FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended			Years Ended December 31,		
	Dec 31, 2016	Sept 30, 2016	% Change	**2016**	2015	% Change
Financial highlights						
Oil sales	**45,356**	40,656	12 %	**149,701**	218,761	(32)%
NGL sales	**1,284**	1,255	2 %	**4,675**	4,600	2 %
Natural gas sales	**3,595**	3,333	8 %	**11,192**	14,542	(23)%
Total oil, natural gas, and NGL revenue	**50,235**	45,244	11 %	**165,568**	237,903	(30)%
Adjusted funds from operations[1]	**21,534**	19,138	13 %	**70,226**	118,873	(41)%
Per share basic ($)	**0.10**	0.09	11 %	**0.32**	0.54	(41)%
Per share diluted ($)	**0.10**	0.09	11 %	**0.32**	0.54	(41)%
Capital expenditures - petroleum & gas properties[2]	**23,515**	20,764	13 %	**73,962**	76,731	(4)%
Capital expenditures - acquisitions & dispositions[2]	**14,921**	—	nm[4]	**(26,220)**	(463,568)	(94)%
Total capital expenditures[2]	**38,436**	20,764	85 %	**47,742**	(386,837)	nm
Net debt at end of period[3]	**161,735**	141,155	15 %	**161,735**	160,375	1 %
Operating highlights						
Production:						
Oil (bbls per day)	**9,832**	9,807	— %	**9,605**	12,871	(25)%
NGLs (bbls per day)	**504**	597	(16)%	**570**	697	(18)%
Natural gas (mcf per day)	**15,036**	16,296	(8)%	**16,276**	17,362	(6)%
Total (boe per day) (6:1)	**12,842**	13,120	(2)%	**12,888**	16,462	(22)%
Average realized price (excluding hedges):						
Oil ($ per bbl)	**50.14**	45.06	11 %	**42.58**	46.57	(9)%
NGL ($ per bbl)	**27.69**	22.86	21 %	**22.42**	18.09	24 %
Natural gas ($ per mcf)	**2.60**	2.22	17 %	**1.88**	2.29	(18)%
Netback ($ per boe)						
Oil, natural gas and NGL sales	**42.52**	37.48	13 %	**35.10**	39.60	(11)%
Realized gain (loss) on commodity contracts	**(1.85)**	(1.38)	34 %	**0.84**	7.18	(88)%
Royalties	**(5.08)**	(4.76)	7 %	**(4.07)**	(6.34)	(36)%
Operating expenses	**(12.69)**	(11.27)	13 %	**(12.22)**	(15.03)	(19)%
Transportation expenses	**(1.38)**	(1.28)	8 %	**(1.55)**	(1.60)	(3)%
Operating netback	**21.52**	18.79	15 %	**18.10**	23.81	(24)%
G&A expense	**(1.79)**	(1.66)	8 %	**(1.85)**	(1.83)	1 %
Interest expense	**(1.51)**	(1.28)	18 %	**(1.37)**	(2.20)	(38)%
Corporate netback	**18.22**	15.85	15 %	**14.88**	19.78	(25)%
Common shares outstanding, end of period	**225,755**	222,278	2 %	**225,755**	221,033	2 %
Weighted average basic shares outstanding	**225,278**	221,615	2 %	**222,252**	220,661	1 %
Stock option dilution	**—**	—	nm	**—**	—	nm
Weighted average diluted shares	**225,278**	221,615	2 %	**222,252**	220,661	1 %

1 Management uses adjusted funds from operations (cash flow from operating activities before changes in non-cash working capital, decommissioning expenditures, transaction costs and cash settled stock-based compensation) to analyze operating performance and leverage. Adjusted funds from operations as presented does not have any standardized meaning prescribed by IFRS and, therefore, may not be comparable with the calculation of similar measures for other entities.

2 Please see capital expenditures discussion in this MD&A.

3 The Company defines net debt as outstanding bank debt plus or minus working capital, however, excluding the fair value of financial contracts and other current obligations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) of the consolidated financial position and results of operations of Surge Energy Inc. ("Surge" or the "Company"), which includes its subsidiaries and partnership arrangements, is for the three months and years ended December 31, 2016 and 2015. 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 year-end financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

DESCRIPTION OF BUSINESS

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

NON-IFRS MEASURES

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

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

Adjusted funds from Operations

($000s)	**Q4 2016**	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Cash flow from operating activities	**$ 16,199**	$ 18,241	$ 15,509	$ 5,371	$ 17,346
Change in non-cash working capital	**4,129**	274	5,728	1,097	(2,978)
Decommissioning expenditures	**763**	191	(85)	402	319
Transaction costs	**15**	—	44	186	141
Cash settled stock-based compensation	**428**	432	867	435	474
Adjusted funds from operations	**$ 21,534**	$ 19,138	$ 22,063	$ 7,491	$ 15,302

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

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

The Company defines net debt as outstanding bank debt plus or minus working capital, however, excluding the fair value of financial contracts and other current long term obligations.

Surge's Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A. This MD&A is dated March 15, 2017.

OPERATIONS

Drilling

	Drilling		Success	Working
	Gross	Net	rate (%) net	interest (%)
Q1 2016	3.0	3.0	100%	100%
Q2 2016	8.0	8.0	100%	100%
Q3 2016	13.0	13.0	100%	100%
Q4 2016	13.0	12.8	100%	98%
Total	**37.0**	**36.8**	**100%**	**99%**

Surge achieved a 100 percent success rate during the year ended December 31, 2016, drilling 37 gross (36.8 net) wells. During the fourth quarter of 2016, Surge drilled 13.0 gross (12.8 net) wells, including eight wells at Shaunavon, four wells at Eyehill and one well at Valhalla.

