

FINANCIAL AND OPERATING SUMMARY

(\$000s except per share amounts)

	Three Months Ended			Six Months Ended June 30,		
	Jun 30, 2020	Mar 31, 2020	% Change	2020	2019	% Change
Financial highlights						
Oil sales	28,432	61,211	(54)%	89,643	195,515	(54)%
NGL sales	644	1,063	(39)%	1,707	4,074	(58)%
Natural gas sales	1,429	1,432	— %	2,861	5,944	(52)%
Total oil, natural gas, and NGL revenue	30,505	63,706	(52)%	94,211	205,533	(54)%
Cash flow from operating activities	2,970	43,138	(93)%	46,108	74,715	(38)%
Per share - basic (\$)	0.01	0.13	(92)%	0.14	0.24	(42)%
Adjusted funds flow ¹	8,854	30,028	(71)%	38,882	92,593	(58)%
Per share - basic (\$) ¹	0.03	0.09	(67)%	0.12	0.30	(60)%
Net loss	(61,159)	(615,227)	(90)%	(676,386)	(10,594)	6,285 %
Per share basic (\$)	(0.18)	(1.85)	(90)%	(2.03)	(0.03)	6,667 %
Total exploration and development expenditures	3,516	32,504	(89)%	36,020	66,458	(46)%
Total acquisitions & dispositions	(5,276)	—	nm ²	(5,276)	(56,973)	(91)%
Total capital expenditures	(1,760)	32,504	(105)%	30,744	9,485	224 %
Net debt ¹ , end of period	376,907	384,686	(2)%	376,907	391,020	(4)%
Operating highlights						
Production:						
Oil (bbls per day)	13,813	16,891	(18)%	15,352	17,454	(12)%
NGLs (bbls per day)	528	564	(6)%	546	685	(20)%
Natural gas (mcf per day)	16,664	17,409	(4)%	17,036	20,685	(18)%
Total (boe per day) (6:1)	17,118	20,357	(16)%	18,737	21,587	(13)%
Average realized price (excluding hedges):						
Oil (\$ per bbl)	22.62	39.82	(43)%	32.08	61.89	(48)%
NGL (\$ per bbl)	13.41	20.72	(35)%	17.19	32.84	(48)%
Natural gas (\$ per mcf)	0.94	0.90	4 %	0.92	1.59	(42)%
Netback (\$ per boe)						
Petroleum and natural gas revenue	19.58	34.39	(43)%	27.63	52.60	(47)%
Realized gain (loss) on commodity and FX contracts	9.93	7.29	36 %	8.50	(0.83)	(1,124)%
Royalties	(2.06)	(4.59)	(55)%	(3.44)	(6.36)	(46)%
Net operating expenses ¹	(14.50)	(14.29)	1 %	(14.39)	(14.58)	(1)%
Transportation expenses	(1.70)	(1.64)	4 %	(1.67)	(1.66)	1 %
Operating netback ¹	11.25	21.16	(47)%	16.63	29.17	(43)%
G&A expense	(1.99)	(1.84)	8 %	(1.91)	(1.82)	5 %
Interest expense	(3.57)	(3.10)	15 %	(3.31)	(3.66)	(10)%
Adjusted funds flow ¹	5.69	16.22	(65)%	11.41	23.69	(52)%
Common shares outstanding, end of period						
	335,069	335,069	— %	335,069	314,051	7 %
Weighted average basic shares outstanding						
	335,069	332,188	1 %	333,628	311,742	7 %
Stock option dilution						
	—	—	— %	—	—	— %
Weighted average diluted shares outstanding						
	335,069	332,188	1 %	333,628	311,742	7 %

1 This is a non-GAAP financial measure which is defined in the Non-GAAP Financial Measures section of this document.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the consolidated financial position and results of operations of Surge Energy Inc. ("Surge" or the "Company"), which includes its subsidiaries and partnership arrangements, is for the three and six months ended June 30, 2020 and 2019. For a full understanding of the financial position and results of operations of the Company, the MD&A should be read in conjunction with the documents filed on SEDAR, including historical financial statements, MD&A and the Annual Information Form ("AIF"). These documents are available at www.sedar.com.

Surge's management is responsible for the integrity of the information contained in this report and for the consistency between the MD&A and financial statements. In the preparation of these financial statements, estimates are necessary to make a determination of future values for certain assets and liabilities. Management believes these estimates have been based on careful judgments and have been properly presented. The financial statements have been prepared using policies and procedures established by management and fairly reflect Surge's financial position and results of operations. Surge's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Matters Relating to the COVID-19 Pandemic

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

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

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

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

Going Concern

As at June 30, 2020, the Company had \$306.5 million drawn on a total commitment of \$335.0 million available under its syndicated RBL credit facility. The facility is comprised of a \$155.0 million revolving term commitment, a \$167.5 million non-revolving term commitment, and a \$12.5 million operating loan facility (refer to note 7 "Bank Debt" in the financial statements for additional information). The revolving term commitment will continue to revolve until the next scheduled borrowing base redetermination date of December 15, 2020. The further extension of the credit facility is dependent on the Company's ability to repay or extend the term of the \$167.5 million non-revolving term commitment that matures and requires repayment on March 31, 2021. Management is working with its syndicate of lenders to address the non-revolving term commitment and extend the maturity date of the credit facility, however there can be no assurances with respect thereto. Should the Company fail to secure an extension, it could result in a failure to meet the terms of the lending agreement and the lender would have the right, but not the obligation, to demand repayment of amounts drawn on the credit facility. If the amount drawn is demanded and not repaid, this would constitute a default under the credit facility. A default under the credit facility would also constitute a default under the unsecured convertible debentures thereby allowing the holders to demand repayment of amounts outstanding.

