24**	0.92	1.88	2.11
Oil ($/bbl)	**86.17**	94.07	80.32	84.24
NGL ($/bbl)	**46.50**	45.85	50.25	48.68
Barrels of oil equivalent ($/boe)	**74.09**	80.57	69.79	73.09

Quarterly Financial Information

($000s except per share and per boe)	Q3 2023	Q2 2023	Q1 2023	Q4 2022
Oil, Natural gas & NGL sales	184,475	155,477	161,970	165,808
Net income	16,583	14,055	14,789	103,502
Net income per share ($):				
Basic	0.17	0.14	0.15	1.17
Diluted	0.16	0.14	0.15	1.15
Cash flow from operating activities	71,315	60,608	54,506	78,975
Cash flow from operating activities per share ($):				
Basic	0.72	0.62	0.56	0.90
Diluted	0.71	0.60	0.55	0.88
Adjusted funds flow	86,874	64,640	63,331	71,807
Adjusted funds flow per share ($):				
Basic	0.87	0.66	0.65	0.82
Diluted	0.86	0.64	0.64	0.80
Average daily sales				
Oil (bbls/d)	20,188	19,758	21,055	18,127
NGL (bbls/d)	659	629	721	695
Natural gas (mcf/d)	19,564	18,458	20,172	19,647
Barrels of oil equivalent (boe per day) (6:1)	24,108	23,463	25,138	22,097
Average sales price				
Natural gas ($/mcf)	2.15	1.97	3.13	5.24
Oil ($/bbl)	95.53	83.17	80.57	91.43
NGL ($/bbl)	52.34	46.16	55.78	60.51
Barrels of oil equivalent ($/boe)	83.17	72.82	71.59	81.56

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

Surge has experienced significant growth over the past two years as a result of its capital expenditure programs and the acquisition of certain assets in Southeast Saskatchewan in the fourth quarter of 2022, which added approximately 3,800 boe per day to production. This growth has been slightly offset due to the disposal of certain assets in Central Alberta and Southwest Saskatchewan during the second quarter of 2024, which removed approximately 1,100 boe per day from production. As a result, the Company has grown production from 22,097 boe per day in the fourth quarter of 2022 to 23,795 boe per day in the third quarter of 2024. These fluctuations in production volumes and in realized commodity prices have impacted the Company's petroleum and natural gas revenues, cash flow from operating activities and adjusted funds flow. Net income (loss) has fluctuated due to changes in adjusted funds flow and unrealized risk management gains and losses which fluctuate with the changes in forward benchmark commodity prices and exchange rates.

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2024, Surge had nil drawn on its credit facilities, $175.0 million principal amount of senior unsecured notes ("Notes"), excluding unamortized issue costs of $4.4 million, $48.3 million principal amount of convertible subordinated unsecured debentures ("Debentures"), and total net debt of $247.3 million. Total net debt increased 5 percent and decreased 14 percent as compared to the immediately preceding quarter and the same period of the prior year, respectively. As at September 30, 2024, Surge had approximately $247.4 million of borrowing capacity in relation to the $250.0 million credit facilities. The following table sets forth the capitalization of Surge and the change in the components of the Debentures:

Capitalization

($000s except share amounts)	Outstanding as at September 30, 2024
Common shares outstanding	101,425,578
Shareholder Equity	
Share capital	1,786,787
Debentures - equity	6,375
Debt	
Bank debt	
Total commitment	250,000
Amount drawn	—
Senior unsecured notes	
Total principal	175,000
Unamortized issue costs	(4,358)
Total, net of unamortized issue costs	170,642
Term debt	9,094
Debentures - liability	38,997

Normal Course Issuer Bid ("NCIB") Share Repurchases

For the three months ended September 30, 2024, the Company repurchased for cancellation 621,700 common shares under its NCIB at a weighted average price of $6.41 per share for a total cost of $4.0 million. For the nine months ended September 30, 2024, the Company repurchased for cancellation 764,800 common shares under its NCIB at a weighted average price of $6.52 per share for a total cost of $5.0 million.

