FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended			Years Ended December 31,		
	Dec 31, 2018	Sep 30, 2018	% Change	**2018**	2017	% Change
Financial highlights						
Oil sales	**51,424**	85,946	(40)%	**285,378**	217,194	31 %
NGL sales	**2,477**	3,598	(31)%	**11,022**	9,431	17 %
Natural gas sales	**4,226**	1,492	183 %	**8,147**	14,283	(43)%
Total oil, natural gas, and NGL revenue	**58,127**	91,036	(36)%	**304,547**	240,908	26 %
Cash flow from operating activities	**26,770**	37,197	(28)%	**121,907**	93,682	30 %
Per share - basic ($)	**0.09**	0.16	(44)%	**0.50**	0.41	22 %
Adjusted funds flow[1]	**6,249**	40,638	(85)%	**113,651**	103,816	9 %
Per share - basic ($)[1]	**0.02**	0.18	(89)%	**0.46**	0.45	2 %
Total exploration and development expenditures	**33,598**	28,701	17 %	**120,552**	98,466	22 %
Total acquisitions & dispositions	**299,032**	6,279	nm2	**327,765**	72,465	nm
Total capital expenditures	**332,630**	34,980	851 %	**448,317**	170,931	162 %
Net debt[1], end of period	**461,187**	282,394	63 %	**461,187**	239,718	92 %
Operating highlights						
Production:						
Oil (bbls per day)	**16,578**	13,560	22 %	**13,992**	11,347	23 %
NGLs (bbls per day)	**703**	669	5 %	**623**	639	(3)%
Natural gas (mcf per day)	**22,598**	22,797	(1)%	**20,658**	17,615	17 %
Total (boe per day) (6:1)	**21,047**	18,029	17 %	**18,058**	14,922	21 %
Average realized price (excluding hedges):						
Oil ($ per bbl)	**33.72**	68.89	(51)%	**55.88**	52.44	7 %
NGL ($ per bbl)	**38.28**	58.46	(35)%	**48.51**	40.41	20 %
Natural gas ($ per mcf)	**2.03**	0.71	186 %	**1.08**	2.22	(51)%
Netback ($ per boe)						
Petroleum and natural gas revenue	**30.02**	54.89	(45)%	**46.21**	44.23	4 %
Realized loss on commodity contracts	**(1.25)**	(1.91)	(35)%	**(1.67)**	(0.74)	126 %
Royalties	**(3.86)**	(8.32)	(54)%	**(6.55)**	(5.53)	18 %
Net operating expenses[1]	**(15.70)**	(14.36)	9 %	**(14.76)**	(13.62)	8 %
Transportation expenses	**(1.53)**	(1.55)	(1)%	**(1.50)**	(1.41)	6 %
Operating netback[1]	**7.68**	28.75	(73)%	**21.73**	22.93	(5)%
G&A expense	**(1.83)**	(1.98)	(8)%	**(2.01)**	(1.94)	4 %
Interest expense	**(2.60)**	(2.27)	15 %	**(2.47)**	(1.94)	27 %
Adjusted funds flow[1]	**3.25**	24.50	(87)%	**17.25**	19.05	(9)%
Common shares outstanding, end of period	**309,286**	233,618	32 %	**309,286**	232,989	33 %
Weighted average basic shares outstanding	**288,744**	231,988	24 %	**246,252**	228,212	8 %
Stock option dilution	**—**	4,234	(100)%	**—**	—	— %
Weighted average diluted shares outstanding	**288,744**	236,222	22 %	**246,252**	228,212	8 %

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 months and years ended December 31, 2018 and 2017. For a full understanding of the financial position and results of operations of the Company, the MD&A should be read in conjunction with the documents filed on SEDAR, including historical financial statements, MD&A and the Annual Information Form ("AIF"). These documents are available at www.sedar.com.

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

Surge's Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A. This MD&A is dated March 12, 2019.

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

	Three Months Ended			Years Ended	
($000s except per share and per boe)	**Dec 31, 2018**	Sep 30, 2018	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017
Cash flow from operating activities	**26,770**	37,197	28,640	**121,907**	93,682
Per share - basic ($)	**0.09**	0.16	0.12	**0.50**	0.41
Per share - diluted ($)	**0.09**	0.16	0.12	**0.50**	0.41
$ per boe	**13.82**	22.43	19.86	**18.50**	17.20
Adjusted funds flow	**6,249**	40,638	32,173	**113,651**	103,816
Per share - basic ($)	**0.02**	0.18	0.14	**0.46**	0.45
Per share - diluted ($)	**0.02**	0.17	0.14	**0.46**	0.45
$ per boe	**3.23**	24.50	22.31	**17.24**	19.06

Cash flow from operating activities for the fourth quarter of 2018 decreased 28 percent compared to the third quarter of 2018 and decreased seven percent when compared to the fourth quarter of 2017. On a per basic share basis, cash flow from operating activities decreased 44 percent compared to the third quarter of 2018 and decreased 25 percent compared to the fourth quarter of 2017. Cash flow from operating activities for the year ended December 31, 2018 increased 30 percent when compared to the same period of the prior year and increased 22 percent on a per basic share basis.

Adjusted funds flow for the fourth quarter of 2018 decreased 85 percent compared to the third quarter of 2018 and decreased 85 percent when compared to the fourth quarter of 2017. On a per basic share basis, adjusted funds flow decreased 89 percent compared to the third quarter of 2018 and decreased 86 percent compared to the fourth quarter of 2017. Adjusted funds flow for the year ended December 31, 2018 increased nine percent compared to the same period of 2017 and two percent on a per share basic share basis.

Both cash flow from operating activities and adjusted funds flow for the fourth quarter of 2018 decreased when compared to the third quarter of 2018 and fourth quarter of 2017 primarily due to a decrease in average realized price for oil, which correlates to the significant decrease in benchmark crude oil pricing and historical widening of Canadian oil differentials. Cash flow from operating activities and adjusted funds flow for the year ended December 31, 2018 increased when compared to the same period of the prior year due to increases in production and favourable increases in average realized oil and liquids pricing.

See the following *Operations* section for additional information regarding the cash flow and operating results of the Company for the three months and year ended December 31, 2018 and see the *Non-GAAP Financial Measures* section of this MD&A for further information regarding adjusted funds flow.