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

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

Surge's Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A. This MD&A is dated July 30, 2020.

DESCRIPTION OF BUSINESS

Surge is a Calgary based exploration & production company that is engaged in the business of acquiring and developing operated oil-weighted properties. 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. Surge's common shares are traded on the Toronto Stock Exchange ("TSX") under the symbol SGY.

CASH FLOW FROM OPERATING ACTIVITIES AND ADJUSTED FUNDS FLOW

(\$000s except per share and per boe)	Three Months Ended			Six Months Ended June 30,	
	Jun 30, 2020	Mar 31, 2020	Jun 30, 2019	2020	2019
Cash flow from operating activities	2,970	43,138	45,807	46,108	74,715
Per share - basic (\$)	0.01	0.13	0.15	0.14	0.24
Per share - diluted (\$)	0.01	0.13	0.15	0.14	0.24
\$ per boe	1.91	23.29	23.36	13.52	19.12
Adjusted funds flow	8,854	30,028	50,742	38,882	92,593
Per share - basic (\$)	0.03	0.09	0.16	0.12	0.30
Per share - diluted (\$)	0.03	0.09	0.16	0.12	0.30
\$ per boe	5.69	16.22	25.90	11.41	23.69

Cash flow from operating activities for the second quarter of 2020 decreased 93 percent when compared to the first quarter of 2020 and 94 percent when compared to the second quarter of 2019. On a per basic share basis, cash flow from operating activities decreased 92 percent compared to the first quarter of 2020 and decreased 93 percent compared to the second quarter of 2019. Cash flow from operating activities for the six months ended June 30, 2020 decreased 38 percent when compared to the same period of the prior year and decreased 42 percent on a per basic share basis.

Adjusted funds flow for the second quarter of 2020 decreased 71 percent when compared to the first quarter of 2020 and 83 percent when compared to the second quarter of 2019. On a per basic share basis, adjusted funds flow decreased 67 percent when compared to the first quarter of 2020 and 81 percent compared to the second quarter of 2019. Adjusted funds flow for the six months ended June 30, 2020 decreased 58 percent when compared to the same period of the prior year and decreased 60 percent on a per basic share basis.

Cash flow from operating activities and adjusted funds flow for the second quarter of 2020 decreased as compared to the first quarter of 2020 and the second quarter of 2019 primarily as a result of a decrease in petroleum and natural gas revenue, partially offset with an increase in realized gain on commodity and FX contracts.

See the following Operations section for additional information regarding the cash flow and operating results of the Company for the three and six months ended June 30, 2020 and see the Non-GAAP Financial Measures section of this MD&A for further information regarding adjusted funds flow.

OPERATIONS

Drilling

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

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

Production

	Three Months Ended			Six Months Ended June 30,	
	Jun 30, 2020	Mar 31, 2020	Jun 30, 2019	2020	2019
Oil (bbls per day)	13,813	16,891	17,366	15,352	17,454
NGL (bbls per day)	528	564	727	546	685
Oil and NGL (bbls per day)	14,341	17,455	18,093	15,898	18,139
Natural gas (mcf per day)	16,664	17,409	20,706	17,036	20,685
Total (boe per day) (6:1)	17,118	20,357	21,544	18,737	21,587
% Oil and NGL	84%	86%	84%	85%	84%

Surge averaged production of 17,118 boe per day in the second quarter of 2020 (84 percent oil and NGLs), a 16 percent decrease compared to the average production rate in the first quarter of 2020 and a 21 percent decrease from the average production rate in the same period of 2019.

During the six months ended June 30, 2020, Surge achieved production of 18,737 boe per day (85 percent oil and NGLs), a 13 percent decrease when compared to the same period of 2019.

Production during the second quarter of 2020 decreased as compared to the first quarter of 2020, primarily attributable to a voluntary production curtailment of approximately 2,700 boe per day of lower netback production in order to maximize cash flows in response to the collapse in commodity pricing.

The decrease in production for the three and six months ended June 30, 2020 as compared to the same periods of the prior year is primarily the result of voluntary production curtailments and natural declines more than offsetting production additions from the Company's first quarter 2020 drilling program.

Petroleum and Natural Gas Revenue, Realized Prices and Benchmark Pricing

(\$000s except per amount)	Three Months Ended			Six Months Ended June 30,	
	Jun 30, 2020	Mar 31, 2020	Jun 30, 2019	2020	2019
Petroleum and Natural Gas Revenue					
Oil	28,432	61,211	104,387	89,643	195,515
NGL	644	1,063	1,649	1,707	4,074
Oil and NGL	29,076	62,274	106,036	91,350	199,589
Natural gas	1,429	1,432	1,629	2,861	5,944
Total petroleum and natural gas revenue	30,505	63,706	107,665	94,211	205,533
Realized Prices					
Oil (\$ per bbl)	22.62	39.82	66.05	32.08	61.89
NGL (\$ per bbl)	13.41	20.72	24.93	17.19	32.84
Oil and NGL (\$ per bbl)	22.28	39.21	64.40	31.57	60.79
Natural gas (\$ per mcf)	0.94	0.90	0.86	0.92	1.59
Total petroleum and natural gas revenue before realized	19.58	34.39	54.92	27.63	52.60
Benchmark Prices					
WTI (US\$ per bbl)	27.85	46.17	59.81	37.01	57.36
CAD/USD exchange rate	1.39	1.34	1.34	1.37	1.34
WTI (C\$ per bbl)	38.71	61.87	80.14	50.70	76.86
Edmonton Light Sweet (C\$ per bbl)	29.57	51.61	73.59	40.59	70.00
WCS (C\$ per bbl)	22.42	34.11	65.76	28.27	61.21
AECO Daily Index (C\$ per mcf)	1.99	2.04	1.03	2.02	1.83

Total petroleum and natural gas revenue for the second quarter of 2020 decreased 52 percent as compared to the first quarter of 2020 primarily due to a 40 percent decrease in WTI crude oil pricing during the period, which resulted in the Company temporarily curtailing a portion of its production. Realized oil prices decreased 43 percent in the second quarter, correlating to a 43 percent decrease in Edmonton light sweet and a 34 percent decrease in WCS during the same period.