Convertible Debentures

	Number of convertible debentures	Liability Component ($000s)	Equity Component ($000s)
Balance at December 31, 2022	34,500	32,491	2,715
Issuance of convertible debentures	48,300	39,484	8,816
Issue costs	—	(1,920)	(428)
Deferred income tax liability	—	—	(2,013)
Accretion of discount	—	1,423	—
Other finance expenses	—	870	—
Redeemed	(34,500)	(34,500)	(2,715)
Balance at December 31, 2023	48,300	37,848	6,375
Accretion of discount	—	1,149	—
Balance at September 30, 2024	**48,300**	**38,997**	**6,375**

Surge monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives. Currently, Surge anticipates that the future capital requirements will be funded through a combination of internal cash flow, divestitures, and debt and/or equity financing. There can be no guarantees that the credit facilities will be extended or that alternative forms of debt and equity financing will be available on terms acceptable to the Company to meet its capital requirements.

Net Debt

($000s)	As at September 30, 2024
Cash	11,500
Accounts receivable	53,193
Prepaid expenses and deposits	4,215
Accounts payable and accrued liabilities	(93,094)
Dividends payable	(4,395)
Senior unsecured notes	(170,642)
Term debt	(9,094)
Convertible debentures	(38,997)
Total	**(247,314)**

Bank Debt

During the period, the Company expanded its revolving first-lien credit facility by $40 million, from $210 million to $250 million. The total commitment of $250 million is the aggregate of a committed revolving term facility of $200 million and an operating loan facility of $50 million, with a syndicate of banks. A review and redetermination of the borrowing base is scheduled to occur semi-annually on or before May 31 and November 30 of each year. The facility is available on a revolving basis until May 29, 2025. On May 29, 2025, at the Company's discretion, the facility is available on a non-revolving basis for a one-year period, at the end of which time the facility would be due and payable. Alternatively, the facilities may be extended for a further 364-day period at the request of the Company and subject to the approval of the syndicate.

As at September 30, 2024, the Company had $2.6 million of outstanding letters of credit (December 31, 2023 - $0.9 million), all of which are under the $50 million operating loan facility.

Senior Unsecured Notes

On September 5, 2024, the Company issued $175.0 million of Notes. The Notes bear interest at a fixed rate of 8.500% per annum, payable semi-annually, with a due date of September 5, 2029, and rank equally with all other present unsecured and subordinated debt of the Company. The Notes were priced at 100% of par to yield 8.500% per annum.

The Notes are non-callable by the Company prior to September 5, 2026. On or after September 5, 2026, the Company may redeem all or part of the Notes at the redemption prices set forth below, plus any accrued and unpaid interest, for the twelve month period beginning on:

i. September 5, 2026: 104.250%

ii. September 5, 2027: 102.125%

iii. September 5, 2028 and thereafter: 100.000%

Term Debt

During the period ended September 30, 2024, the Company repaid in full all amounts owing under the non-revolving second-lien term loan (Term Facility A). Prior to the maturity date of December 9, 2026, the Company repaid the remaining $122.5 million in principal outstanding, inclusive of $2.1 million of unamortized issue costs which were accelerated during the period, on its non-revolving second-lien term loan commitment of $160.0 million. In addition, the Company incurred $3.2 million related to accrued and unpaid interest, $0.8 million related to restructuring costs and $4.5 million related to early repayment fees, which have been allocated between finance expenses and transaction and other costs.

During the period ended June 30, 2024, the Company elected to exercise a one-time option for early repayment of a portion of its non-revolving second-lien term loan (Term Facility B). The Company repaid the remaining $36.0 million in principal outstanding, along with all accrued and unpaid interest, of its non-revolving second-lien term loan commitment of $40.0 million, prior to the maturity date of April 30, 2025.

Emissions Reduction Fund

As at September 30, 2024, the Company had a $8.1 million (December 31, 2023 - $7.6 million) loan repayable relating to the Government of Canada Emissions Reduction Fund (“ERF”), which is included as term debt within the condensed interim financial statements. As at September 30, 2024, the Company had received $10.9 million (December 31, 2023 – $10.4 million) of funds from the ERF for the Company's planned gas emissions reduction program.

Loan repayments will begin on March 31, 2025, when 10 percent of the repayable portion will be repaid. As a result, $0.9 million (December 31, 2023 - nil) of the loan repayable has been reflected as current term debt within the condensed interim financial statements.

