FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended		
	Mar 31, 2019	Dec 31, 2018[2]	% Change
Financial highlights			
Oil sales	**91,128**	51,424	77 %
NGL sales	**2,425**	2,477	(2)%
Natural gas sales	**4,315**	4,226	2 %
Total oil, natural gas, and NGL revenue	**97,868**	58,127	68 %
Cash flow from operating activities	**28,908**	26,770	8 %
Per share - basic ($)	**0.09**	0.09	— %
Adjusted funds flow[1]	**41,851**	6,249	570 %
Per share - basic ($)[1]	**0.14**	0.02	600 %
Total exploration and development expenditures	**41,261**	33,598	23 %
Total acquisitions & dispositions	**(27,807)**	299,032	nm[3]
Total capital expenditures	**13,454**	332,630	(96)%
Net debt[1], end of period	**438,150**	461,187	(5)%
Operating highlights			
Production:			
Oil (bbls per day)	**17,542**	16,578	6 %
NGLs (bbls per day)	**644**	703	(8)%
Natural gas (mcf per day)	**20,663**	22,598	(9)%
Total (boe per day) (6:1)	**21,630**	21,047	3 %
Average realized price (excluding hedges):			
Oil ($ per bbl)	**57.72**	33.72	71 %
NGL ($ per bbl)	**41.86**	38.28	9 %
Natural gas ($ per mcf)	**2.32**	2.03	14 %
Netback ($ per boe)			
Petroleum and natural gas revenue	**50.27**	30.02	67 %
Realized loss on commodity contracts	**(0.37)**	(1.25)	(70)%
Royalties	**(5.68)**	(3.86)	47 %
Net operating expenses[1]	**(15.12)**	(15.70)	(4)%
Transportation expenses	**(1.98)**	(1.53)	29 %
Operating netback[1]	**27.12**	7.68	253 %
G&A expense	**(1.78)**	(1.83)	(3)%
Interest expense	**(3.84)**	(2.60)	48 %
Adjusted funds flow[1]	**21.50**	3.25	562 %
Common shares outstanding, end of period	**313,980**	309,286	2 %
Weighted average basic shares outstanding	**309,448**	288,744	7 %
Stock option dilution	**—**	—	— %
Weighted average diluted shares outstanding	**309,448**	288,744	7 %

1 This is a non-GAAP financial measure which is defined in the Non-GAAP Financial Measures section of this document.
2 IFRS 16 was adopted January 1, 2019 using the modified retrospective approach and as such, comparative information for 2018 that may have been impacted has not been restated. Refer to the Changes in Accounting Policies section of this MD&A for additional information.
3 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 ended March 31, 2019 and 2018. 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 May 6, 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		
($000s except per share and per boe)	**Mar 31, 2019**	Dec 31, 2018	Mar 31, 2018
Cash flow from operating activities	**28,908**	26,770	24,215
Per share - basic ($)	**0.09**	0.09	0.10
Per share - diluted ($)	**0.09**	0.09	0.10
$ per boe	**14.85**	13.82	16.79
Adjusted funds flow	**41,851**	6,249	28,169
Per share - basic ($)	**0.14**	0.02	0.12
Per share - diluted ($)	**0.14**	0.02	0.12
$ per boe	**21.50**	3.23	19.53

Cash flow from operating activities for the first quarter of 2019 increased eight percent compared to the fourth quarter of 2018 and increased 19 percent when compared to the first quarter of 2018. On a per basic share basis, cash flow from operating activities were comparable to the fourth quarter of 2018 and decreased 10 percent compared to the first quarter of 2018.

Adjusted funds flow for the first quarter of 2019 increased 570 percent compared to the fourth quarter of 2018 and increased 49 percent when compared to the first quarter of 2018. On a per basic share basis, adjusted funds flow increased 600 percent compared to the fourth quarter of 2018 and increased 17 percent compared to the first quarter of 2018.

Cash flow from operating activities for the first quarter of 2019 remained relatively consistent when compared to the first and fourth quarters of 2018 primarily as a result of changes in non-cash working capital between the periods. The change in non-cash working capital in the first quarter of 2019 was due to an increase in accounts receivable resulting from higher crude oil pricing, partially offset with an increase in accounts payable associated with the first quarter 2019 drilling program.