Production

	Three Months Ended			**Years Ended**	
	Dec 31, 2016	Sept 30, 2016	Dec 31, 2015	**Dec 31, 2016**	Dec 31, 2015
Oil (bbls per day)	**9,832**	9,807	10,297	**9,605**	12,871
NGL (bbls per day)	**504**	597	795	**570**	697
Oil and NGL (bbls per day)	**10,336**	10,404	11,092	**10,175**	13,568
Natural gas (mcf per day)	**15,036**	16,296	18,570	**16,276**	17,362
Total (boe per day) (6:1)	**12,842**	13,120	14,187	**12,888**	16,462
% Oil and NGL	**80%**	79%	78%	**79%**	82%

Surge achieved production of 12,842 boe per day in the fourth quarter of 2016 (80 percent oil and NGLs), a two percent decrease from the average production rate in the third quarter of 2016 and a nine percent decrease from the average production rate in the same period of 2015.

The decrease in production volumes as compared to the third quarter of 2016 is primarily due to an unplanned outage at a third-party gas processing facility and third-party pipeline restrictions in the Valhalla area during the fourth quarter of 2016, negatively impacting production by approximately 200 boe per day (primarily natural gas production). The decrease in production volumes as compared to the same period of 2015 is primarily due to the disposition of Surge's Sunset assets in the first quarter of 2016, representing approximately 700 boe per day, in addition to the outages as described above in the fourth quarter of 2016. Surge also experienced extreme weather conditions during the fourth quarter of 2016, delaying much of its

2016 drilling program until late in the quarter. Production increased throughout the fourth quarter of 2016 as new drills were tied-in, resulting in an exit rate of 13,800 boe per day.

During the year ended December 31, 2016, Surge achieved production of 12,888 boe per day (79 percent oil and NGLs), a 22 percent decrease when compared to the same period of 2015.

The decrease in production volumes for the twelve months ended December 31, 2016 is primarily due to the disposition of Surge's southeast Saskatchewan and southwest Manitoba assets during the second quarter of 2015, representing approximately 4,750 boe per day, in addition to the disposition of the Sunset assets in the first quarter of 2016 as discussed above. The decrease in production volumes as a result of Surge's corporate annual decline rate of approximately 25 percent was more than offset by Surge's successful 2016 drilling program.

Revenue, Realized Prices and Benchmark Pricing

	Three Months Ended			Years Ended	
($000s except per amount)	**Dec 31, 2016**	Sept 30, 2016	Dec 31, 2015	**Dec 31, 2016**	Dec 31, 2015
Revenue					
Oil	**45,356**	40,656	36,509	**149,701**	218,761
NGL	**1,284**	1,255	1,250	**4,675**	4,600
Oil and NGL	**46,640**	41,911	37,759	**154,376**	223,361
Natural gas	**3,595**	3,333	3,183	**11,192**	14,542
Total oil, natural gas and NGL revenue	**50,235**	45,244	40,942	**165,568**	237,903
Realized Prices					
Oil ($ per bbl)	**50.14**	45.06	38.54	**42.58**	46.57
NGL ($ per bbl)	**27.69**	22.86	17.08	**22.42**	18.09
Oil and NGL ($ per bbl)	**49.05**	43.79	37.00	**41.45**	45.29
Natural gas ($ per mcf)	**2.60**	2.22	1.86	**1.88**	2.29
Total oil, natural gas, and NGL revenue before realized commodity contracts ($ per boe)	**42.52**	37.48	31.37	**35.10**	39.60
Benchmark Prices					
WTI (US$ per bbl)	**49.29**	44.94	42.18	**43.32**	48.80
WTI (C$ per bbl)	**65.56**	58.87	56.52	**58.05**	62.46
Edmonton Light Sweet (C$ per bbl)	**61.59**	54.67	52.85	**52.90**	57.11
WCS (C$ per bbl)	**46.63**	41.05	36.86	**38.90**	44.81
AECO Daily Index (C$ per mcf)	**2.85**	2.32	2.47	**2.10**	2.69

Total oil, natural gas and NGL revenue for the fourth quarter of 2016 increased 11 percent when compared to the third quarter of 2016. The increase is primarily due to the 11 percent increase in realized oil pricing which correlates to the increase in Edmonton Light Sweet of 13 percent and the increase in WCS of 14 percent as compared to the third quarter of 2016.

Total oil, natural gas and NGL revenue for the fourth quarter of 2016 increased 23 percent when compared to the same period of 2015. The increase is primarily due to a 36 percent increase in total realized pricing, partially offset by a nine percent decline in production.

Total oil, natural gas and NGL revenue for the year ended December 31, 2016 decreased 30 percent when compared to the same period of 2015. The decrease is primarily due to a nine percent decline in realized oil pricing, directly correlated with a decline in benchmark pricing, combined with a 22 percent a decrease in production (discussed in the production section of this MD&A). Surge's realized average revenue per barrel of oil during the year ended December 31, 2016 decreased nine percent compared to the same period of 2015. This compares to a seven percent decrease in Edmonton light sweet and a 13 percent decrease in WCS during the same period.

ROYALTIES

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2016**	Sept 30, 2016	Dec 31, 2015	**Dec 31, 2016**	Dec 31, 2015
Royalties	**5,996**	5,745	7,689	**19,197**	38,091
% of Revenue	**12%**	13%	19%	**12%**	16%
$ per boe	**5.08**	4.76	5.89	**4.07**	6.34

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 location of new wells drilled.

The decrease in royalties as a percentage of revenue for the fourth quarter of 2016 as compared to the third quarter of 2016 and fourth quarter of 2015 is primarily due to a favorable prior period royalty adjustment of approximately $0.3 million recorded in the fourth quarter of 2016. The impact of increased commodity pricing as compared to the third quarter of 2016 and fourth quarter of 2015 was offset by royalty holidays on new wells that came on production in the period.