OPERATIONS

Drilling

	Drilling		Success	Working
	Gross	Net	rate (%) net	interest (%)
Q1 2018	15.0	14.8	100%	99%
Q2 2018	5.0	5.0	100%	100%
Q3 2018	12.0	11.8	100%	98%
Q4 2018	14.0	14.0	100%	100%
Total	**46.0**	**45.6**	**100%**	**99%**

Surge achieved a 100 percent success rate during the year ended December 31, 2018, drilling 46 gross (45.6 net) wells. During the fourth quarter of 2018, Surge drilled 14 gross (14.0 net) wells, including seven gross (7.0 net) wells in southeast Alberta ("Sparky"), four gross (4.0 net) wells at Shaunavon, two gross (2.0 net) wells at Greater Sawn, and one gross (1.0 net) well at Valhalla.

Production

	Three Months Ended			**Years Ended**	
	Dec 31, 2018	Sep 30, 2018	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017
Oil (bbls per day)	**16,578**	13,560	12,169	**13,992**	11,347
NGL (bbls per day)	**703**	669	571	**623**	639
Oil and NGL (bbls per day)	**17,281**	14,229	12,740	**14,615**	11,986
Natural gas (mcf per day)	**22,598**	22,797	17,607	**20,658**	17,615
Total (boe per day) (6:1)	**21,047**	18,029	15,675	**18,058**	14,922
% Oil and NGL	**82%**	79%	81%	**81%**	80%

Surge achieved production of 21,047 boe per day in the fourth quarter of 2018 (82 percent oil and NGLs), a 17 percent increase from the average production rate in the third quarter of 2018 and a 34 percent increase from the average production rate in the same period of 2017.

During the year ended December 31, 2018, Surge achieved production of 18,058 boe per day (81 percent oil and NGLs), a 21 percent increase when compared to the same period of 2017.

The increase in production during the fourth quarter of 2018 as compared to the third quarter of 2018 is primarily the result of the acquisition of Mount Bastion Oil & Gas Corp. ("MBOG"), which was effective October 25, 2018 and added approximately 4,000 boe per day for the fourth quarter. Additionally, the increase in production can also be attributed to a successful fourth quarter drilling program. Notably, with the significant widening of differentials throughout the fourth quarter of 2018, the Company chose to delay the completion of several wells that were spud in the period. Of the 14.0 net wells drilled during the quarter, 8.0 net wells were on production at year end with the remaining 6.0 net wells brought on production in the first quarter of 2019.

The increase in Surge's production for the three months and year ended December 31, 2018 as compared to the same periods of the prior year is primarily due to the 2018 acquisitions, which contributed combined average production of approximately 4,600 boe per day and 1,350 boe per day for the three months and year ended December 31, 2018, respectively.

Petroleum and Natural Gas Revenue, Realized Prices and Benchmark Pricing

	Three Months Ended			Years Ended	
($000s except per amount)	**Dec 31, 2018**	Sep 30, 2018	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017
Petroleum and Natural Gas Revenue					
Oil	**51,424**	85,946	64,221	**285,378**	217,194
NGL	**2,477**	3,598	2,751	**11,022**	9,431
Oil and NGL	**53,901**	89,544	66,972	**296,400**	226,625
Natural gas	**4,226**	1,492	2,288	**8,147**	14,283
Total petroleum and natural gas revenue	**58,127**	91,036	69,260	**304,547**	240,908
Realized Prices					
Oil ($ per bbl)	**33.72**	68.89	57.36	**55.88**	52.44
NGL ($ per bbl)	**38.28**	58.46	52.41	**48.51**	40.41
Oil and NGL ($ per bbl)	**33.90**	68.40	57.14	**55.57**	51.80
Natural gas ($ per mcf)	**2.03**	0.71	1.41	**1.08**	2.22
Total petroleum and natural gas revenue before realized commodity contracts ($ per boe)	**30.02**	54.89	48.03	**46.21**	44.23
Benchmark Prices					
WTI (US$ per bbl)	**58.81**	69.50	55.40	**64.77**	50.95
CAD/USD exchange rate	**1.32**	1.31	1.27	**1.30**	1.30
WTI (C$ per bbl)	**77.63**	91.05	70.36	**84.20**	66.24
Edmonton Light Sweet (C$ per bbl)	**42.76**	81.91	68.94	**69.37**	62.82
WCS (C$ per bbl)	**25.37**	61.78	54.88	**49.69**	50.54
AECO Daily Index (C$ per mcf)	**1.56**	1.19	1.69	**1.50**	2.15

Total petroleum and natural gas revenue for the fourth quarter of 2018 decreased 36 percent as compared to the third quarter of 2018. The decrease is primarily due to a 50 percent decrease in average realized oil and NGL prices. This decrease correlates to the 48 percent decrease in Edmonton light sweet and 59 percent decrease in WCS during the same period. Additionally, WTI USD per bbl during the fourth quarter of 2018 decreased 15 percent compared to the immediate prior quarter, along with a comparable CAD/USD exchange rate, leading to a 15 percent decrease in WTI CAD per bbl during the same periods.

Total petroleum and natural gas revenue for the fourth quarter of 2018 decreased 16 percent when compared to the same period of 2017. The decrease is primarily due to the 41 percent decrease in average realized price per barrel of oil as a result of widening differentials when compared to the fourth quarter of 2017. The decrease in average realized price per barrel correlates to the 38 percent decrease in Edmonton light sweet and 54 percent decrease in WCS compared to the same period of 2017. The average realized price decrease was partially offset by the 34 percent increase in production compared to the fourth quarter of 2017.

Total petroleum and natural gas revenue for the year ended December 31, 2018 increased 26 percent when compared to the same period of 2017. The increase is primarily due to the 21 percent increase in production, combined with a seven percent increase in average realized oil and NGL prices. This compares to a 10 percent increase in Edmonton light sweet and 27 percent increase in WTI CAD per bbl during the same period.

ROYALTIES

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2018**	Sep 30, 2018	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017
Royalties	**7,478**	13,803	8,106	**43,203**	30,099
% of Revenue	**13%**	15%	12%	**14%**	12%
$ per boe	**3.86**	8.32	5.62	**6.55**	5.53

As royalties are sensitive to both commodity prices and production levels, the corporate royalty rates will fluctuate with commodity prices, well production rates, production decline of existing wells, and performance and geographic location of new wells drilled. Royalties as a percentage of revenue for the three months ended December 31, 2018 decreased compared to the immediate preceding period due to the significant decrease in the crude oil pricing environment. Royalties as a percentage of revenue for the three months and year ended December 31, 2018 increased as compared to the same periods of the prior year primarily as a result of the higher crude oil pricing environment.