Total petroleum and natural gas revenue for the three and six months ended June 30, 2020 decreased 72 percent and 54 percent when compared to the same periods of 2019. The decrease is primarily due to a decrease in average realized oil prices, correlating to a decrease in crude oil benchmark pricing, along with a decrease in production during the periods.

ROYALTIES

(\$000s except per boe)	Three Months Ended			Six Months Ended June 30,	
	Jun 30, 2020	Mar 31, 2020	Jun 30, 2019	2020	2019
Royalties	3,215	8,505	13,788	11,720	24,849
% of petroleum and natural gas revenue	11%	13%	13%	12%	12%
\$ per boe	2.06	4.59	7.03	3.44	6.36

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 second quarter of 2020 decreased 15 percent when compared to the first quarter of 2020 and second quarter of 2019 as a result of lower crude pricing environment.

Royalties as a percentage of revenue for the six months ended June 30, 2020 is comparable to the same period of the prior year primarily as a result of lower crude oil pricing environment, partially offset by the disposal of a 1.7 percent gross overriding royalty ("GORR") during the second quarter of 2019.

NET OPERATING EXPENSES

(\$000s except per boe)	Three Months Ended			Six Months Ended June 30,	
	Jun 30, 2020	Mar 31, 2020	Jun 30, 2019	2020	2019
Operating expenses	23,706	28,199	28,297	51,905	58,210
Less processing and other income	(1,112)	(1,720)	(783)	(2,832)	(1,257)
Net operating expenses	22,594	26,479	27,514	49,073	56,953
\$ per boe	14.50	14.29	14.03	14.39	14.58

Net operating expenses per boe for the second quarter of 2020 increased as compared to the immediate preceding quarter and the same period of the prior year due to lower production resulting from the decision to shut-in uneconomic production in the second quarter of 2020. Total net operating expenses are lower due to the strategic elimination of variable costs related to shut-in production.

Net operating expenses per boe for the six months ended June 30, 2020 decreased as compared to the same period of the prior year primarily due to operational efficiencies that offset the decline in production and additional processing income earned following the acquisition of a gas processing plant in the Company's Sparky core area in the third quarter of 2019.

TRANSPORTATION EXPENSES

(\$000s except per boe)	Three Months Ended			Six Months Ended June 30,	
	Jun 30, 2020	Mar 31, 2020	Jun 30, 2019	2020	2019
Transportation expenses	2,641	3,046	2,616	5,687	6,479
\$ per boe	1.70	1.64	1.33	1.67	1.66

Transportation expenses per boe for the second quarter of 2020 increased when compared to the first quarter of 2020 and the same period of the prior year primarily as a result of lower production and increased trucking for wells brought on production at the end of the first quarter of 2020 that are not yet pipeline connected.

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

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

(\$000s except per boe)	Three Months Ended			Six Months Ended June 30,	
	Jun 30, 2020	Mar 31, 2020	Jun 30, 2019	2020	2019
G&A expenses	3,790	4,753	4,921	8,543	9,853
Recoveries and capitalized amounts	(688)	(1,337)	(1,269)	(2,025)	(2,731)
Net G&A expenses	3,102	3,416	3,652	6,518	7,122
Net G&A expenses \$ per boe	1.99	1.84	1.86	1.91	1.82

Net G&A expenses per boe for the second quarter of 2020 increased eight percent as compared to the immediate preceding quarter and increased seven percent and five percent when compared to the three and six months ended June 30, 2019. The increase in net G&A per boe is primarily attributable to lower recoveries and capitalized amounts resulting from reduced capital activity in combination with lower production.

Total net G&A expenses are lower than the immediate preceding quarter and as compared to the three and six months ended June 30, 2019 as a result of a subsidy received from the Canada Emergency Wage Subsidy ("CEWS") in the second quarter of 2020, that was recorded to salaries and wages expense, in combination with the Company's cost cutting initiatives.

TRANSACTION AND OTHER COSTS

(\$000s except per boe)	Three Months Ended			Six Months Ended June 30,	
	Jun 30, 2020	Mar 31, 2020	Jun 30, 2019	2020	2019
Transaction and other costs	—	98	698	98	892
\$ per boe	—	0.05	0.36	0.03	0.23

The Company did not incur any transaction and other costs during the second quarter of 2020.

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

FINANCE EXPENSES

(\$000s except per boe)	Three Months Ended			Six Months Ended June 30,	
	Jun 30, 2020	Mar 31, 2020	Jun 30, 2019	2020	2019
Interest on bank debt	2,863	3,473	5,148	6,336	11,401
\$ per boe	1.84	1.87	2.63	1.86	2.92
Interest on convertible debentures	1,222	1,222	985	2,444	1,625
\$ per boe	0.78	0.66	0.50	0.72	0.42
Interest on lease and other obligations	850	885	553	1,735	1,128
\$ per boe	0.55	0.48	0.28	0.51	0.29
Realized loss on interest contracts	628	161	130	789	130
\$ per boe	0.40	0.09	0.07	0.23	0.03
Total interest expense	5,563	5,741	6,816	11,304	14,284
\$ per boe	3.57	3.10	3.48	3.31	3.66
Accretion expense	1,337	1,810	1,650	3,147	3,243
\$ per boe	0.86	0.98	0.84	0.92	0.83
Unrealized loss on interest contracts	353	5,681	3,361	6,034	3,361
\$ per boe	0.23	3.07	1.71	1.77	0.86
Total finance expense	7,253	13,232	11,827	20,485	20,888
\$ per boe	4.66	7.14	6.03	6.01	5.35

Total interest expense for the second quarter of 2020 decreased when compared to the immediate preceding quarter and as compared to the three and six months ended June 30, 2019. The decrease in total interest expense is primarily attributable to lower average interest rates during the period, partially offset by an increase in realized loss on interest contracts.