The decrease in royalties as a percentage of revenue and per boe for the year ended December 31, 2016 as compared to the same period of 2015 is primarily due to the decrease in commodity prices (see pricing section of this MD&A for further discussion) in addition to favorable GCA adjustments totaling approximately $1.3 million recognized in the second and fourth quarters of 2016.

On January 29, 2016, the Alberta Government released a new Royalty Regime effective January 1, 2017. The new regime will apply to wells drilled after the effective date, whereby all other wells will follow the old framework for a further 10 years. On April 21, 2016, the Alberta Government provided further details and calibration on the Modernized Royalty Framework. These details were seen as the second step of a five-step process with plans to provide further information throughout 2016. As additional information continues to be provided, Surge will continue to monitor the overall impact on the Company starting in 2017.

OPERATING EXPENSES

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2016**	Sept 30, 2016	Dec 31, 2015	**Dec 31, 2016**	Dec 31, 2015
Operating expenses	**14,995**	13,609	16,411	**57,630**	90,277
$ per boe	**12.69**	11.27	12.57	**12.22**	15.03

Total operating expenses during the fourth quarter of 2016 increased 10 percent and operating expenses per boe increased 13 percent when compared to the immediately preceding quarter, primarily due to a $0.8 million favourable 13-month adjustment recorded in the third quarter of 2016 in combination with increased fuel, maintenance and chemical costs in the fourth quarter of 2016 as a result of poor weather conditions.

Total operating expenses decreased nine percent when compared to the fourth quarter of 2015 primarily as a result of Surge's focus on reducing operating costs throughout 2016. Operating expenses per boe during the fourth quarter of 2016 were comparable to the same period of 2015 as cost savings were partially offset by lower production.

Total operating expenses for the year ended December 31, 2016 decreased 36 percent as compared to the same period of 2015. The decrease is primarily due to the disposition of high operating cost properties in 2015 in addition to $3.1 million of favourable 13-month adjustments recorded throughout 2016. A further decrease in operating expenses and operating expenses per boe is due to Surge's focus on allocating capital and increasing production in low cost operating areas throughout 2016.

TRANSPORTATION EXPENSES

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2016**	Sept 30, 2016	Dec 31, 2015	**Dec 31, 2016**	Dec 31, 2015
Transportation expenses	**1,630**	1,541	2,289	**7,302**	9,595
$ per boe	**1.38**	1.28	1.75	**1.55**	1.60

Transportation expenses per boe for the fourth quarter of 2016 increased eight percent compared to the third quarter of 2016 and decreased 21 percent compared to the fourth quarter of 2015.

The increase in transportation expense during the fourth quarter of 2016 as compared to the third quarter of 2016 is primarily due to increased trucking costs in the Valhalla area due to third-party pipeline restrictions during the period.

The decrease in transportation expense during the three months and year ended December 31, 2016 as compared to the same periods of 2015 is primarily due to cost savings realized as a result of the Company's continued waterflood projects in its core areas whereby produced water is held in the field for reinjection as opposed to transported for disposal as wet emulsion. Additionally, Surge completed a strategic infrastructure project, connecting the Company's associated gas in the Valhalla operating area to nearby sweet gas processing plants and thereby concluding the payment of additional costs to help minimize curtailment of production in this area during the first and second quarters of 2016.

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2016**	Sept 30, 2016	Dec 31, 2015	**Dec 31, 2016**	Dec 31, 2015
G&A expenses	**3,526**	3,277	3,196	**13,410**	16,735
Recoveries and capitalized	**(1,415)**	(1,268)	(990)	**(4,702)**	(5,737)
Net G&A expenses	**2,111**	2,009	2,206	**8,708**	10,998
Net G&A expenses $ per boe	**1.79**	1.66	1.69	**1.85**	1.83

Net G&A expenses per boe of $1.79 for the fourth quarter of 2016 were eight percent higher than the third quarter of 2016 and six percent higher as compared to the fourth quarter of 2015. The change in net G&A expenses per boe as compared to the third quarter of 2016 is primarily due to the two percent decrease in production during the period. The increase in net G&A expenses per boe as compared to the fourth quarter of 2015 is primarily due to the nine percent decrease in production during the period.

Total net G&A expenses for twelve months ended December 31, 2016 decreased 21 percent as compared to the same period in 2015 as a result of the implementation of a company wide G&A cost reduction initiative. Net G&A per boe for the twelve months ended December 31, 2016 is consistent with the same period of 2015 due to the 22 percent decline in production period over period.

TRANSACTION COSTS

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2016**	Sept 30, 2016	Dec 31, 2015	**Dec 31, 2016**	Dec 31, 2015
Transaction costs	**15**	—	141	**245**	8,180
$ per boe	**0.01**	—	0.11	**0.05**	1.36

For the year ended December 31, 2016, the Company incurred transaction costs of $0.05 per boe, related to the minor acquisition and dispositions during year. This compares to $8.2 million incurred during the year ended December 31, 2015, primarily related to the disposal of the Company's petroleum and natural gas properties in southeast Saskatchewan and southwest Manitoba during the second quarter of 2015.