NET OPERATING EXPENSES

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2018**	Sep 30, 2018	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017
Operating expenses	**30,985**	24,360	20,477	**100,108**	76,697
Less processing and other revenue	**(575)**	(537)	(503)	**(2,818)**	(2,502)
Net operating expenses	**30,410**	23,823	19,974	**97,290**	74,195
$ per boe	**15.70**	14.36	13.85	**14.76**	13.62

Net operating expenses per boe during the fourth quarter of 2018 increased nine percent when compared to the immediate preceding quarter. Net operating expenses per boe during the three months and year ended December 31, 2018 increased 13 percent and eight percent, respectively, when compared to the same periods of the prior year. The increase in operating expenses per boe is primarily attributable to properties acquired throughout 2017 and 2018 with higher operating expenses per boe than the Company's historical average.

The properties acquired in the MBOG acquisition historically averaged greater than $17.00 per boe operating expenses while the Sparky acquisitions in 2017 and 2018 historically averaged greater than $20.00 per boe operating expenses. Additionally, Surge's electrical consumption has increased approximately 50 percent when compared to the same period of the prior year due to the increase in ownership of high electrical consumption water injection facilities. Additionally, the average Alberta power pool price also increased by 121 percent and 119 percent for the three months and year ended December 31, 2018, respectively, when compared to the same periods of the prior year. The increase in power price during these periods related mainly to a reduction in power supply from coal plants that are being decommissioned, weather related demand increase, and low wind power generation.

TRANSPORTATION EXPENSES

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2018**	Sep 30, 2018	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017
Transportation expenses	**2,971**	2,574	1,740	**9,878**	7,670
$ per boe	**1.53**	1.55	1.21	**1.50**	1.41

Transportation expenses per boe for the fourth quarter of 2018 is comparable to the third quarter of 2018. Transportation expenses per boe for the fourth quarter of 2018 increased 26 percent when compared to the same period of the prior year and transportation expenses per boe for the year ended December 31, 2018 increased six percent when compared to the prior year. The increase in transportation expenses for the three months and year ended December 31, 2018 is primarily due to additional trucking costs incurred to avoid shutting in oil production in pipeline constrained operating areas.

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2018**	Sep 30, 2018	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017
G&A expenses	**4,948**	4,623	4,028	**18,672**	15,482
Recoveries and capitalized amounts	**(1,397)**	(1,346)	(1,215)	**(5,444)**	(4,907)
Net G&A expenses	**3,551**	3,276	2,813	**13,228**	10,575
Net G&A expenses $ per boe	**1.83**	1.98	1.95	**2.01**	1.94

Net G&A expenses per boe for the fourth quarter of 2018 decreased eight percent as compared to the third quarter of 2018 and decreased six percent compared to the same period of the prior year. The decrease in net G&A expenses per boe is primarily due to the synergistic acquisition of MBOG during the fourth quarter of 2018 in which the Company had the appropriate staff and systems in place to absorb the vast majority of additional general and administrative capacities relative to the associated acquired production.

Net G&A expenses per boe for the year ended December 31, 2018 increased four percent respectively, when compared to the same period of the prior year. The increase in net G&A expenses per boe is the result of additional labour requirements to meet the Company's objectives following significant production growth throughout 2017 and into 2018.

TRANSACTION AND OTHER COSTS

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2018**	Sep 30, 2018	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017
Transaction and other costs	**3,504**	1,016	—	**5,288**	1,155
$ per boe	**1.81**	0.61	—	**0.80**	0.21

During the year ended December 31, 2018, the Company incurred transaction and other costs of $0.80 per boe primarily related to the acquisition MBOG that closed during the fourth quarter of 2018 and the second quarter 2018 Sparky area asset acquisition in addition to severance costs.

FINANCE EXPENSES

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2018**	Sep 30, 2018	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017
Interest on bank debt	**4,281**	2,997	2,840	**13,254**	9,722
$ per boe	**2.21**	1.81	1.97	**2.01**	1.78
Interest on convertible debentures	**640**	640	330	**2,559**	330
$ per boe	**0.33**	0.39	0.23	**0.39**	0.06
Interest on finance lease	**118**	119	121	**476**	488
$ per boe	**0.06**	0.07	0.08	**0.07**	0.09
Total interest expense	**5,039**	3,756	3,291	**16,289**	10,540
$ per boe	**2.60**	2.27	2.28	**2.47**	1.94
Accretion expense	**1,700**	1,400	1,189	**5,764**	3,978
$ per boe	**0.88**	0.84	0.82	**0.87**	0.73
Total finance expense	**6,739**	5,156	4,480	**22,053**	14,518
$ per boe	**3.48**	3.11	3.11	**3.35**	2.67

Total interest expense for the fourth quarter of 2018 increased 34 percent as compared to the third quarter of 2018 and increased 53 percent as compared to the fourth quarter of 2017. Total interest expense for the year ended December 31, 2018 increased 55 percent as compared to the same period of the prior year.

The increase in interest expense during the fourth quarter of 2018 as compared to the third quarter of 2018 is primarily due to a higher bank debt during the quarter as a result of the acquisition of MBOG in addition to an increase in prime interest rate during the period. Interest on convertible debentures and finance leases during the fourth quarter of 2018 was comparable to the third quarter of 2018.

The increase in interest expense for the three months and year ended December 31, 2018 as compared to the same periods of 2017 is primarily due to higher debt levels as a result of the second and fourth quarter 2018 acquisitions. Additionally, the Company incurred $2.6 million of interest expense related to convertible debentures during 2018 (2017 - $0.3 million).

Accretion represents the change in the time value of the decommissioning liability, the convertible debentures and firm transportation agreements. Accretion expense for the fourth quarter of 2018 increased as compared to the third quarter of 2018. An increase in accretion expense for the three months and year ended December 31, 2018 as compared to the same periods of 2017 is primarily due to the asset acquisitions and associated decommissioning liabilities during the second and fourth quarters of 2018.