RELATED-PARTY AND OFF-BALANCE-SHEET TRANSACTIONS

Surge was not involved in any off-balance-sheet transactions or related-party transactions during the period ended September 30, 2024.

FINANCIAL INSTRUMENTS

The following table summarizes the Company's financial derivatives as at November 6, 2024 by period and by product.

West Texas Intermediate Crude Oil Derivative Contracts (WTI)

	Swaps		Collars			Bought Put		Sold Put	
Period	Volumes (bbls/d)	Average Price (CAD/bbl)	Volumes (bbls/d)	Average Bought Put (CAD/bbl)	Average Sold Call (CAD/bbl)	Volumes (bbls/d)	Average Price (CAD/bbl)	Volumes (bbls/d)	Average Price (CAD/bbl)
Qtr. 4 2024	3,000	$107.47	2,750	$87.96	$135.33	2,500	$87.96	—	—
Qtr. 1 2025	1,500	$106.38	947	$87.96	$111.95	4,204	$87.96	—	—
Qtr. 2 2025	—	—	3,500	$89.89	$126.14	1,500	$101.49	1,500	$82.55
Qtr. 3 2025	—	—	4,500	$94.73	$108.26	—	—	—	—

Western Canadian Select Differential Derivative Contracts (WCS)

	Swaps		Collars		
Period	Volumes (bbls/d)	Average Price (CAD/bbl)	Volumes (bbls/d)	Average Bought Put (CAD/bbl)	Average Sold Call (CAD/bbl)
Qtr. 4 2024	3,326	$(18.58)	1,000	$(14.89)	$(24.09)
Qtr. 1 2025	4,500	$(19.07)	—	—	—
Qtr. 2 2025	3,500	$(18.70)	—	—	—
Qtr. 3 2025	3,500	$(18.70)	—	—	—
Qtr. 4 2025	3,500	$(18.70)	—	—	—

Mixed Sweet Blend Differential Derivative Contracts (MSW)

	Swaps	
Period	Volumes (bbls/d)	Average Price (CAD/bbl)
Qtr. 4 2024	4,000	$(4.06)
Qtr. 1 2025	3,000	$(4.94)
Qtr. 2 2025	3,000	$(4.94)
Qtr. 3 2025	3,000	$(4.94)
Qtr. 4 2025	2,000	$(5.31)

Natural Gas Derivative Contracts

	AECO Swaps		NYMEX Collars			NYMEX - AECO Basis Swaps	
Period	Volumes (GJ/d)	Average Price (CAD/GJ)	Volumes (MMBtu/d)	Average Bought Put (CAD/MMBtu)	Average Sold Call (CAD/MMBtu)	Volumes (MMBtu/d)	Average Price (CAD/MMBtu)
Qtr. 4 2024	1,326	$5.62	3,674	$4.43	$7.21	5,000	$(1.57)
Qtr. 1 2025	2,000	$5.62	3,000	$4.74	$7.58	5,000	$(1.58)
Qtr. 2 2025	1,700	$4.38	3,300	$4.06	$4.74	5,000	$(1.41)
Qtr. 3 2025	1,700	$4.38	3,300	$4.06	$4.74	5,000	$(1.41)
Qtr. 4 2025	2,230	$3.56	1,112	$4.06	$4.74	1,685	$(1.41)
Qtr. 1 2026	2,500	$3.28	—	—	—	—	—

Foreign Currency Exchange Derivative Contracts

Type	Term	Notional Amount (USD)	Floor	Ceiling	Forward Rate
Average Rate Collar	Jan 2024 - Dec 2024	$10,000,000	1.3225	1.4040	—
Average Rate Collar	May 2024 - Dec 2024	$5,000,000	1.3300	1.4100	—
Average Rate Collar	Jan 2025 - Dec 2025	$5,000,000	1.3300	1.4050	—
Average Rate Swap	Jan 2025 - Jun 2025	$5,000,000	—	—	1.3816

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

There were no changes in the Company’s DC&P during the third quarter of 2024 that materially affected, or are reasonably likely to materially affect, the Company's DC&P.