FINANCE EXPENSES

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2016**	Sept 30, 2016	Dec 31, 2015	**Dec 31, 2016**	Dec 31, 2015
Interest expense	**1,789**	1,547	1,557	**6,468**	13,197
$ per boe	**1.51**	1.28	1.19	**1.37**	2.20
Accretion expense	**842**	710	823	**3,058**	4,018
$ per boe	**0.72**	0.59	0.63	**0.65**	0.67
Finance expenses	**2,631**	2,257	2,380	**9,526**	17,215
$ per boe	**2.23**	1.87	1.82	**2.02**	2.87

The increase in interest expense during the fourth quarter as compared to the third quarter of 2016 is primarily due to higher debt levels as a result of the completion of Surge's 2016 capital program throughout the second half of the year. The increase in interest expense in the fourth quarter of 2016 as compared to the same period of the prior year is primarily due to a higher effective interest rate of prime plus 1.75% compared to prime plus 1.5% in the fourth quarter of 2015.

Interest expense during the year ended December 31, 2016 decreased 51 percent as compared to the same period of 2015. The decrease in interest expense as compared to the same period of the prior year is primarily due to lower debt levels. Surge decreased debt levels with the successful closing of the southeast Saskatchewan and southwest Manitoba asset sale, and certain non-core properties in Alberta and Saskatchewan, for combined cash proceeds of $469 million in 2015. The proceeds were used to pay down bank indebtedness.

Accretion represents the change in the time value of the decommissioning liability as well as a firm transportation agreement. Accretion expense increased for the three months ended December 31, 2016 as compared to both the same period of 2015 and the third quarter of 2016 primarily due to a change in discount rate. Accretion expense for the year ended December 31, 2016 decreased as compared to the same period of 2015 as a result of the reduction in obligations resulting from the 2015 asset disposals noted above. The underlying liability may increase over a period of time, based on new obligations incurred from drilling wells, constructing facilities, acquiring operations or adjusting future estimates of timing or amounts. This future obligation can be reduced as a result of abandonment work undertaken.

NETBACKS

	Three Months Ended			Years Ended	
($ per boe, except production)	**Dec 31, 2016**	Sept 30, 2016	Dec 31, 2015	**Dec 31, 2016**	Dec 31, 2015
Average production (boe per day)	**12,842**	13,120	14,187	**12,888**	16,462
Revenue	**42.52**	37.48	31.37	**35.10**	39.60
Realized gain (loss) on commodity contracts	**(1.85)**	(1.38)	3.49	**0.84**	7.18
Royalties	**(5.08)**	(4.76)	(5.89)	**(4.07)**	(6.34)
Operating costs	**(12.69)**	(11.27)	(12.57)	**(12.22)**	(15.03)
Transportation costs	**(1.38)**	(1.28)	(1.75)	**(1.55)**	(1.60)
Operating netback	**21.52**	18.79	14.65	**18.10**	23.81
G&A expense	**(1.79)**	(1.66)	(1.69)	**(1.85)**	(1.83)
Interest expense	**(1.51)**	(1.28)	(1.19)	**(1.37)**	(2.20)
Corporate netback	**18.22**	15.85	11.77	**14.88**	19.78

Surge's operating netback for the fourth quarter of 2016 increased 15 percent compared to the third quarter of 2016 and increased 47 percent as compared to the same period of 2015.

The increase in Surge's operating netback as compared to the third quarter of 2016 is primarily attributable to a 13 percent increase in revenue per boe, slightly offset by increases in royalties, operating costs and transportation costs per boe. The corporate netback was further impacted by an eight percent increase in G&A expense per boe and an 18 percent increase in interest expense per boe as compared to the third quarter of 2016.

The 47 percent increase in Surge's operating netback for the fourth quarter of 2016 as compared to the same period of 2015 is primarily attributable to a 36 percent increase in revenue per boe, along with decreases in royalties, operating costs and transportation costs boe. The increase was partially offset due to a $1.85 per boe realized loss on commodity contracts as compared to a $3.49 per boe realized gain on commodity contracts in same period of 2015.

Surge's operating netback for the year ended December 31, 2016 decreased 24 percent compared to the same period of 2015. The decrease is primarily attributable to an 11 percent decrease in revenue per boe and a $0.84 per boe realized gain on commodity contracts as compared to a $7.18 per boe realized gain on commodity contacts in the same period of 2015. This decrease is partially offset by decreases in royalties, operating costs and transportation costs. The corporate netback was further impacted by a 38 percent decrease in interest expense per boe compared to the same period of 2015.

ADJUSTED FUNDS FROM OPERATIONS AND CASH FLOW FROM OPERATING ACTIVITIES

	Three Months Ended			Years Ended	
($000s except per share and per boe)	**Dec 31, 2016**	Sept 30, 2016	Dec 31, 2015	**Dec 31, 2016**	Dec 31, 2015
Adjusted funds from operations	**21,534**	19,138	15,302	**70,226**	118,873
Per share - basic ($)	**0.10**	0.09	0.07	**0.32**	0.54
Per share - diluted ($)	**0.10**	0.09	0.07	**0.32**	0.54
$ per boe	**18.23**	15.86	11.72	**14.90**	19.79
Cash flow from operating activities	**16,199**	18,241	17,346	**55,320**	107,441

Adjusted funds from operations increased 13 percent in the fourth quarter of 2016 compared to the third quarter of 2016. Adjusted funds from operations increased 41 percent compared to the same period of 2015. On a per share basis, adjusted funds from operations increased 11 percent in the fourth quarter of 2016 compared to the third quarter of 2016 and increased 43 percent compared to the same period of 2015.

Adjusted funds from operations decreased 41 percent for the twelve months ended December 31, 2016 compared to the same period of 2015. On a per share basis, adjusted funds from operations decreased 41 percent compared to the same period of 2015.

Cash flow from operating activities differs from adjusted funds from operations principally due to the inclusion of changes in non-cash working capital. Included in cash flow from operations is a decrease in non-cash working capital of $4.1 million in the fourth quarter of 2016 and a decrease of $11.2 million in the twelve months ended December 31, 2016.