NETBACKS

	Three Months Ended			Years Ended	
($ per boe, except production)	**Dec 31, 2018**	Sep 30, 2018	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017
Average production (boe per day)	**21,047**	18,029	15,675	**18,058**	14,922
Petroleum and natural gas revenue	**30.02**	54.89	48.03	**46.21**	44.23
Realized loss on commodity contracts	**(1.25)**	(1.91)	(0.81)	**(1.67)**	(0.74)
Royalties	**(3.86)**	(8.32)	(5.62)	**(6.55)**	(5.53)
Net operating costs	**(15.70)**	(14.36)	(13.85)	**(14.76)**	(13.62)
Transportation costs	**(1.53)**	(1.55)	(1.21)	**(1.50)**	(1.41)
Operating netback	**7.68**	28.75	26.54	**21.73**	22.93
G&A expense	**(1.83)**	(1.98)	(1.95)	**(2.01)**	(1.94)
Interest expense	**(2.60)**	(2.27)	(2.28)	**(2.47)**	(1.94)
Adjusted funds flow	**3.25**	24.50	22.31	**17.25**	19.05

Surge's operating netback for the fourth quarter of 2018 decreased 73 percent compared to the third quarter of 2018 and decreased 71 percent compared to the same period of 2017.

The decrease in Surge's operating netback as compared to the third quarter of 2018 is primarily attributable to a significant decrease in petroleum and natural gas revenue per boe, along with a slight increase in net operating costs, partially offset by a decrease in royalties per boe. The adjusted funds flow per boe was further impacted by a 15 percent increase in interest expense per boe as compared to the third quarter of 2018.

The decrease in Surge's operating netback as compared to the fourth quarter of 2017 is primarily attributable to a a 37 percent decrease in petroleum and natural gas revenue per boe and an increase in net operating costs per boe. The adjusted funds flow per boe was further impacted by a 14 percent increase in interest expense per boe, slightly offset by a six percent decrease in G&A expense per boe as compared to the fourth quarter of 2017.

Surge's operating netback for the year ended December 31, 2018 decreased five percent as compared to the same period of 2017. The decrease is primarily attributable to an increase in loss on commodity contracts per boe, royalties per boe and net operating costs per boe, partially offset by an increase in petroleum and natural gas revenue per boe. The adjusted funds flow per boe was further impacted by increases in G&A expense per boe and interest expense per boe as compared to the same period of 2017.

STOCK-BASED COMPENSATION

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2018**	Sep 30, 2018	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017
Stock-based compensation	**1,743**	4,073	1,592	**9,957**	11,713
Capitalized stock-based compensation	**(775)**	(1,619)	(774)	**(3,548)**	(7,387)
Net stock-based compensation	**968**	2,454	818	**6,409**	4,326
Net stock-based compensation $ per boe	**0.50**	1.48	0.57	**0.97**	0.79

Net stock-based compensation expense for the fourth quarter of 2018 decreased $1.5 million when compared to the immediate preceding quarter. The decrease in net stock-based compensation is primarily the result of a $1.3 million PSA performance multiplier adjustment for awards that vested in the third quarter of 2018.

Net stock-based compensation expense for the fourth quarter of 2018 increased $0.2 million when compared to the same period of the prior year.

Net stock based compensation expense for the year ended December 31, 2018 increased $2.1 million as compared to the same period of 2017, primarily as a result of the $2.7 million recovery related to the stock appreciation rights ("SARs") in the prior year period as compared to $0.7 million expense in the current year.

The stock-based compensation recorded in the year ended December 31, 2018 relates to the SARs, restricted share awards ("RSAs") and performance share awards ("PSAs") grants. During the second quarter of 2018, 2.0 million SARs were exercised for cash consideration of $1.1 million. As at December 31, 2018, nil SARs are outstanding. Subject to terms and conditions of the plan, each RSA entitles the holder to an award value not limited to, but typically paid as to one-third on each of the first, second and third anniversaries of the date of grant. Each PSA entitles the holder to an award value to be typically paid on the third anniversary of the date of grant. For the purpose of calculating share-based compensation, the fair value of each award is determined at the grant date using the closing price of the common shares. An estimated forfeiture rate of 15% was used to value all awards granted for the year ended December 31, 2018. The weighted average fair value of awards granted for the year ended December 31, 2018 is $2.15 per PSA and $2.10 per RSA. In the case of PSAs, the award value is adjusted for a payout multiplier which can range from 0.0 to 2.0 and is dependent on the performance of the Company relative to pre-defined corporate performance measures for a particular period.

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

	Number of restricted share awards	Number of performance share awards
Balance at December 31, 2017	4,008,843	6,163,982
Granted	2,129,520	1,993,597
Reinvested [1]	178,947	251,467
Added by performance factor	—	1,229,646
Exercised	(2,082,603)	(2,826,590)
Forfeited	(344,805)	(1,496,023)
Balance at December 31, 2018	**3,889,902**	**5,316,079**

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

During the year ended December 31, 2018, the Company settled the tax withholdings on certain exercised awards amounting to 423,967 RSAs and 1,130,903 PSAs (2017 - nil) for $3.4 million in cash.

DEPLETION AND DEPRECIATION

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2018**	Sep 30, 2018	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017
Depletion and depreciation expense	**39,290**	26,307	23,095	**114,220**	88,556
$ per boe	**20.29**	15.86	16.02	**17.33**	16.26

Depletion and depreciation are calculated based upon total capital expenditures (including acquisitions and dispositions), production rates and proved plus probable reserves. Deducted from the Company's fourth quarter of 2018 depletion and depreciation calculation are costs associated with salvage values of $140.4 million. Future development costs for proved and probable reserves of $853.6 million have been included in the depletion calculation.

Depletion and depreciation expense for the three months and year ended December 31, 2018 increased compared to the third quarter of 2018 and the same periods of 2017 primarily due to the MBOG acquisition and increased production levels, which resulted in larger depletable base.

IMPAIRMENT

	Three Months Ended			Years Ended	
($000s except per boe)	**Dec 31, 2018**	Sep 30, 2018	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017
Impairment	**72,174**	—	23,643	**72,174**	24,124
$ per boe	**37.27**	—	16.40	**10.95**	4.43

The Company identified six cash generating units ("CGUs") as of December 31, 2018 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 MBOG acquisition during the year was determined to be a standalone CGU, geographically labeled North Central Alberta and the asset acquisitions in the current year were integrated into existing CGUs based on geographic location. The Company's CGUs at December 31, 2018 were geographically labeled Northwest Alberta, North Central Alberta, Northeast Alberta, Central Alberta, Southeast Alberta and Southwest Saskatchewan.