Adjusted funds flow for the first quarter of 2019 increased as compared to the first and fourth quarters of 2018 primarily the result of an increase in production with the acquisition of Mount Bastion Oil & Gas ("MBOG") in the fourth quarter of 2018 in addition to recovering realized crude oil pricing in the first quarter of 2019.

See the following Operations section for additional information regarding the cash flow and operating results of the Company for the three months ended March 31, 2019 and see the Non-GAAP Financial Measures section of this MD&A for further information regarding adjusted funds flow.

OPERATIONS

Drilling

	Drilling		Success rate (%) net	Working interest (%)
	Gross	Net		
Q1 2019	12.0	11.6	100%	96%
Total	**12.0**	**11.6**	**100%**	**96%**

Surge achieved a 100 percent success rate during the period ended March 31, 2019, drilling 12 gross (11.6 net) wells. During the period, Surge drilled eight gross (7.6 net) wells in southeast Alberta ("Sparky"), two gross (2.0 net) wells in the Greater Sawn area, and two gross (2.0 net) wells at Valhalla.

Production

	Three Months Ended		
	Mar 31, 2019	Dec 31, 2018	Mar 31, 2018
Oil (bbls per day)	**17,542**	16,578	12,446
NGL (bbls per day)	**644**	703	560
Oil and NGL (bbls per day)	**18,186**	17,281	13,006
Natural gas (mcf per day)	**20,663**	22,598	18,128
Total (boe per day) (6:1)	**21,630**	21,047	16,027
% Oil and NGL	**84%**	82%	81%

Surge achieved production of 21,630 boe per day in the first quarter of 2019 (84 percent oil and NGLs), a three percent increase from the average production rate in the fourth quarter of 2018 and a 35 percent increase from the average production rate in the same period of 2018.

The increase in production during the first quarter of 2019 as compared to the first and fourth quarters of 2018 is primarily the result of the period ending March 31, 2019 being the first full quarter of MBOG production. Approximately 5,000 boe per day of production in the first quarter of 2019 is attributable to the MBOG assets as compared to 4,500 boe per day for the three month period ended December 31, 2018 and nil for the three month period ending March 31, 2018.

Additionally, the successful drilling programs of 2018 and the first quarter of 2019 have more than offset natural declines throughout the periods. All of the 12 gross (11.6 net) wells drilled during the first quarter of 2019 were on stream as at March 31, with the majority coming on production throughout the latter half of February and month of March. An additional six gross (6.0 net) wells that were drilled in late 2018 were also completed and on production in the first quarter of 2019.

Petroleum and Natural Gas Revenue, Realized Prices and Benchmark Pricing

	Three Months Ended		
($000s except per amount)	**Mar 31, 2019**	Dec 31, 2018	Mar 31, 2018
Petroleum and Natural Gas Revenue			
Oil	**91,128**	51,424	64,492
NGL	**2,425**	2,477	2,461
Oil and NGL	**93,553**	53,901	66,953
Natural gas	**4,315**	4,226	1,337
Total petroleum and natural gas revenue	**97,868**	58,127	68,290
Realized Prices			
Oil ($ per bbl)	**57.72**	33.72	57.58
NGL ($ per bbl)	**41.86**	38.28	48.82
Oil and NGL ($ per bbl)	**57.16**	33.90	57.20
Natural gas ($ per mcf)	**2.32**	2.03	0.82
Total petroleum and natural gas revenue before realized commodity contracts ($ per boe)	**50.27**	30.02	47.34
Benchmark Prices			
WTI (US$ per bbl)	**54.90**	58.81	62.87
CAD/USD exchange rate	**1.33**	1.32	1.27
WTI (C$ per bbl)	**73.02**	77.63	79.51
Edmonton Light Sweet (C$ per bbl)	**66.40**	42.76	72.18
WCS (C$ per bbl)	**56.65**	25.37	48.77
AECO Daily Index (C$ per mcf)	**2.63**	1.56	2.08

Total petroleum and natural gas revenue for the first quarter of 2019 increased 68 percent as compared to the fourth quarter of 2018. The increase is primarily due to the narrowing of crude oil differentials throughout the period resulting in a 71 percent increase in average realized oil prices. This increase correlates to the 55 percent increase in Edmonton light sweet and 123 percent increase in WCS during the same period, partially offset by a seven percent decrease in US$ WTI.