STOCK-BASED COMPENSATION

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2016**	Sept 30, 2016	Dec 31, 2015	**Dec 31, 2016**	Dec 31, 2015
Stock-based compensation	**6,831**	3,674	1,896	**18,124**	11,554
Capitalized stock-based compensation	**(3,135)**	(1,830)	(1,305)	**(8,297)**	(6,938)
Net stock-based compensation	**3,696**	1,844	591	**9,827**	4,616
Net stock-based compensation $ per boe	**3.13**	1.53	0.45	**2.08**	0.77

Net stock-based compensation expense for the fourth quarter of 2016 increased $1.8 million as compared to the immediate preceding quarter and increased $3.1 million as compared to the fourth quarter of 2015. The increase is primarily the result of a PSA performance multiplier adjustment for awards that vested in the fourth quarter of 2016 in addition to a $0.8 million expense related to SARs recorded in the fourth quarter of 2016 (as compared to $nil during the third quarter of 2016 and a $0.8 million recovery during the fourth quarter of 2015).

Net stock-based compensation expense for the year ended December 31, 2016 increased $5.2 million as compared to the same period of 2015, primarily a result of the $1.8 million expense related to SARs recorded in the period in combination with the expense recorded on RSAs and PSAs granted in the period and the PSA performance multiplier adjustment discussed above.

The stock-based compensation recorded in the three months and year ended December 31, 2016 primarily relates to the stock appreciation rights ("SARs"), 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. An estimated forfeiture rate of 15% was used to value all awards granted for the period ended December 31, 2016. The weighted average fair value of awards granted for the year ended December 31, 2016 is $2.49 per PSA and $2.43 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 January 1, 2016	2,740,363	3,407,103
Granted	2,499,198	2,093,769
Reinvested [1]	135,282	165,742
Added by performance factor	—	650,507
Exercised	(1,749,982)	(1,495,320)
Forfeited	(22,333)	(12,749)
Balance at December 31, 2016	**3,602,528**	**4,809,052**

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

DEPLETION AND DEPRECIATION

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2016**	Sept 30, 2016	Dec 31, 2015	**Dec 31, 2016**	Dec 31, 2015
Depletion and depreciation expense	**20,498**	22,510	23,326	**83,872**	122,879
$ per boe	**17.35**	18.65	17.87	**17.79**	20.46

Depletion and depreciation are calculated based upon capital expenditures, production rates and proved plus probable reserves. Deducted from the Company's fourth quarter of 2016 depletion and depreciation calculation are costs associated with salvage values of $103.8 million. Future development costs for proved and probable reserves of $435.8 million have been included in the depletion calculation.

Depletion and depreciation expense during the fourth quarter of 2016 decreased as compared to the third quarter of 2016 due to decreased production and an increase in depletable reserves as a result of the 2016 reserve evaluation. Depletion and depreciation expense decreased as compared to the three months and year ended December 31, 2015 primarily due to the disposition of Surge's Sunset assets on March 31, 2016 and impairment expenses realized during the year ended December 31, 2015.

The depletion and depreciation calculation is based on daily production volumes of 12,842 boe per day for the fourth quarter of 2016.

IMPAIRMENT

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2016**	Sept 30, 2016	Dec 31, 2015	**Dec 31, 2016**	Dec 31, 2015
Impairment	**3,358**	101	65,707	**3,459**	218,029
$ per boe	**2.84**	0.08	50.34	**0.73**	36.29

As at December 31, 2016, the Corporation determined there were no indicators of impairment in any of the five cash generating units and no indications that impairment losses recognized in prior years no longer exist or have decreased. The Corporation's CGU's at December 31, 2016 were geographically labeled Northwest Alberta, Northeast Alberta, Central Alberta, Southeast Alberta and Southwest Saskatchewan.

For the year ended December 31, 2015, due to declines in forward commodity prices, the Corporation determined a trigger to be present across all of its CGUs. As a result, the Corporation completed an impairment test. Recoverable value was principally estimated at value in use for all CGU's, with the exception of North Central Alberta, based on before tax cashflows from oil and gas proved plus probable reserves estimated by the Corporation's third party reserve evaluators at a 12 - 15 percent discount rate. For the North Central Alberta CGU, fair value less costs to sell was used based on market transactions. It was determined that the book value of certain CGUs exceeded the recoverable value and a $217.6 million impairment was recognized. The impairment specifically related to North Central Alberta ($30.9 million), Northeast Alberta ($22.1 million), Central Alberta ($63.9 million), Southeast Alberta ($31.6 million), and Southeast Saskatchewan ($69.1 million) and was the direct result of a decrease in commodity prices. The recoverable amounts for the impaired assets were $27.9 million in North Central Alberta CGU, $71.8 million in the Northeast Alberta CGU, $89.2 million in the Central Alberta CGU, and $233.7 in the Southeast Alberta CGU. The Southeast Saskatchewan CGU was sold during the year. The North Central Alberta CGU was disposed of in the year ended December 31, 2016.

For the year ended December 31, 2016 the Corporation recorded $3.5 million impairment on exploration and evaluation assets due to expired acreage. For the year ended December 31, 2015 the Corporation recorded $0.4 million of impairment on exploration and evaluation assets due to expired acreage.

NET LOSS

	Three Months Ended			Years Ended	
($000s except per share)	**Dec 31, 2016**	Sept 30, 2016	Dec 31, 2015	**Dec 31, 2016**	Dec 31, 2015
Net loss	**(14,816)**	(3,840)	(64,597)	**(30,421)**	(213,891)
Per share - basic ($)	**(0.07)**	(0.02)	(0.29)	**(0.14)**	(0.97)
Per share - diluted ($)	**(0.07)**	(0.02)	(0.29)	**(0.14)**	(0.97)

Net loss and net loss per basic share for the fourth quarter of 2016 increased as compared to the third quarter of 2016 and decreased as compared to the fourth quarter of 2015. The cause for the variance is primarily due to the extent of realized and unrealized gains and losses on commodity contracts in each of the quarters in addition to impairment recognition during the fourth quarter of 2015.