For the year ended December 31, 2018, due to poor economic performance of certain assets, the Company determined an indication of potential impairment was present in its Southwest Saskatchewan and Central Alberta CGU's. 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 estimated by the Company's third party reserve evaluators. It was determined that the carrying value of the Southwest Saskatchewan CGU exceeded the recoverable amount of $268.1 million and the carrying value of the Central Alberta CGU exceeded the recoverable amount of $42.7 million and a $72.2 million impairment was recognized. The before tax discount rate applied in the value in use calculation as at December 31, 2018 was 10 - 20 percent.

As at December 31, 2018, the Company determined there were no indications that impairment losses recognized in prior years no longer exist or have decreased.

The following table outlines forecast commodity prices and exchange rates used in the Company’s CGU impairment tests at December 31, 2018. The forecast commodity prices are consistent with those used by the Company’s external reserve evaluators and are a key assumption in assessing the recoverable amount. The reserve evaluators also include financial assumptions regarding royalty rates, operating costs, and future development capital that can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities by Management.

	Medium and Light Crude Oil		Natural Gas	NGL				
Year	Canadian Light Sweet Crude 40˚ API ($/bbl)	Western Canadian Select 20.5˚ API ($/bbl)	AECO Gas Price ($/MMBtu)	Edmonton Condensate ($/bbl)	Edmonton Butane ($/bbl)	Edmonton Propane ($/bbl)	Inflation rates (%/Yr)	Exchange rate ($US/$Cdn)
2019	75.27	59.47	1.95	75.32	40.91	30.27	—	0.77
2020	77.89	62.31	2.44	80.00	50.25	34.51	2.0	0.80
2021	82.25	67.45	3.00	83.75	56.88	38.15	2.0	0.80
2022	84.79	69.53	3.21	85.50	58.01	39.64	2.0	0.80
2023	87.39	71.66	3.30	87.29	59.17	40.62	2.0	0.80
2024	89.14	73.10	3.39	89.11	60.36	41.62	2.0	0.80
2025	90.92	74.56	3.49	90.96	61.56	42.64	2.0	0.80
2026	92.74	76.05	3.58	92.86	62.79	43.68	2.0	0.80
2027	94.60	77.57	3.68	94.79	64.05	44.75	2.0	0.80
2028	96.49	79.12	3.78	96.76	65.33	45.83	2.0	0.80
2029	98.42	80.70	3.88	98.77	66.64	46.94	2.0	0.80

The Company identified five cash generating units as of December 31, 2017 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 asset acquisitions in 2017 were integrated into existing CGUs based on geographic location. The Company's CGUs at December 31, 2017 were geographically labeled Northwest Alberta, Northeast Alberta, Central Alberta, Southeast Alberta and Southwest Saskatchewan.

For the year ended December 31, 2017, due to declines in forward oil and natural gas prices and poor economic performance of certain assets, the Company determined an indication of potential impairment was present in its Central Alberta CGU. 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 estimated by the Company's third party reserve evaluators. It was determined that the carrying value of the Central Alberta CGU exceeded the recoverable amount of $8.5 million and a $36.7 million impairment was recognized.

Due to positive drilling results throughout 2017 and an associated increase in reserves, a test for impairment reversal was completed on the Southeast Alberta CGU. It was determined that the recoverable amount of the Southeast Alberta CGU exceeded the carrying value and previous impairment, net of depletion, of $26.4 million was reversed. The before tax discount rate applied in the value in use calculations as at December 31, 2017 ranged from 14 percent to 16 percent.

As at December 31, 2017, the Company had assets held for sale and used fair value less costs to sell to measure impairment expense for the year ended December 31, 2017.

The following table outlines forecast commodity prices and exchange rates used in the Company’s CGU impairment tests at December 31, 2017. The forecast commodity prices are consistent with those used by the Company’s external reserve evaluators and are a key assumption in assessing the recoverable amount. The reserve evaluators also include financial assumptions regarding royalty rates, operating costs, and future development capital that can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities by Management.

	Medium and Light Crude Oil		Natural Gas	NGL				
Year	Canadian Light Sweet Crude 40˚ API ($/bbl)	Western Canadian Select 20.5˚ API ($/bbl)	AECO Gas Price ($/MMBtu)	Edmonton Condensate ($/bbl)	Edmonton Butane ($/bbl)	Edmonton Propane ($/bbl)	Inflation rates (%/Yr)	Exchange rate ($US/$Cdn)
2018	65.44	51.05	2.85	67.72	48.73	26.06	—	0.79
2019	74.51	59.61	3.11	75.61	55.49	32.84	—	0.82
2020	78.24	64.94	3.65	78.82	57.65	35.41	1.5	0.85
2021	82.45	68.43	3.80	82.35	60.12	37.85	1.5	0.85
2022	84.10	69.80	3.95	84.07	61.32	39.29	1.5	0.85
2023	85.78	71.20	4.05	85.82	62.55	40.25	1.5	0.85
2024	87.49	72.62	4.15	87.61	63.80	41.23	1.5	0.85
2025	89.24	74.07	4.25	89.43	65.07	42.23	1.5	0.85
2026	91.03	75.55	4.36	91.29	66.37	43.26	1.5	0.85
2027	92.85	77.06	4.46	93.19	67.70	44.30	1.5	0.85
2028	94.71	78.61	4.57	95.12	69.06	45.36	1.5	0.85

NET INCOME (LOSS)

	Three Months Ended			Years Ended	
($000s except per share)	**Dec 31, 2018**	Sep 30, 2018	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017
Net income (loss)	**(82,473)**	9,034	(13,078)	**(71,533)**	(6,673)
Per share - basic ($)	**(0.29)**	0.04	(0.06)	**(0.29)**	(0.03)
Per share - diluted ($)	**(0.29)**	0.04	(0.06)	**(0.29)**	(0.03)

Net loss and net loss per basic share for the fourth quarter of 2018 increased as compared to the net income and net income per share for the third quarter of 2018 primarily due to the recognition of impairment expense during the period and the significant decrease in adjusted funds flow when compared to the immediate prior period.