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

NETBACKS

(\$ per boe, except production)	Three Months Ended			Six Months Ended June 30,	
	Jun 30, 2020	Mar 31, 2020	Jun 30, 2019	2020	2019
Average production (boe per day)	17,118	20,357	21,544	18,737	21,587
Petroleum and natural gas revenue	19.58	34.39	54.92	27.63	52.60
Realized gain (loss) on commodity and FX contracts	9.93	7.29	(1.29)	8.50	(0.83)
Royalties	(2.06)	(4.59)	(7.03)	(3.44)	(6.36)
Net operating expenses	(14.50)	(14.29)	(14.03)	(14.39)	(14.58)
Transportation expenses	(1.70)	(1.64)	(1.33)	(1.67)	(1.66)
Operating netback	11.25	21.16	31.24	16.63	29.17
G&A expense	(1.99)	(1.84)	(1.86)	(1.91)	(1.82)
Interest expense	(3.57)	(3.10)	(3.48)	(3.31)	(3.66)
Adjusted funds flow	5.69	16.22	25.90	11.41	23.69

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

STOCK-BASED COMPENSATION

(\$000s except per boe)	Three Months Ended			Six Months Ended June 30,	
	Jun 30, 2020	Mar 31, 2020	Jun 30, 2019	2020	2019
Stock-based compensation	1,987	1,877	1,780	3,864	3,609
Capitalized stock-based compensation	—	(757)	(674)	(757)	(1,415)
Net stock-based compensation	1,987	1,120	1,106	3,107	2,194
Net stock-based compensation \$ per boe	1.28	0.60	0.56	0.91	0.56

Total stock-based compensation expense for the second quarter of 2020 was comparable to the immediate preceding quarter and to the three and six months ended June 30, 2019. Capitalized stock-based compensation was nil for the three months ended June 30, 2020 due to reduced capital activity.

The stock-based compensation recorded in the period ended June 30, 2020 relates to the restricted share awards ("RSAs") and performance share awards ("PSAs") grants. Subject to terms and conditions of the plan, each RSA entitles the holder to an award value not limited to, but typically paid as to one-third on each of the first, second and third anniversaries of the date of grant. Each PSA entitles the holder to an award value to be typically paid on the third anniversary of the date of grant. For the purpose of calculating share-based compensation, the fair value of each award is determined at the grant date using the closing price of the common shares. A weighted average forfeiture rate of 8% (June 30, 2019 - 15%) for PSAs and 6% (June 30, 2019 - 15%) for RSAs was used to value all awards granted for the period ended June 30, 2020. The weighted average fair value of awards granted for the period ended June 30, 2020 is \$0.21 (June 30, 2019 - \$nil) per PSA and \$0.21 (June 30, 2019 - \$1.32) per RSA. In the case of PSAs, the award value is adjusted for a payout multiplier which can range from 0.0 to 2.0 and is dependent on the performance of the Company relative to pre-defined corporate performance measures for a particular period.

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

	Number of restricted share awards	Number of performance share awards
Balance at December 31, 2019	5,775,594	7,602,333
Granted	48,750	16,250
Reinvested ⁽¹⁾	242,971	320,027
Forfeited	(89,075)	(16,885)
Balance at June 30, 2020	5,978,240	7,921,725

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

DEPLETION AND DEPRECIATION

(\$000s except per boe)	Three Months Ended			Six Months Ended June 30,	
	Jun 30, 2020	Mar 31, 2020	Jun 30, 2019	2020	2019
Depletion and depreciation expense	22,101	36,113	41,511	58,214	81,594
\$ per boe	14.19	19.50	21.17	17.07	20.88

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

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

IMPAIRMENT

(\$000s except per boe)	Three Months Ended			Six Months Ended June 30,	
	Jun 30, 2020	Mar 31, 2020	Jun 30, 2019	2020	2019
Impairment	—	590,628	—	590,628	—
\$ per boe	—	318.84	—	173.20	—

The Company identified six cash generating units as of June 30, 2020 based on the lowest level at which properties generate cash inflows while applying judgment to consider factors such as shared infrastructure, geographic proximity, petroleum type and similar exposures to market risk and materiality. The Company's CGUs at June 30, 2020, which are unchanged from December 31, 2019, were geographically labeled Northwest Alberta, North Central Alberta, Northeast Alberta, Central Alberta, Southeast Alberta and Southwest Saskatchewan.

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

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

Under IFRS, deferred income tax assets may only be recognized to the extent that it is probable that future taxable profits will be available against which the unused tax losses and deductible temporary differences can be utilized. Accordingly, the Company has not recognized a total deferred income tax asset of approximately \$191.0 million as at June 30, 2020.

NET LOSS

(\$000s except per share)	Three Months Ended			Six Months Ended June 30,	
	Jun 30, 2020	Mar 31, 2020	Jun 30, 2019	2020	2019
Net loss	(61,159)	(615,227)	(2,611)	(676,386)	(10,594)
Per share - basic (\$)	(0.18)	(1.85)	(0.01)	(2.03)	(0.03)
Per share - diluted (\$)	(0.18)	(1.85)	(0.01)	(2.03)	(0.03)

The Company realized a net loss and net loss per basic share for the second quarter of 2020. The loss is primarily due to the loss on disposal of petroleum and natural gas properties recognized during the quarter, a decrease in average realized price per barrel of oil, in addition to an unrealized loss on financial contracts.