Net loss and net loss per basic share for the year ended December 31, 2016 has decreased as compared to the same period of 2015 primarily as a result of impairment recognition during 2015.

INCOME TAXES

The estimated tax pools in place at December 31, 2016 are as follows:

($000s)	**Total**
Canadian oil and gas property expenses	**322,987**
Canadian development expenses	**206,406**
Canadian exploration expenses	**22,304**
Undepreciated capital cost	**123,361**
Non-capital losses	**384,255**
Other	**5,443**
	1,064,756

CAPITAL EXPENDITURES

Capital Expenditure Summary

($000s)	Q1 2016	Q2 2016	Q3 2016	**Q4 2016**	**2016 YTD**	2015 YTD	% Change
Land	194	1,315	(290)	**621**	**1,840**	3,014	(39)%
Seismic	20	—	115	**26**	**161**	449	(64)%
Drilling and completions	6,269	11,293	16,129	**17,068**	**50,759**	41,302	23 %
Facilities, equipment and pipelines	5,170	3,428	3,577	**4,593**	**16,768**	24,907	(33)%
Other	1,220	774	1,233	**1,207**	**4,434**	7,059	(37)%
Total exploration and development	12,873	16,810	20,764	**23,515**	**73,962**	76,731	(4)%
Acquisitions - cash consideration	2,037	—	—	**14,921**	**16,958**	5,217	nm
Acquisitions - debt acquired	—	—	—	**—**	**—**	—	nm
Acquisitions - share based	—	—	—	**—**	**—**	—	nm
Property dispositions	(43,178)	—	—	**—**	**(43,178)**	(468,785)	nm
Total acquisitions & dispositions	(41,141)	—	—	**14,921**	**(26,220)**	(463,568)	nm
Total capital expenditures	(28,268)	16,810	20,764	**38,436**	**47,742**	(386,837)	nm

During the three months and year ended December 31, 2016, Surge invested a total of $23.5 million and $74.0 million, excluding acquisitions and dispositions.

During the fourth quarter of 2016, Surge invested $17.1 million to drill 13 gross (12.8 net) wells. This reflects an average of approximately $1.1 million per Shaunavon well, $1.1 million per Eyehill well and $3.9 million for the Valhalla well drilled during the period. In addition, the Company invested $4.6 million in facilities and pipelines, waterflood expansions and pilots, and $1.2 million in land and seismic acquisitions and other capital items.

Late in the fourth quarter of 2016, the Company completed an acquisition in the Valhalla area for $14.9 million, providing Surge with a strategic working interest ownership in a large sour gas processing plant.

During the year ended December 31, 2016, Surge invested $50.8 million to drill 37 gross (36.8 net) successful wells, focusing on the Company's three core asset bases. Surge invested a further $16.8 million in facilities, equipment and pipelines, mainly concentrated in the Valhalla area where artificial lift technologies were implemented alongside a pipeline and compression project allowing Surge to lower the Valhalla field pressures and transport associated sweet gas produced in the area to nearby sweet plants, de-bottlenecking the field.

FACTORS THAT HAVE CAUSED VARIATIONS OVER THE QUARTERS

The fluctuations in Surge's revenue and net earnings from quarter to quarter are primarily caused by changes in production volumes, changes in realized commodity prices and the related impact on royalties, and realized and unrealized gains or losses on derivative instruments. The change in production from the first quarter of 2015 through the current quarter are due to Surge's successful drilling program, as well as corporate and asset acquisitions over that period combined with significant dispositions in the second quarter of 2015. 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

	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Weighted common shares	**225,277,907**	221,615,072	221,046,752	221,042,468
Dilutive instruments (treasury method)	**—**	—	—	—
Weighted average diluted shares outstanding	**225,277,907**	221,615,072	221,046,752	221,042,468

	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Weighted common shares	221,000,807	221,259,098	220,287,256	220,059,794
Dilutive instruments (treasury method)	—	—	—	—
Weighted average diluted shares outstanding	221,000,807	221,259,098	220,287,256	220,059,794

On March 15, 2017, Surge had 225,766,393 common shares, 1,400,560 warrants, 2,000,000 SAR's, 4,943,715 PSAs, 3,718,956 RSAs, and 67,000 stock options outstanding.

Quarterly Financial Information

	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Oil, Natural gas & NGL sales	**50,235**	45,244	40,943	29,146
Net loss	**(14,816)**	(3,840)	(8,084)	(3,681)
Net loss per share ($):				
Basic	**(0.07)**	(0.02)	(0.04)	(0.02)
Diluted	**(0.07)**	(0.02)	(0.04)	(0.02)
Adjusted funds from operations	**21,534**	19,138	22,063	7,491
Adjusted funds from operations per share ($):				
Basic	**0.10**	0.09	0.10	0.03
Diluted	**0.10**	0.09	0.10	0.03
Average daily sales				
Oil (bbls/d)	**9,832**	9,807	8,958	9,821
NGL (bbls/d)	**504**	597	564	615
Natural gas (mcf/d)	**15,036**	16,296	15,959	17,829
Barrels of oil equivalent (boe per day) (6:1)	**12,842**	13,120	12,182	13,408
Average sales price				
Natural gas ($/mcf)	**2.60**	2.22	1.41	1.36
Oil ($/bbl)	**50.14**	45.06	46.03	29.28
NGL ($/bbl)	**27.69**	22.86	26.64	13.75
Barrels of oil equivalent ($/boe)	**42.52**	37.48	36.94	23.89