Net loss and net loss per basic share for the fourth quarter of 2018 increased as compared to the net loss per basic share in the fourth quarter of 2017 primarily due to a significant decrease in average realized oil prices.

Net loss and net loss per basic share for the year ended December 31, 2018 increased as compared to the same period of 2017 primarily due to the extent of realized and unrealized gains and losses on commodity contracts in each of the periods.

INCOME TAXES

The estimated tax pools in place at December 31, 2018 are as follows:

($000s)	**Total**
Canadian oil and gas property expenses	**463,313**
Canadian development expenses	**195,723**
Canadian exploration expenses	**24,099**
Undepreciated capital cost	**147,839**
Non-capital losses	**551,101**
Other	**2,210**
	1,384,285

CAPITAL EXPENDITURES

Capital Expenditure Summary

($000s)	Q1 2018	Q2 2018	Q3 2018	**Q4 2018**	**2018 YTD**	2017 YTD	% Change
Land	704	1,877	463	**896**	**3,940**	3,757	5%
Seismic	373	153	473	**1,858**	**2,857**	2,841	1%
Drilling and completions	25,331	15,741	20,470	**21,220**	**82,762**	71,561	16%
Facilities, equipment and pipelines	7,100	4,001	5,785	**7,319**	**24,205**	14,272	70%
Other	1,401	1,572	1,510	**2,305**	**6,788**	6,035	12%
Total exploration and development	34,909	23,344	28,701	**33,598**	**120,552**	98,466	22%
Acquisitions - cash consideration	174	29,179	6,345	**145,244**	**180,942**	73,010	148%
Acquisitions - share based	—	—		**153,879**	**153,879**	—	nm
Property dispositions	(6,659)	(240)	(66)	**(91)**	**(7,056)**	(545)	1,195%
Total acquisitions & dispositions	(6,485)	28,939	6,279	**299,032**	**327,765**	72,465	352%
Total capital expenditures	28,424	52,283	34,980	**332,630**	**448,317**	170,931	162%

During the three months and year ended December 31, 2018, Surge invested a total of $33.6 million and $120.6 million, excluding acquisitions and dispositions.

During the fourth quarter of 2018, Surge invested $12.6 million to drill, complete and bring on stream seven gross (7.0 net) wells in the Sparky area and one gross (1.0 net) well at Valhalla. A further $8.6 million was spent during the fourth quarter of 2018 to partially drill an additional two gross (2.0 net) wells in the Greater Sawn area and four gross (4.0 net) wells in the Shaunavon area that were completed and brought on stream during the first quarter of 2019.

During the fourth quarter of 2018, Surge invested $7.3 million in facilities, pipelines, waterflood expansions and pilots. An additional $5.1 million was spent on land and seismic acquisitions and other capital items during the quarter.

FACTORS THAT HAVE CAUSED VARIATIONS OVER THE QUARTERS

The fluctuations in Surge's revenue and net earnings from quarter to quarter are primarily caused by changes in production volumes, changes in realized commodity prices and the related impact on royalties, and realized and unrealized gains or losses on derivative instruments. The change in production from the first quarter of 2017 through the current quarter is due to Surge's successful drilling programs and asset acquisitions over that period. Please refer to the Financial and Operating Results section and other sections of this MD&A for detailed discussions on variations during the comparative quarters and to Surge's previously issued interim and annual MD&A for changes in prior quarters.

Share Capital and Option Activity

	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Weighted common shares	**288,743,803**	231,988,109	230,812,437	233,006,881
Dilutive instruments (treasury method)	—	4,234,451	5,264,860	—
Weighted average diluted shares outstanding	**288,743,803**	236,222,560	236,077,297	233,006,881

	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Weighted common shares	232,928,730	228,309,427	225,766,393	225,763,917
Dilutive instruments (treasury method)	—	—	3,790,055	3,427,489
Weighted average diluted shares outstanding	232,928,730	228,309,427	229,556,448	229,191,406

On March 12, 2019, Surge had 309,295,105 common shares, 5,358,006 PSAs, and 3,887,790 RSAs outstanding.

Quarterly Financial Information

	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Oil, Natural gas & NGL sales	**58,127**	91,036	87,094	68,290
Net earnings (loss)	**(82,473)**	9,034	3,015	(1,109)
Net earnings (loss) per share ($):				
Basic	**(0.29)**	0.04	0.01	(0.01)
Diluted	**(0.29)**	0.04	0.01	(0.01)
Cash flow from operating activities	**26,770**	37,197	33,725	24,215
Cash flow from operating activities per share ($):				
Basic	**0.09**	0.16	0.15	0.10
Diluted	**0.09**	0.16	0.14	0.10
Adjusted funds flow	**6,249**	40,638	38,596	28,169
Adjusted funds flow per share ($):				
Basic	**0.02**	0.18	0.17	0.12
Diluted	**0.02**	0.17	0.17	0.12
Average daily sales				
Oil (bbls/d)	**16,578**	13,560	13,343	12,446
NGL (bbls/d)	**703**	669	556	560
Natural gas (mcf/d)	**22,598**	22,797	19,038	18,128
Barrels of oil equivalent (boe per day) (6:1)	**21,047**	18,029	17,072	16,027
Average sales price				
Natural gas ($/mcf)	**2.03**	0.71	0.63	0.82
Oil ($/bbl)	**33.72**	68.89	68.78	57.58
NGL ($/bbl)	**38.28**	58.46	49.15	48.82
Barrels of oil equivalent ($/boe)	**30.02**	54.89	56.06	47.34

Quarterly Financial Information

	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Oil, Natural gas & NGL sales	69,260	56,425	60,773	54,450
Net earnings (loss)	(13,078)	(8,188)	6,926	7,667
Net earnings (loss) per share ($):				
Basic	(0.06)	(0.04)	0.03	0.03
Diluted	(0.06)	(0.04)	0.03	0.03
Cash flow from operating activities	28,640	24,589	24,628	15,825
Cash flow from operating activities per share ($):				
Basic	0.12	0.11	0.11	0.07
Diluted	0.12	0.11	0.11	0.07
Adjusted funds flow	32,173	22,985	27,018	21,640
Adjusted funds flow per share ($):				
Basic	0.14	0.10	0.12	0.10
Diluted	0.14	0.10	0.12	0.09
Average daily sales				
Oil (bbls/d)	12,169	11,380	11,522	10,298
NGL (bbls/d)	571	627	678	684
Natural gas (mcf/d)	17,607	17,997	17,547	17,302
Barrels of oil equivalent (boe per day) (6:1)	15,675	15,007	15,125	13,866
Average sales price				
Natural gas ($/mcf)	1.41	2.24	2.68	2.58
Oil ($/bbl)	57.36	48.29	51.71	52.00
NGL ($/bbl)	52.41	37.42	36.99	36.39
Barrels of oil equivalent ($/boe)	48.03	40.87	44.16	43.63