Total petroleum and natural gas revenue for the first quarter of 2019 increased 43 percent when compared to the same period of 2018. The increase is primarily due to the 35 percent increase in production during the period. The increase is also due to a 183 percent increase in average realized natural gas prices during the period as a result of the Company’s ability to secure firm transport on the Alliance pipeline to Chicago. The increase in average realized natural gas price was further supported by a 26 percent increase in the AECO Daily Index.

ROYALTIES

	Three Months Ended		
($000s except per boe)	**Mar 31, 2019**	Dec 31, 2018	Mar 31, 2018
Royalties	**11,061**	7,478	8,940
% of petroleum and natural gas revenue	**11%**	13%	13%
$ per boe	**5.68**	3.86	6.20

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 period ended March 31, 2019 decreased compared to the immediate preceding period and same period of the prior year as a result of the weak crude oil pricing environment in late 2018/early first quarter 2019 and royalty holidays on production from recently drilled wells.

NET OPERATING EXPENSES

	Three Months Ended		
($000s except per boe)	**Mar 31, 2019**	Dec 31, 2018	Mar 31, 2018
Operating expenses	**29,913**	30,985	21,940
Less processing and other income	**(474)**	(575)	(881)
Net operating expenses	**29,439**	30,410	21,059
$ per boe	**15.12**	15.70	14.60

Net operating expenses per boe during the first quarter of 2019 decreased four percent when compared to the immediate preceding quarter and increased four percent compared to the first quarter of 2018.

The decrease in net operating expenses per boe as compared to the fourth quarter of 2018 is primarily due to the adoption of IFRS 16. Approximately $2.0 million of surface lease and equipment rental payments during the period were classified as leases under IFRS 16 and no longer included in net operating expenses. For comparability purposes, excluding impact of IFRS 16, net operating expenses would have been approximately $16.15 per boe during the first quarter of 2019. The Company incurred additional repairs, maintenance and power costs during the three months ended March 31, 2019 due to extreme weather conditions in the operating fields.

The increase in operating expenses per boe as compared to the first quarter of 2018 is primarily attributable to properties acquired in the MBOG acquisition during the fourth quarter of 2018 with higher operating expenses per boe than the Company's historical average, partially offset by the impact of adopting IFRS 16. Historical operating expenses of the MBOG assets averaged greater than $17.00 per boe.

Net operating costs subsequent to the adoption of IFRS 16 are expected to revert back to our guided range for the remainder of 2019 of between $14.95 per boe and $15.45 per boe. Capital budget and production guidance for 2019 is available on the Company's website surgeenergy.ca.

TRANSPORTATION EXPENSES

	Three Months Ended		
($000s except per boe)	**Mar 31, 2019**	Dec 31, 2018	Mar 31, 2018
Transportation expenses	**3,863**	2,971	1,815
$ per boe	**1.98**	1.53	1.26

Transportation expenses per boe for the first quarter of 2019 increased 29 percent compared to the fourth quarter of 2018 and 57 percent when compared to the first quarter of 2018. The increase in transportation expenses is primarily the result of additional costs associated with a recently entered firm transportation commitment to ship a portion of Surge's associated gas production on the Alliance pipeline to Chicago. The Company also incurred additional costs to transport product away from pipeline constrained operating areas throughout the fourth quarter of 2018 and the first quarter of 2019. Management expects transportation expenses per boe to revert back to the guided range of $1.50 per boe to $1.75 per boe for the remainder of 2019. Capital budget and production guidance for 2019 is available on the Company's website surgeenergy.ca.

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

	Three Months Ended		
($000s except per boe)	**Mar 31, 2019**	Dec 31, 2018	Mar 31, 2018
G&A expenses	**4,932**	4,948	4,558
Recoveries and capitalized amounts	**(1,462)**	(1,397)	(1,357)
Net G&A expenses	**3,470**	3,551	3,201
Net G&A expenses $ per boe	**1.78**	1.83	2.22

Net G&A expenses per boe for the first quarter of 2019 decreased three percent as compared to the fourth quarter of 2018 and twenty percent compared to the same period of the prior year. The decrease in net G&A expenses per boe compared to the first and fourth quarter of 2018 is primarily the result of the synergistic acquisition of MBOG in the fourth quarter of 2018 in which the Company had appropriate staff and systems in place to absorb the acquired production and slightly lower rent expense due to the adoption of IFRS 16. The Company expects G&A expenses per boe to remain within the guided range of $1.75 per boe to $1.95 per boe. Capital budget and production guidance for 2019 is available on the Company's website surgeenergy.ca.