Quarterly Financial Information

	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Oil, Natural gas & NGL sales	40,942	45,779	80,868	70,353
Net earnings (loss)	(64,597)	(34,820)	(9,769)	(104,705)
Net earnings (loss) per share ($):				
Basic	(0.29)	(0.16)	(0.04)	(0.48)
Diluted	(0.29)	(0.16)	(0.04)	(0.48)
Adjusted funds from operations	15,302	17,009	35,490	51,072
Adjusted funds from operations per share ($):				
Basic	0.07	0.08	0.16	0.23
Diluted	0.07	0.08	0.16	0.23
Average daily sales				
Oil (bbls/d)	10,297	10,635	14,345	16,296
NGL (bbls/d)	795	599	520	875
Natural gas (mcf/d)	18,570	13,731	16,724	20,484
Barrels of oil equivalent (boe per day) (6:1)	14,187	13,523	17,652	20,585
Average sales price				
Natural gas ($/mcf)	1.86	2.03	2.22	2.94
Oil ($/bbl)	38.54	43.50	58.74	42.96
NGL ($/bbl)	17.08	11.67	16.64	24.38
Barrels of oil equivalent ($/boe)	31.37	36.80	50.34	37.97

Annual Financial Information

	Years Ended December 31,		
($000s except per share)	**2016**	2015	2014
Total sales	**165,568**	237,903	485,686
Net loss	**(30,421)**	(213,891)	(33,177)
Net loss per share ($):			
Basic	**(0.14)**	(0.97)	(0.17)
Diluted	**(0.14)**	(0.97)	(0.17)
Total assets	**1,115,257**	1,145,289	1,985,359
Total long-term financial liabilities	**160,684**	149,028	564,258
Dividends declared	**20,827**	60,668	115,777
Dividends declared per share ($):			
Basic	**0.09**	0.28	0.57
Diluted	**0.09**	0.28	0.57

LIQUIDITY AND CAPITAL RESOURCES

On December 31, 2016, Surge had drawn $160.7 million on its credit facility with total net debt of $161.7 million, a decrease in total net debt of one percent as compared to the same date in 2015. At December 31, 2016, Surge had approximately $90 million of borrowing capacity in relation to the $250 million credit facility, providing Surge financial flexibility through 2016.

Surge monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives. Given the extreme volatility, significant downward pressure and uncertainty of world oil prices in the fourth quarter of 2014 and subsequent to December 31, 2014, the Company reduced drilling and capital spending late in the fourth quarter of 2014 and adopted a conservative capital spending program for 2015 and now into 2016, designed to protect the Company's financial position.

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

Additionally, Surge reduced the Company's dividend from $0.05 per share per month to $0.025 per share per month beginning with the January 2015 declared dividend as a further measure to protect the Company's financial position and further reduced the Company's dividend to $0.0125 per share per month beginning in November 2015 and $0.00625 per share per month beginning in April 2016. Surge's management and Board will continue to assess market conditions regularly until a sustainable recovery in world crude oil prices is realized.

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

Net Debt

($000s)	
Bank debt	(160,684)
Accounts receivable	29,511
Prepaid expenses and deposits	2,888
Accounts payable and accrued liabilities	(32,039)
Dividends payable	(1,411)
Total	**(161,735)**

The Company has an extendible, revolving term credit facility of $250 million with a syndicate of Canadian banks bearing interest at bank rates. This is a decrease in the available credit facility of $150 million when compared to the third quarter of 2015. As a result of carrying less unutilized credit capability on the Company's bank line, Surge will be saving approximately $1.0 million per year in standby charges.

The facility is available on a revolving basis until May 29, 2017. On May 29, 2017, 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 the available lending limits of the facilities are based on the syndicate's interpretation of the Company's reserves and future commodity prices, there can be no assurance that the amount of the available facilities will not decrease at the next scheduled review. Interest rates vary depending on the ratio of net debt to cash flow. The facility had an effective interest rate of prime plus 1.75 percent as at December 31, 2016 (December 31, 2015 – prime plus 1.50 percent).

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

RELATED-PARTY AND OFF-BALANCE-SHEET TRANSACTIONS

Surge was not involved in any off-balance-sheet transactions or related party transactions during the three months or year ended December 31, 2016.

CONTRACTUAL OBLIGATIONS

The Company has entered into farm-in agreements in the normal course of its business. The Company is also contractually obligated under its debt agreements as outlined under liquidity and capital resources.

Surge has future minimum payments relating to its operating lease and firm transport commitments totaling $51.2 million, as summarized below:

Commitments

($000s)		
2017	$	12,715
2018		8,425
2019		7,886
2020		7,458
2021		5,893
2022+		8,850
Total	**$**	**51,227**

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 March 15, 2017 by period and by product. Further detail on the individual hedges can be found in the Financial Statements.