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

CAPITAL EXPENDITURES

Capital Expenditure Summary

(\$000s)	Q1 2020	Q2 2020	2020 YTD	2019 YTD	% Change
Land	376	90	466	808	(42)%
Seismic	260	—	260	109	139 %
Drilling and completions	22,411	—	22,411	50,764	(56)%
Facilities, equipment and pipelines	7,902	2,984	10,886	11,877	(8)%
Other	1,555	442	1,997	2,900	(31)%
Total exploration and development	32,504	3,516	36,020	66,458	(46)%
Acquisitions - cash consideration	—	—	—	273	(100)%
Property dispositions	—	(5,276)	(5,276)	(57,246)	(91)%
Total acquisitions & dispositions	—	(5,276)	(5,276)	(56,973)	(91)%
Total capital expenditures	32,504	(1,760)	30,744	9,485	224 %

During the three and six months ended June 30, 2020, Surge invested a total of \$3.5 million and \$36.0 million, excluding acquisitions and dispositions.

During the second quarter of 2020, Surge invested \$0.1 million on pipeline connecting first quarter 2020 drills in the Sparky area, \$0.5 million on tank facilities, \$1.2 million on anticipated facility turnarounds, and \$1.2 million to tie-in to a third party gas processing facility. An additional \$0.5 million was spent on land and other capital items during the quarter.

During the period ended June 30, 2020, the Company disposed of certain non-core assets in Northwest Alberta for cash proceeds of \$5.3 million.

Due to the COVID-19 outbreak and decreases in global commodity prices, Surge has suspended its previously announced 2020 guidance and capital program of \$98.5 million.

FACTORS THAT HAVE CAUSED VARIATIONS OVER THE QUARTERS

The fluctuations in Surge's revenue and net earnings from quarter to quarter are primarily caused by changes in production volumes, changes in realized commodity prices and the related impact on royalties, realized and unrealized gains or losses on derivative instruments, and changes in impairment expense and non-cash items. The change in production from the third quarter of 2018 through the current quarter is due to Surge's successful drilling programs and acquisitions over that period. Please refer to the Financial and Operating Results section and other sections of this MD&A for detailed discussions on variations during the comparative quarters and to Surge's previously issued interim and annual MD&A for changes in prior quarters.

Share Capital and Option Activity

	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Weighted common shares	335,068,916	332,187,964	324,835,793	318,075,528
Dilutive instruments (treasury method)	—	—	—	—
Weighted average diluted shares outstanding	335,068,916	332,187,964	324,835,793	318,075,528

	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Weighted common shares	314,010,237	309,447,717	288,743,803	231,988,109
Dilutive instruments (treasury method)	—	—	—	4,234,451
Weighted average diluted shares outstanding	314,010,237	309,447,717	288,743,803	236,222,560

On July 30, 2020, Surge had 335,068,916 common shares, 7,921,725 PSAs, and 5,978,240 RSAs outstanding.

Quarterly Financial Information

	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Oil, Natural gas & NGL sales	30,505	63,706	91,789	97,026
Net loss	(61,159)	(615,227)	(143,801)	(4,269)
Net loss per share (\$):				
Basic	(0.18)	(1.85)	(0.44)	(0.01)
Diluted	(0.18)	(1.85)	(0.44)	(0.01)
Cash flow from operating activities	2,970	43,138	34,474	40,228
Cash flow from operating activities per share (\$):				
Basic	0.01	0.13	0.11	0.13
Diluted	0.01	0.13	0.11	0.13
Adjusted funds flow	8,854	30,028	38,881	41,513
Adjusted funds flow per share (\$):				
Basic	0.03	0.09	0.12	0.13
Diluted	0.03	0.09	0.12	0.13
Average daily sales				
Oil (bbls/d)	13,813	16,891	16,441	17,170
NGL (bbls/d)	528	564	630	769
Natural gas (mcf/d)	16,664	17,409	19,521	19,668
Barrels of oil equivalent (boe per day) (6:1)	17,118	20,357	20,325	21,217
Average sales price				
Natural gas (\$/mcf)	0.94	0.90	1.56	0.69
Oil (\$/bbl)	22.62	39.82	57.46	59.39
NGL (\$/bbl)	13.41	20.72	35.84	27.69
Barrels of oil equivalent (\$/boe)	19.58	34.39	49.09	49.71

Quarterly Financial Information

	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Oil, Natural gas & NGL sales	107,665	97,868	58,127	91,036
Net earnings (loss)	(2,611)	(7,983)	(82,473)	9,034
Net earnings (loss) per share (\$):				
Basic	(0.01)	(0.03)	(0.29)	0.04
Diluted	(0.01)	(0.03)	(0.29)	0.04
Cash flow from operating activities	45,807	28,908	26,770	37,197
Cash flow from operating activities per share (\$):				
Basic	0.15	0.09	0.09	0.16
Diluted	0.15	0.09	0.09	0.16
Adjusted funds flow	50,742	41,851	6,249	40,638
Adjusted funds flow per share (\$):				
Basic	0.16	0.14	0.02	0.18
Diluted	0.16	0.14	0.02	0.17
Average daily sales				
Oil (bbls/d)	17,366	17,542	16,578	13,560
NGL (bbls/d)	727	644	703	669
Natural gas (mcf/d)	20,706	20,663	22,598	22,797
Barrels of oil equivalent (boe per day) (6:1)	21,544	21,630	21,047	18,029
Average sales price				
Natural gas (\$/mcf)	0.86	2.32	2.03	0.71
Oil (\$/bbl)	66.05	57.72	33.72	68.89
NGL (\$/bbl)	24.93	41.86	38.28	58.46
Barrels of oil equivalent (\$/boe)	54.92	50.27	30.02	54.89