TRANSACTION AND OTHER COSTS

	Three Months Ended		
($000s except per boe)	**Mar 31, 2019**	Dec 31, 2018	Mar 31, 2018
Transaction and other costs	**194**	3,504	708
$ per boe	**0.10**	1.81	0.49

During the period ended March 31, 2019, the Company incurred transaction and other costs of $0.10 per boe primarily related to the non-core asset disposition in Northwest Alberta. During the period ended December 31, 2018, the Company incurred transaction and other costs of $1.81 per boe primarily related to the acquisition of MBOG that closed in October 2018. During the period ended March 31, 2018, the Company incurred transaction and other costs of $0.49 per boe primarily related to severance costs and a non-core asset disposition during the period.

FINANCE EXPENSES

	Three Months Ended		
($000s except per boe)	**Mar 31, 2019**	Dec 31, 2018	Mar 31, 2018
Interest on bank debt	**6,253**	4,281	2,764
$ per boe	**3.21**	2.21	1.92
Interest on convertible debentures	**640**	640	640
$ per boe	**0.33**	0.33	0.44
Interest on finance lease	**575**	118	120
$ per boe	**0.30**	0.06	0.08
Total interest expense	**7,468**	5,039	3,524
$ per boe	**3.84**	2.60	2.44
Accretion expense	**1,593**	1,700	1,307
$ per boe	**0.82**	0.88	0.91
Total finance expense	**9,061**	6,739	4,831
$ per boe	**4.65**	3.48	3.35

Total interest expense for the first quarter of 2019 increased 48 percent as compared to the fourth quarter of 2018 and increased 112 percent as compared to the first quarter of 2018.

The increase in interest expense during the first quarter of 2019 as compared to the fourth quarter of 2018 is primarily due to additional interest associated with finance leases upon adoption of IFRS 16 and a higher bank debt interest rate during the period.

The increase in interest expense during the first quarter of 2019 as compared to the same period of 2018 is due to higher average bank debt during the period, resulting from the MBOG acquisition, in addition to a higher effective interest rate during the period and the adoption of IFRS 16.

Accretion represents the change in the time value of the decommissioning liability, the convertible debentures and firm transportation agreements. Accretion expense for the first quarter of 2019 decreased as compared to the fourth quarter of 2018. A decrease in accretion expense is primarily due to the asset disposition and associated decommissioning liabilities during the first quarter 2019.

NETBACKS

	Three Months Ended		
($ per boe, except production)	**Mar 31, 2019**	Dec 31, 2018	Mar 31, 2018
Average production (boe per day)	**21,630**	21,047	16,027
Petroleum and natural gas revenue	**50.27**	30.02	47.34
Realized loss on commodity contracts	**(0.37)**	(1.25)	(1.10)
Royalties	**(5.68)**	(3.86)	(6.20)
Net operating costs	**(15.12)**	(15.70)	(14.60)
Transportation costs	**(1.98)**	(1.53)	(1.26)
Operating netback	**27.12**	7.68	24.18
G&A expense	**(1.78)**	(1.83)	(2.22)
Interest expense	**(3.84)**	(2.60)	(2.44)
Adjusted funds flow	**21.50**	3.25	19.52

Surge's operating netback for the first quarter of 2019 increased 253 percent compared to the fourth quarter of 2018 and 12 percent compared to the same period of 2018.

The increase in Surge's operating netback as compared to the fourth quarter of 2018 is primarily attributable to a significant increase in petroleum and natural gas revenue per boe and a decrease in net operating costs per boe, partially offset by an increase in royalties per boe and transportation costs per boe. The adjusted funds flow per boe was further impacted by a three percent decrease in G&A expense and a 48 percent increase in interest expense per boe as compared to the fourth quarter of 2018.

The increase in Surge's operating netback as compared to the first quarter of 2018 is primarily attributable to a six percent increase in petroleum and natural gas revenue per boe and a slight decrease in royalties per boe. The adjusted funds flow per boe was further impacted by a 57 percent increase in interest expense per boe, offset by a 20 percent decrease in G&A expense per boe as compared to the first quarter of 2018.