Annual Financial Information

	Years Ended December 31,		
($000s except per share)	**2018**	2017	2016
Total petroleum and natural gas revenue	**304,547**	240,908	165,568
Net loss	**(71,533)**	(6,673)	(30,421)
Net loss per share ($):			
Basic	**(0.29)**	(0.03)	(0.14)
Diluted	**(0.29)**	(0.03)	(0.14)
Total assets	**1,566,708**	1,232,090	1,115,257
Total long-term financial liabilities	**446,566**	245,946	160,684
Dividends declared	**24,637**	20,756	20,827
Dividends declared per share ($):			
Basic	**0.10**	0.09	0.09
Diluted	**0.10**	0.09	0.09

LIQUIDITY AND CAPITAL RESOURCES

On December 31, 2018, Surge had $408.6 million drawn on its credit facility, $44.5 million principal amount of convertible subordinated unsecured debentures ("Debentures") with a 5.75 percent interest rate, and total net debt of $461.2 million, an increase in total net debt of 92 percent as compared to the same date in 2017. At December 31, 2018, Surge had approximately $141 million of borrowing capacity in relation to the $550 million credit facility, providing Surge financial flexibility through 2019. 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 Dec 31, 2018
Shareholder Equity	
Share capital	1,441,773
Common shares outstanding	309,286
Debentures - equity	3,551
Debt	
Credit Facilities	
Authorized	550,000
Amount drawn	408,593
Debentures - liability	37,973

Convertible Debentures

	Number of convertible debentures	Liability Component ($000s)	Equity Component ($000s)
Balance at December 31, 2016	—	—	—
Issuance of convertible debentures	44,500	39,273	5,227
Issue costs	—	(2,713)	(362)
Deferred income tax liability	—	—	(1,314)
Accretion of discount	—	155	—
Balance at December 31, 2017	44,500	36,715	3,551
Accretion of discount	—	1,258	—
Balance at December 31, 2018	**44,500**	**37,973**	**3,551**

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

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

Net Debt

($000s)	As at December 31, 2018
Bank debt	(408,593)
Accounts receivable	21,084
Prepaid expenses and deposits	9,222
Accounts payable and accrued liabilities	(42,350)
Dividends payable	(2,577)
Convertible debentures	(37,973)
Total	**(461,187)**

As at December 31, 2018, the Company had an extendible, revolving term credit facility of $550 million with a syndicate of Canadian banks bearing interest at bank rates.

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

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

RELATED-PARTY AND OFF-BALANCE-SHEET TRANSACTIONS

Surge was not involved in any off-balance-sheet transactions or related party transactions during the three months and year ended December 31, 2018.

CONTRACTUAL OBLIGATIONS

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

As at December 31, 2018, Surge had future minimum payments relating to its operating lease and firm transport commitments totaling $49.4 million, as summarized below:

Commitments

($000s)		
2019	$	12,058
2020		9,774
2021		8,100
2022		5,356
2023		4,749
2024+		9,394
Total	**$**	**49,431**

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 12, 2019 by period and by product.

Commodity Contracts

WTI Oil Hedges

Type	Term	bbl/d	Currency	Put Sold (per bbl)	Put Acquired (per bbl)	Call Sold (per bbl)	Call Acquired (per bbl)	Swap Price (per bbl)
WTI	2H 2018 - Q1 2019	500	USD	$50.00	$60.00	$71.50	—	—
WTI	2H 2018 - Q1 2019	500	USD	$50.00	$57.50	$78.10	—	—
WTI	Q2 2019	500	USD	$50.00	$57.50	$72.50	—	—
WTI	1H 2019	500	USD	$47.50	$57.50	$75.50	—	—
WTI	1H 2019	500	CAD	$50.00	$60.00	$73.34	—	—
WTI	1H 2019	500	USD	$53.00	$60.00	$80.50	—	—
WTI	1H 2019	500	USD	$53.00	$60.00	$82.00	—	—
WTI	2H 2019	2,000	USD	$53.00	$60.00	$82.79	—	—
WTI	2H 2019	250	USD	—	$50.00	$63.40	—	—
WTI	Feb 2019 - Dec 2019	250	USD	—	—	—	—	$53.90
WTI	2H 2019	500	USD	—	—	—	—	$57.70
WTI	Q2 2019 - Q1 2020	250	USD	—	—	—	—	$58.50
WTI	Q2 2019 - Q1 2020	250	USD	—	$55.00	$65.00	—	—
WTI	Q2 2019 - Q1 2020	250	USD	$45.00	$55.00	$68.50	—	—

Oil Differential Hedges

Type	Term	bbl/d	Currency	Floor (per bbl)	Ceiling (per bbl)	Swap Price (per bbl)
WCS Swap	Feb 2019 - Sep 2019	500	USD	—	—	US$WTI less $19.25
WCS Swap	Q2 2019	1,500	USD	—	—	US$WTI less $13.70
WCS Swap	Mar 2019	500	USD	—	—	US$WTI less $9.85
WCS Swap	Q3 2019	2,000	USD	—	—	US$WTI less $17.73
WCS Collar	Mar 2019 - Jun 2019	1,500	USD	US$WTI less $13.00	US$WTI less $18.00	—

Natural Gas Hedges

Type	Term	Volume	Currency	Floor	Ceiling
Chicago Collar	Nov 2018 - Mar 2019	4,000 mmbtu/d	USD	$2.65 per mmbtu	$3.30 per mmbtu
Chicago Collar	Apr 2019 - Oct 2019	4,000 mmbtu/d	USD	$2.50 per mmbtu	$3.10 per mmbtu
Chicago Swap	Nov 2018 - Mar 2019	4,000 mmbtu/d	USD	$3.49 per mmbtu	$3.49 per mmbtu
AECO Swap	Q2 2019 - Q4 2019	3,000 gj/d	CAD	$1.45 per gj	$1.45 per gj

CAD/USD FX Hedges

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

Interest Rate Hedges

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

SUBSEQUENT EVENT

Subsequent to December 31, 2018, the Company executed a definitive purchase and sale agreement regarding the disposition of certain non-core assets for cash proceeds of $28.7 million, subject to standard closing adjustments.