LIQUIDITY AND CAPITAL RESOURCES

On June 30, 2020, Surge had \$306.5 million drawn on its credit facility, \$79.0 million principal amount of convertible subordinated unsecured debentures ("Debentures"), and total net debt of \$376.9 million, a decrease in total net debt of four percent as compared to the same date in 2019. At June 30, 2020, Surge had approximately \$28.5 million of borrowing capacity in relation to the \$335 million credit facility. The following tables set forth the consolidated capitalization of Surge and the change in the components of the Debentures:

Consolidated Capitalization

(\$000s)	Outstanding as at June 30, 2020
Shareholder Equity	
Share capital	1,475,268
Common shares outstanding	335,069
Debentures - equity	6,266
Debt	
Credit Facilities	
Total Commitment	335,000
Amount drawn	306,549
Debentures - liability	69,907

Convertible Debentures

	Number of convertible debentures	Liability Component (\$000s)	Equity Component (\$000s)
Balance at December 31, 2018	44,500	37,973	3,551
Issuance of convertible debentures	34,500	30,551	3,949
Issue costs	—	(1,776)	(230)
Deferred income tax liability	—	—	(1,004)
Accretion of discount	—	1,951	—
Balance at December 31, 2019	79,000	68,699	6,266
Accretion of discount	—	1,208	—
Balance at June 30, 2020	79,000	69,907	6,266

Surge monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives. Effective March 2020, the Company suspended all major capital expenditures providing for an increased level of operational and financial flexibility for the balance of 2020. Surge anticipates that for the remainder of 2020, future maintenance capital requirements will be funded through a combination of internal cash flow, divestitures, and debt and/or equity financing. There can be no guarantees that the credit facility will be extended or that alternative forms of debt and equity financing will be available on terms acceptable to the Company to meet its capital requirements.

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

Net Debt

(\$000s)	As at June 30, 2020
Bank debt	(306,549)
Accounts receivable	27,503
Prepaid expenses and deposits	5,828
Accounts payable and accrued liabilities	(33,782)
Dividends payable	—
Convertible debentures	(69,907)
Total	(376,907)

As at June 30, 2020, the Company had a total commitment of \$335.0 million, being the aggregate of a committed revolving term facility of \$155.0 million, a committed non-revolving term facility of \$167.5 million, and an operating loan facility of \$12.5 million, with a syndicate of banks. The revolving term commitment will continue to revolve until the next scheduled borrowing base redetermination date of December 15, 2020. The further extension of the credit facility is dependent on the Company's ability to repay or extend the term of the \$167.5 million committed non-revolving term facility that matures and requires repayment on March 31, 2021. As the available lending limits of the facilities are based on the syndicate's interpretation of the Company's reserves, commodity prices and decommissioning obligations, there can be no assurance that the amount of the available facilities will not decrease at the next scheduled review. In the current pricing environment, there is an increased risk that the lenders may decrease the amount available under the credit facility and the decreases could be material. Interest rates vary depending on the ratio of Senior Debt to EBITDA (as defined in the lending agreement). As at June 30, 2020, the Company had an effective interest rate of prime plus 2.75 percent on the revolving term facility (December 31, 2019 – prime plus 1.25 percent on a \$350 million revolving term/operating loan facility) and an effective interest rate of prime plus 5.75 percent on the non-revolving term facility (December 31, 2019 - not applicable).

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

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

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

RELATED-PARTY AND OFF-BALANCE-SHEET TRANSACTIONS

Surge was not involved in any off-balance-sheet transactions or related party transactions during the period ended June 30, 2020.

CONTRACTUAL OBLIGATIONS

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

As at June 30, 2020, Surge had future minimum payments relating to its variable office rent payments and firm transport commitments totaling \$29.8 million, as summarized below:

	June 30, 2020	December 31, 2019
Less than 1 year	\$ 5,698	\$ 11,046
1 - 3 years	13,940	13,605
3 - 5 years	4,823	4,838
5+ years	5,299	5,343
Total commitments	\$ 29,760	\$ 34,832

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

LEASES

The Company has recognized the following lease and other obligations:

	Total
Lease and other obligations at December 31, 2019	\$ 46,684
Interest expense	1,735
Payments	(5,705)
Lease and other obligations at June 30, 2020	\$ 42,714
Current portion	7,999
Long term portion	34,715

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 July 30, 2020 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)	Swap Price (per bbl)
WTI	Q3 2020	500	USD	—	—	—	\$57.25
WTI	Jul 2020	500	USD	—	—	—	\$25.50
WTI	Aug 2020	250	USD	—	—	—	\$26.10
WTI	Q4 2020	500	USD	—	—	—	\$36.04
WTI	May 2020 - Mar 2021	750	USD	—	—	—	\$32.02
WTI	Q1 2021	500	USD	—	—	—	\$36.85
WTI	May 2020 - Jun 2021	400	USD	—	—	—	\$32.95
WTI	Q2 2021	250	USD	—	—	—	\$32.05
WTI	May 2020 - Jul 2021	350	USD	—	—	—	\$33.20
WTI	Q1 2020 - Q3 2020	1,000	USD	\$46.00	\$54.00	\$64.13	—
WTI	Q2 2020 - Q3 2020	500	USD	\$46.00	\$54.00	\$63.55	—
WTI	Q3 2020	1,500	USD	\$47.00	\$55.00	\$65.00	—
WTI	Q3 2019 - Q4 2020	500	USD	\$47.50	\$57.50	\$71.50	—
WTI	2H 2020	500	USD	\$49.00	\$57.00	\$66.50	—
WTI	Q4 2020	1,500	USD	\$26.00	\$35.33	\$39.50	—
WTI	Q3 2020 - Q1 2021	500	USD	\$44.00	\$52.00	\$60.00	—
WTI	Q4 2020 - Q1 2021	1,000	USD	\$26.00	\$36.00	\$40.30	—
WTI	1H 2021	500	USD	\$31.00	\$39.00	\$51.00	—
WTI	2H 2021	250	USD	\$35.00	\$43.00	\$51.00	—