Internal Controls Over Financial Reporting

Internal control over financial reporting (“ICFR”), as defined in NI 52-109, includes those policies and procedures that:

1. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Company;

2. are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made in accordance with authorizations of management and Directors of Surge; and

3. are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

The Chief Executive Officer and Chief Financial Officer are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual and interim 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 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 third quarter of 2024 that materially affected, or are reasonably likely to materially affect, the Company’s ICFR.

CRITICAL ACCOUNTING ESTIMATES

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

Reserves

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

Forecasted Oil and Gas Commodity Prices

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

Business Combinations

Management makes various assumptions in determining the fair values of any acquired company’s assets and liabilities in a business combination. The most significant assumptions and judgments made relate to the estimation of the fair value of the oil and gas properties. To determine the fair value of these properties, we estimate: (i) proved and probable oil and gas reserves in accordance with NI 51-101; and (ii) forecasted oil and gas commodity prices.

Decommissioning Liability

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

Derivative Financial Instruments

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

Stock-based Compensation

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

Deferred Income Taxes

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

Leases

Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include:

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

RISK FACTORS

Additional risk factors can be found under "Risk Factors" in the Company's AIF for the year ended December 31, 2023, which can be found on www.sedarplus.ca. 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 its 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 its 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 to the Company. 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.

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”, “could”, “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: forecast commodity prices; Surge’s assets and the characteristics thereof; management’s beliefs regarding the estimates of the future values for certain of the Company’s assets and liabilities; future availability and borrowing capacity under the Company’s outstanding loan agreements and any renewal thereof; debt repayment; the Company’s ability to fund future capital requirements and the nature and source of such funding; estimations in respect of reserves and decommissioning liabilities; the estimated recoverable amount of the Company’s property, plant and equipment; fair value of forward contracts, swaps, options and costless collars entered into by the Company; estimated tax pools; expectations with respect to its underlying decommissioning liabilities; the Company's plans for funding its future capital requirements; the Company’s strategy for managing commodity price, interest rate and foreign exchange volatility; and the ongoing assessment of management and the Board of market conditions.

The forward-looking statements are based on certain key expectations and assumptions made by Surge, including: expectations and assumptions concerning the performance of existing wells and success obtained in drilling new wells; anticipated expenses; cash flow and capital expenditures; compliance with and application of regulatory and royalty regimes; prevailing commodity prices and economic conditions; the Company’s expectations regarding well production rates, production decline of existing wells and performance and geographic location of new wells drilled; recoverable and carrying value of certain assets; the impact of any new pandemic or epidemic and other international or geopolitical events, including government responses related thereto and their impact on global energy pricing, oil and gas industry exploration and development activity levels and production volumes; the financial assumptions used by Surge’s reserve evaluators in assessing potential impairment of Surge assets; Surge's belief that the majority of cash flow's associated with its proved and probable reserves will be realized prior to the elimination of carbon based energy; the Company’s belief in the uncertainty regarding the ultimate period in which global energy markets can transition from carbon based sources to alternative energy; management’s expectations as to the cause of fluctuation in corporate royalty rates; management's beliefs regarding the estimates of the future values for certain assets and liabilities of the Company; underlying causes of the fluctuations in Surge’s revenue and net income (loss) from quarter to quarter; the Company's estimates with respect to incremental borrowing rates and lease terms; 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 the syndicate to increase or maintain its credit facilities; the ability to continue borrowing under the Company's credit facilities; anticipated timing with respect to the Company's obligations in respect of the Debentures and the Notes; prevailing weather conditions; exchange rates; licensing requirements; the impact of completed facilities on operating costs; that prevailing regulatory, tax and environmental laws and regulations apply or are introduced as expected, and the timing of such introduction; and the availability, costs of capital, labour and services, and the creditworthiness of industry partners.

Although Surge believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Surge can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the condition of the global economy, including trade, public health and other geopolitical risks (including the Russian invasion of Ukraine and continued conflict in the Middle East); 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 and business plan; 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; risks related to decommissioning liabilities including as a result of changes to laws or regulations, reserves estimates, costs and technology; failure to obtain the continued support of the lenders under Surge's current credit facilities; potential decrease in the available lending limits under Surge's credit facilities as a result of the syndicate's interpretation of the Company's reserves, commodity prices and decommissioning obligations; or the inability to obtain consent of lenders to increase or maintain the credit facilities. Certain risks are set out in more detail in this MD&A under the heading 'Risk Factors' herein and in Surge's AIF dated March 6, 2024 which has been filed on SEDAR+ and can be accessed at www.sedarplus.ca.