Commodity Contracts

WTI Oil Hedges

Type	Term	bbl/d	Currency	Floor (per bbl)	Ceiling (per bbl)	Swap Price (per bbl)
WTI	1H 2017	1,000	CAD	—	—	$66.00
WTI	1H 2017[1]	2,500	CAD	$60.00	$71.00	—
WTI	2H 2017[1]	1,500	CAD	$60.00	$78.33	—
WTI	Apr-Dec 2017	1,250	USD	—	—	$55.18
WTI	2H 2017	1,000	USD	$47.00	—	—
WTI	2H 2017	800	USD	—	$59.38	—
WTI	1H 2018	1,000	USD	$47.50	—	—
WTI	1H 2018	600	USD	—	$63.19	—
WTI	1H 2018	1,500	USD	$50.00	$60.87	—
WTI	2H 2018	1,500	USD	$50.00	—	—

Oil Differential Hedges

Type	Term	bbl/d	Currency	Floor (per bbl)	Ceiling (per bbl)	Swap Price (per bbl)
WCS Swap	2017	500	USD	—	—	US$WTI less $22.00
WCS Swap	Apr-Dec 2017	500	USD	—	—	US$WTI less $14.50
MSW (EDM) Swap	2017	2,000	USD	—	—	US$WTI less $3.18

Natural Gas Hedges

Type	Term	mcf/d	Currency	Swap Price (per mcf)
Chicago Swap[2]	Jan-Oct 2017	10,000	CAD	$3.63

CAD/USD FX Hedges

Type	Term	Monthly Notional Amount (US$)	Total Notional Amount (US$)	Swap Rate (CAD$ per USD$)
Avg Rate Forward	2018	$2,000,000	$24,000,000	$1.30

(1) If market prices settle at or below CAD$50 WTI, the Company will receive a locked-in cash settlement of the market price plus CAD$10 per bbl on 2,500 bbl/d in 1H 2017 and 1,500 bbl/d in 2H 2017.

(2) Surge entered into a Chicago-priced swap as the Company's firm transport contracts settle against the Chicago index.

CONTROLS AND PROCEDURES

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

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

There were no changes in the Company's ICFR during the quarter ended December 31, 2016 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Disclosure Controls

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

The President and Chief Executive Officer and the Chief Financial Officer of Surge evaluated the design and operating effectiveness of the Company's disclosure controls and procedures ("DC&P"). Based on that evaluation, the officers concluded that Surge's DC&P were effective as at December 31, 2016.

Internal Controls over Financial Reporting

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

Under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, Surge conducted an evaluation of the design of the Company's ICFR as at December 31, 2016 based on the COSO framework. Based on this evaluation, the officers concluded that as of December 31, 2016, Surge's ICFR was designed and operating effectively.

CRITICAL ACCOUNTING ESTIMATES

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

Reserves

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

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

Forecasted Commodity Prices

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

Business Combinations

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

Decommissioning Liability

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

Derivative Financial Instruments

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

Stock-based Compensation

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

Deferred Income Taxes

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

FUTURE ACCOUNTING POLICY CHANGES

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

- IFRS 15 "Revenue From Contracts with Customers" - IFRS 15 was issued in May 2014 and replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The standard is required to be adopted either retrospectively or using a modified transaction approach. In September 2015, the IASB amended IFRS 15, deferring the effective date of the standard by one year to annual periods beginning on or after January 1, 2018 with early adoption still permitted. IFRS 15 will be adopted by the Company on January 1, 2018. The Company is currently reviewing the terms of its sales contracts with customers to determine the impact, if any, that the standard will have on the consolidated financial statements.
- IFRS 9 "Financial Instruments"- IFRS 9 was amended in July 2014 to include guidance to assess and recognize impairment losses on financial assets based on an expected loss model. The amendments are effective for fiscal years beginning on or after January 1, 2018 with earlier adoption permitted. This amendment will be adopted by the Company on January 1, 2018 and the Company is currently evaluating the impact, if any, of the amendment on the consolidated financial statements.
- IFRS 16 "Leases" - IFRS 16 was issued January 2016 and replaces IAS 17 Leases. The standard introduces a single lessee accounting model for leases with required recognition of assets and liabilities for most leases. The standard is effective

for fiscal years beginning on or after January 1, 2019 with early adoption permitted if the Company is also applying IFRS 15 Revenue from Contracts with Customers. IFRS 16 will be adopted by the Company on January 1, 2019 and the Company is currently reviewing contracts that are currently identified as leases and evaluating the impact of the standard on the consolidated financial statements.

RISK FACTORS

Additional risk factors can be found under “Risk Factors” in the Company’s Annual Information Form for the year ended December 31, 2016, which can be found on www.sedar.com. Many risks are discussed below and in the Annual Information Form, 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 from operations, 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: (i) forecast commodity prices, inflation rates and currency prices; (ii) operating, transportation and interest expense trends (iii) the availability of Surge's bank line to fund Surge's future capital requirements; (iv) Surge's financial flexibility; (v) the expected sources of funding of future capital expenditures; (vi) Surge's anticipated standby charge savings; (vii) expected forfeiture rates of RSAs and PSAs granted under the Company's Stock Incentive Plan; (viii) expectations as to the payout multiplier for PSAs granted under the Company's Stock Incentive Plan; (xi) expectations with respect to its underlying decommissioning liabilities; (x) expectations with respect to environmental legislation; (xi) expectations on corporate royalty rates applicable to the Company; (xii) expectations with respect to transportation expense; and (xiii) expectations with respect to the Company's ability to operate and succeed in the current commodity price environment.

The forward-looking statements are based on certain key expectations and assumptions made by Surge, including expectations and assumptions concerning the performance of existing wells and success obtained in drilling new wells, anticipated expenses, cash flow and capital expenditures, the application of regulatory and royalty regimes, prevailing commodity prices and economic conditions, development and completion activities and the costs relating thereto, the performance of new wells, the successful implementation of waterflood programs, the availability of and performance of facilities and pipelines, the geological characteristics of Surge's properties, the successful application of drilling, completion and seismic technology, the determination of decommissioning liabilities, prevailing weather conditions, exchange rates, licensing requirements, the impact of completed facilities on operating costs and the availability, costs of capital, labour and services, and the creditworthiness of industry partners.

Although Surge believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Surge can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; 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 or failure to obtain the continued support of the lenders under Surge's bank line. Certain of these risks are set out in more detail in this MD&A under the heading 'Risk Factors' and in Surge's Annual Information Form dated March 15, 2017 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.