Oil Differential Hedges

Type	Term	bbl/d	Currency	Floor (per bbl)	Ceiling (per bbl)	Swap Price (per bbl)
WCS Swap	Q2 2020 - Q3 2020	1,500	USD	—	—	US\$WTI less \$16.40
WCS Swap	Q3 2020	500	USD	—	—	US\$WTI less \$16.45
WCS Swap	2H 2020	1,000	USD	—	—	US\$WTI less \$17.50
WCS Swap	Q4 2020 - Q2 2021	500	USD	—	—	US\$WTI less \$14.05
WCS Swap	1H 2021	500	USD	—	—	US\$WTI less \$14.80
WCS Swap	2021	500	USD	—	—	US\$WTI less \$15.40
MSW Swap	Q2 2020 - Q3 2020	3,500	USD	—	—	US\$WTI less \$4.94
MSW Swap	1H 2021	500	USD	—	—	US\$WTI less \$5.80
WCS Collar	Q2 2020 - Q4 2020	1,500	USD	US\$WTI less \$15.50	US\$WTI less \$20.00	—
WCS Collar	2020	1,000	USD	US\$WTI less \$14.60	US\$WTI less \$19.95	—

Natural Gas Hedges

Type	Term	Volume	Currency	Floor	Ceiling
Chicago Swap	Apr 2020 - Oct 2020	3,000 mmbtu/d	USD	\$2.045 per mmbtu	\$2.045 per mmbtu
Chicago Swap	Nov 2020 - Oct 2021	3,000 mmbtu/d	USD	\$2.52 per mmbtu	\$2.52 per mmbtu
Chicago Collar	Nov 2019 - Oct 2020	3,000 mmbtu/d	USD	\$2.25 per mmbtu	\$2.90 per mmbtu
Chicago Collar	Nov 2020 - Oct 2021	3,000 mmbtu/d	USD	\$2.15 per mmbtu	\$2.90 per mmbtu
AECO Swap	Nov 2019 - Dec 2020	3,000 gj/d	CAD	\$1.975 per gj	\$1.975 per gj
AECO Swap	2020	4,000 gj/d	CAD	\$1.45 per gj	\$1.45 per gj
AECO Swap	Nov 2020 - Mar 2021	2,000 gj/d	CAD	\$2.31 per gj	\$2.31 per gj
AECO Swap	2021	2,000 gj/d	CAD	\$2.1225 per gj	\$2.1225 per gj

CAD/USD FX Hedges

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

Interest Rate Hedges

Type	Term	Notional Amount (CAD\$)	Surge Receives	Surge Pays	Fixed Rate SGY Pays
Fixed-to-Floating Rate Swap	Feb 2018 - Feb 2023	\$100,000,000	Floating Rate	Fixed Rate	Semi-Annual Step Up <ul style="list-style-type: none"> Beginning at 1.786% Ending at 2.714% Averaging 2.479%
Fixed-to-Floating Rate Swap	Jul 2019 - Jun 2024	\$50,000,000	Floating Rate	Fixed Rate	1.7850%

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

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

Internal Controls over Financial Reporting

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

1. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Company;
2. are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made in accordance with authorizations of management and Directors of Surge; and
3. are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

The Chief Executive Officer and Chief Financial Officer are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company’s Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company’s Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

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

There were no changes in the Company’s ICFR during the quarter ended June 30, 2020 that materially affected, or are reasonably likely to materially affect, the Company’s ICFR.

CRITICAL ACCOUNTING ESTIMATES

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

Reserves

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

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

Forecasted Commodity Prices

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

Business Combinations

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

Decommissioning Liability

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

Derivative Financial Instruments

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

Stock-based Compensation

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

Deferred Income Taxes

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

Leases

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates, and assumptions that affect the reported amount of assets, liabilities, income, and expenses. Actual results could differ significantly from these estimates. Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include:

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

RISK FACTORS

Additional risk factors can be found under "Matters Relating to the COVID-19 Pandemic" in this MD&A or under "Risk Factors" in the Company's AIF for the year ended December 31, 2019, which can be found on www.sedar.com. Many risks are discussed below and in the AIF, but these risk factors should not be construed as exhaustive. There are numerous factors, both known and unknown, that could cause actual results or events to differ materially from forecast results.