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.

The President and Chief Executive Officer and the Controller of Surge evaluated the design and operating effectiveness of the Company's DC&P. Based on that evaluation, the officers concluded that Surge's DC&P were effective as at December 31, 2018.

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

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

Under the supervision of the President and Chief Executive Officer and the Controller, Surge conducted an evaluation of the design of the Company's ICFR as at December 31, 2018 based on the COSO framework. Based on this evaluation, the officers concluded that as of December 31, 2018, Surge's ICFR was properly designed and operating effectively.

There were no changes in the Company's ICFR during the quarter ended December 31, 2018 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 value of stock deferred income tax provision, including (but not limited to) future tax rates, accessibility of tax pools and future cash flows.

CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING POLICY CHANGE

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

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

Further information about changes to our accounting policies resulting from the adoption of IFRS 9 and IFRS 15 can be found in Note 3 of the December 31, 2018 consolidated financial statements.

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

- IFRS 16 "Leases" - IFRS 16 was issued January 2016 and replaces IAS 17 Leases. The standard introduces a single lessee accounting model for leases with required recognition of assets and liabilities for most leases. The standard is effective for fiscal years beginning on or after January 1, 2019. IFRS 16 will be adopted using the modified retrospective approach on January 1, 2019. The Company has completed a detailed assessment on the impact on the consolidated financial statements and expects increases to the Company's total assets and liabilities in 2019. Future income will be impacted as finance and depreciation charges associated with the lease contracts are not expected to correspond in any one period to the amount of related cash flows.

RISK FACTORS

Additional risk factors can be found under “Risk Factors” in the Company’s AIF for the year ended December 31, 2017, which can be found on www.sedar.com. Many risks are discussed below and in the AIF, but these risk factors should not be construed as exhaustive. There are numerous factors, both known and unknown, that could cause actual results or events to differ materially from forecast results.

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

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

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

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

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

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

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

BOE PRESENTATION

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

FORWARD-LOOKING STATEMENTS

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

More particularly, this MD&A contains statements concerning: sustainability of production; forecast commodity prices, inflation rates and currency prices; the Company's long term prospects and business plan; Surge's continued pursuit of strategic acquisitions and the characteristics thereof; Surge's assets and the characteristics thereof; underlying causes of the fluctuations in Surge’s revenue and net earnings from quarter to quarter; continued efforts of Surge to monitor and adjust its capital structure; funding of future capital requirements through internal cash flow, divestitures, debt and/or equity financing; Surge’s financial flexibility; 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 cash generating units 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; the impact of certain new IFRS; continued support of Surge's lenders; Surge's dividend and the continued efforts by management and the Board to assess such dividend; 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, the 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 credit facility; prevailing weather conditions, exchange rates, licensing requirements, the impact of completed facilities on operating costs and the availability, costs of capital, labour and services, and the creditworthiness of industry partners.

Although Surge believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Surge can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; inability of Surge to fund its future capital requirements; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), commodity price and exchange rate fluctuations and constraint in the availability of services, adverse weather or break-up conditions, uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures, failure to obtain the continued support of the lenders under Surge’s current bank line or the inability to obtain consent of lenders to increase bank line. Certain of these risks are set out in more detail in this MD&A under the heading ‘Risk Factors’ and in Surge’s AIF dated March 12, 2019 which has been filed on SEDAR and can be accessed at www.sedar.com.

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

NON-GAAP FINANCIAL MEASURES

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

Adjusted funds flow & Adjusted funds flow per share

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

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

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

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

	Three Months Ended			Years Ended	
($000s except per share)	**Dec 31, 2018**	Sep 30, 2018	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017
Cash flow from operating activities	**26,770**	37,197	28,640	**121,907**	93,682
Change in non-cash working capital	**(25,464)**	(2,269)	2,276	**(24,338)**	4,644
Decommissioning expenditures	**1,439**	1,329	829	**6,348**	2,457
Transaction and other costs	**3,504**	1,016	—	**5,288**	1,155
Cash settled stock-based compensation	**—**	3,365	428	**4,447**	1,878
Adjusted funds flow	**$ 6,249**	$ 40,638	$ 32,173	**$ 113,651**	$ 103,816
Per share - basic	**$ 0.02**	$ 0.18	$ 0.14	**$ 0.46**	$ 0.45

Net Debt

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

Net Debt

($000s)	As at December 31, 2018	As at December 31, 2017
Bank debt	(408,593)	(209,231)
Accounts receivable	21,084	36,291
Prepaid expenses and deposits	9,222	2,889
Accounts payable and accrued liabilities	(42,350)	(36,715)
Convertible debentures	(37,973)	(31,107)
Dividends payable	(2,577)	(1,845)
Total	**(461,187)**	**(239,718)**

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

	Three Months Ended		Years Ended	
($000s)	**Dec 31, 2018**	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017
Petroleum and natural gas revenue	**58,127**	69,260	**304,547**	240,908
Processing and other income	**576**	502	**2,818**	2,502
Royalties	**(7,478)**	(8,106)	**(43,203)**	(30,099)
Realized gain (loss) on financial contracts	**(2,430)**	(1,163)	**(11,007)**	(4,013)
Operating expenses	**(30,985)**	(20,476)	**(100,108)**	(76,697)
Transportation expenses	**(2,971)**	(1,740)	**(9,878)**	(7,670)
Operating netback	**14,839**	38,277	**143,169**	124,931
G&A expense	**(3,551)**	(2,813)	**(13,228)**	(10,575)
Interest expense	**(5,039)**	(3,291)	**(16,289)**	(10,540)
Adjusted funds flow	**6,249**	32,173	**113,651**	103,816
Barrels of oil equivalent (boe)	**1,936,352**	1,441,982	**6,591,007**	5,446,777
Operating netback ($ per boe)	**$ 7.68**	$ 26.54	**$ 21.73**	$ 22.93
Adjusted funds flow ($ per boe)	**$ 3.25**	$ 22.31	**$ 17.25**	$ 19.05

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.