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

NON-GAAP AND OTHER FINANCIAL MEASURES

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

Adjusted Funds Flow & Adjusted Funds Flow per Share

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

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

Adjusted funds flow per share is a non-GAAP ratio, calculated using the same weighted average basic and diluted shares used in calculating income (loss) 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,**	
($000s except per share)	**Sep 30, 2024**	Jun 30, 2024	Sep 30, 2023	**2024**	2023
Cash flow from operating activities	**73,420**	73,604	71,315	**213,809**	186,429
Change in non-cash working capital	**(10,357)**	6,816	12,644	**(12,494)**	20,611
Decommissioning expenditures	**4,016**	1,696	2,695	**9,640**	7,305
Cash settled transaction and other costs	**5,631**	689	220	**7,047**	500
Adjusted funds flow	**72,710**	82,805	86,874	**218,002**	214,845
Per share - basic ($)	**0.72**	0.82	0.87	**2.16**	2.19

Net Debt

Net debt is a non-GAAP financial measure, calculated as bank debt, senior unsecured notes, term debt, plus the liability component of the convertible debentures plus current assets, less current liabilities, however, excluding the fair value of financial contracts, decommissioning obligations, and lease and other obligations. This metric is used by management to analyze the level of debt in the Company including the impact of working capital, which varies with timing of settlement of these balances.

		As at	
($000s)	**Sep 30, 2024**	Jun 30, 2024	Sep 30, 2023
Cash	**11,500**	—	—
Accounts receivable	**53,193**	56,960	74,624
Prepaid expenses and deposits	**4,215**	5,803	3,050
Accounts payable and accrued liabilities	**(93,094)**	(90,791)	(83,978)
Dividends payable	**(4,395)**	(4,018)	(4,013)
Bank debt	**—**	(33,010)	(11,900)
Senior unsecured notes	**(170,642)**	—	—
Term debt	**(9,094)**	(131,044)	(230,624)
Convertible debentures	**(38,997)**	(38,607)	(33,454)
Total	**(247,314)**	(234,707)	(286,295)

Operating Netback & Adjusted Funds Flow per boe

Operating netback is a non-GAAP financial measure, calculated as petroleum and natural gas revenue and processing and other income, less royalties, realized gain (loss) on commodity and FX contracts, operating expenses, and transportation expenses. Operating netback per boe is a non-GAAP ratio, calculated as operating netback divided by total barrels of oil equivalent produced during a specific period of time. This metric is used by management to evaluate the Company’s ability to generate cash margin on a unit of production basis.

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

	Three Months Ended			Nine Months Ended Sep 30,	
($000s)	**Sep 30, 2024**	Jun 30, 2024	Sep 30, 2023	**2024**	2023
Petroleum and natural gas revenue	**162,191**	173,173	184,475	**493,531**	501,922
Processing income	**2,054**	2,254	1,812	**6,812**	6,046
Royalties	**(32,581)**	(27,501)	(33,384)	**(90,226)**	(88,278)
Realized loss on commodity and FX contracts	**(217)**	(3,149)	(1,535)	**(3,229)**	(5,515)
Operating expenses	**(43,242)**	(45,896)	(47,988)	**(141,075)**	(148,654)
Transportation expenses	**(3,035)**	(2,630)	(2,902)	**(8,328)**	(10,344)
Operating netback	**85,170**	96,251	100,478	**257,485**	255,177
G&A expense	**(5,154)**	(5,157)	(4,716)	**(15,437)**	(14,117)
Interest expense	**(7,306)**	(8,289)	(8,888)	**(24,046)**	(26,215)
Adjusted funds flow	**72,710**	82,805	86,874	**218,002**	214,845
Barrels of oil equivalent (boe)	**2,189,137**	2,149,307	2,217,941	**6,604,665**	6,615,403
Operating netback ($ per boe)	**38.91**	44.77	45.30	**38.98**	38.58
Adjusted funds flow ($ per boe)	**33.22**	38.51	39.16	**33.00**	32.49

Net Operating Expenses

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