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

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

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

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

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

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

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

BOE PRESENTATION

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

FORWARD-LOOKING STATEMENTS

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

More particularly, this MD&A contains statements concerning: sustainability of production; forecast commodity prices, inflation rates and currency prices; the Company's long term prospects and business plan; Surge's continued pursuit of strategic acquisitions and the characteristics thereof; Surge's assets and the characteristics thereof; the COVID-19 pandemic and the potential impacts on the Company and the oil and gas industry generally; the ability of Surge to meet the criteria for support under government programs related to COVID-19; underlying causes of the fluctuations in Surge's revenue and net earnings from quarter to quarter; management's expectations regarding net operating, transportation and G&A expenses for the remainder of 2020; Surge's capital program for the remainder of 2020; Surge's capital budget and production guidance for the remainder of 2020; fulfillment of the Company's drilling commitments and timing thereof; continued efforts of Surge to monitor and adjust its capital structure; funding of future capital requirements through internal cash flow, divestitures, and debt and/or equity financing; future development costs; Surge's financial flexibility, including borrowing capacity under its credit facility; the ability of Surge to continue as a going concern; fair value of forward contracts, swaps, options and costless collars entered into by the Company; expected payments and forfeiture rates of RSAs and PSAs granted under the Company's Stock Incentive Plan; estimations of the fair value of acquired assets; estimated tax pools; potential impairments of CGUs and the assumptions used to assess such impairments; expectations with respect to its underlying decommissioning liabilities; ability of Surge to increase or maintain its credit facility; ability of Surge to avoid default under its credit facility or its convertible debentures; terms of the Company's bank line following any redetermination, including interest rates payable thereunder; the amount of Surge's dividend, if any, and the ongoing assessment of management and the Board of market conditions and other relevant considerations; and expectations on corporate royalty rates applicable to the Company.

The forward-looking statements are based on certain key expectations and assumptions made by Surge, including expectations and assumptions concerning the performance of existing wells and success obtained in drilling new wells, anticipated expenses, cash flow and capital expenditures, compliance with and application of regulatory and royalty regimes, prevailing commodity prices and economic conditions, recoverable and carrying value of certain assets, the financial assumptions used by Surge's reserve evaluators in assessing potential impairment of Surge assets; development and completion activities and the costs relating thereto, the performance of new wells, the successful implementation of waterflood programs, the availability of and performance of facilities and pipelines, the geological characteristics of Surge's properties and any acquired assets, the successful application of drilling, completion and seismic technology, the determination of decommissioning liabilities, the ability to obtain approval from syndicate to increase or maintain its credit facility; prevailing weather conditions, exchange rates, licensing requirements, the impact of completed facilities on operating costs, and the availability, costs of capital, labour and services, and the creditworthiness of industry partners.

Although Surge believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Surge can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the condition of the global economy, including trade, public health (including the impact of COVID-19) and other geopolitical risks; risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; inability of Surge to fund its future capital requirements; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks); commodity price and exchange rate fluctuations and constraint in the availability of services, adverse weather or break-up conditions; uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures; failure to obtain the continued support of the lenders under Surge's current bank line; potential decrease in the available lending limits under Surge's bank line as a result of the syndicate's interpretation of the Company's reserves, commodity prices and decommissioning obligations; or the inability to obtain consent of lenders to increase or maintain the bank line. Certain of these risks are set out in more detail in this MD&A under the headings 'Matters Relating to the COVID-19 Pandemic' and 'Risk Factors' herein and in Surge's AIF dated March 9, 2020 which has been filed on SEDAR and can be accessed at www.sedar.com.

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

NON-GAAP FINANCIAL MEASURES

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

Adjusted funds flow & Adjusted funds flow per share

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

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

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

(\$000s except per share)	Three Months Ended			Six Months Ended June 30,	
	Jun 30, 2020	Mar 31, 2020	Jun 30, 2019	2020	2019
Cash flow from operating activities	2,970	43,138	45,807	46,108	74,715
Change in non-cash working capital	5,733	(14,748)	3,126	(9,015)	14,168
Decommissioning expenditures	151	1,540	1,111	1,691	2,818
Cash settled transaction and other costs	—	98	698	98	892
Adjusted funds flow	\$ 8,854	\$ 30,028	\$ 50,742	\$ 38,882	\$ 92,593
Per share - basic	\$ 0.03	\$ 0.09	\$ 0.16	\$ 0.12	\$ 0.30

Net Debt

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

(\$000s)	As at		
	Jun 30, 2020	Mar 31, 2020	Jun 30, 2019
Bank debt	(306,549)	(305,804)	(319,503)
Accounts receivable	27,503	29,738	38,310
Prepaid expenses and deposits	5,828	4,672	8,113
Accounts payable and accrued liabilities	(33,782)	(43,718)	(47,771)
Convertible debentures	(69,907)	(69,295)	(67,552)
Dividends payable	—	(279)	(2,617)
Total	(376,907)	(384,686)	(391,020)

Operating Netback & Adjusted Funds Flow per boe

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

Operating Netback & Adjusted Funds Flow per boe

(\$000s)	Three Months Ended			Six Months Ended June 30,	
	Jun 30, 2020	Mar 31, 2020	Jun 30, 2019	2020	2019
Petroleum and natural gas revenue	30,505	63,706	107,665	94,211	205,533
Processing and other income	1,112	1,720	783	2,832	1,257
Royalties	(3,215)	(8,505)	(13,788)	(11,720)	(24,849)
Realized gain (loss) on commodity and FX contracts	15,464	13,509	(2,537)	28,973	(3,253)
Operating expenses	(23,706)	(28,199)	(28,297)	(51,905)	(58,210)
Transportation expenses	(2,641)	(3,046)	(2,616)	(5,687)	(6,479)
Operating netback	17,519	39,185	61,210	56,704	113,999
G&A expense	(3,102)	(3,416)	(3,652)	(6,518)	(7,122)
Interest expense	(5,563)	(5,741)	(6,816)	(11,304)	(14,284)
Adjusted funds flow	8,854	30,028	50,742	38,882	92,593
Barrels of oil equivalent (boe)	1,557,700	1,852,414	1,960,535	3,410,114	3,907,211
Operating netback (\$ per boe)	\$ 11.25	\$ 21.16	\$ 31.24	\$ 16.63	\$ 29.17
Adjusted funds flow (\$ per boe)	\$ 5.69	\$ 16.22	\$ 25.90	\$ 11.41	\$ 23.69

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.