STOCK-BASED COMPENSATION

	Three Months Ended		
($000s except per boe)	**Mar 31, 2019**	Dec 31, 2018	Mar 31, 2018
Stock-based compensation	**1,829**	1,743	1,115
Capitalized stock-based compensation	**(741)**	(775)	(237)
Net stock-based compensation	**1,088**	968	878
Net stock-based compensation $ per boe	**0.56**	0.50	0.61

Net stock-based compensation expense for the first quarter of 2019 was comparable to the immediate preceding quarter and increased 24 percent compared to the first quarter of 2018. The increase as compared to the first quarter of 2018 is primarily the result of a recovery related to stock appreciation rights of $0.2 million in the first quarter of 2018 as compared to $nil in the first quarter of 2019.

The stock-based compensation recorded in the period ended March 31, 2019 relates to the restricted share awards ("RSAs") and performance share awards ("PSAs") grants. Subject to terms and conditions of the plan, each RSA entitles the holder to an award value not limited to, but typically paid as to one-third on each of the first, second and third anniversaries of the date of grant. Each PSA entitles the holder to an award value to be typically paid on the third anniversary of the date of grant. For the purpose of calculating share-based compensation, the fair value of each award is determined at the grant date using the closing price of the common shares. An estimated forfeiture rate of 15% was used to value all awards granted for the year ended March 31, 2019. The weighted average fair value of awards granted for the period ended March 31, 2019 is $nil per PSA and $1.35 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, 2018	3,889,902	5,316,079
Granted	15,125	—
Reinvested [1]	72,263	98,892
Added by performance factor	—	—
Exercised	(8,880)	—
Forfeited	(56,840)	(24,136)
Balance at March 31, 2019	**3,911,570**	**5,390,835**

[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		
($000s except per boe)	**Mar 31, 2019**	Dec 31, 2018	Mar 31, 2018
Depletion and depreciation expense	**40,083**	39,290	22,932
$ per boe	**20.59**	20.29	15.90

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 first quarter of 2019 depletion and depreciation calculation are costs associated with salvage values of $58.4 million. Future development costs for proved and probable reserves of $825.7 million have been included in the depletion calculation.

Depletion and depreciation expense for the period ended March 31, 2019 was comparable to the fourth quarter of 2018 and increased compared to the same period of 2018 primarily due to the MBOG acquisition, resulting in a larger depletable base, in addition to increased production during the period. Additionally, in relation to the leases recognized upon adoption of IFRS 16, the Corporation recognized $1.9 million of depreciation charges during the period ended March 31, 2019.

IMPAIRMENT

	Three Months Ended		
($000s except per boe)	**Mar 31, 2019**	Dec 31, 2018	Mar 31, 2018
Impairment	**—**	72,174	—
$ per boe	**—**	37.27	—

As at March 31, 2019, the Company determined there were no indicators of impairment in any of the six cash generating units and no indications that impairment losses recognized in prior years no longer exist or have decreased. The Company's CGUs at March 31, 2019 were geographically labeled Northwest Alberta, North Central Alberta, Northeast Alberta, Central Alberta, Southeast Alberta and Southwest Saskatchewan.

In the fourth quarter of 2018, the Company recorded $72.2 million impairment in Southwest Saskatchewan and Central Alberta CGU's due to poor economic performance of certain assets.

NET LOSS

	Three Months Ended		
($000s except per share)	**Mar 31, 2019**	Dec 31, 2018	Mar 31, 2018
Net loss	**(7,983)**	(82,473)	(1,109)
Per share - basic ($)	**(0.03)**	(0.29)	(0.01)
Per share - diluted ($)	**(0.03)**	(0.29)	(0.01)

Net loss and net loss per basic share for the first quarter of 2019 decreased as compared to the net loss and net loss per share for the fourth quarter of 2018 primarily due to the significant increase in the Company's operating netback during the period and the recognition of impairment expense during the fourth quarter of 2018 as compared to no impairment expense in the first quarter of 2019.

Net loss and net loss per basic share for the first quarter of 2019 increased as compared to the net loss per basic share in the first quarter of 2018 primarily due to a $9.2 million unrealized loss on financial contracts in the first quarter of 2019 as compared to a $3.7 million unrealized loss on financial contracts in the first quarter of 2018.

CAPITAL EXPENDITURES

Capital Expenditure Summary

($000s)	Q1 2019	Q1 2018	% Change
Land	310	704	(56)%
Seismic	123	373	(67)%
Drilling and completions	32,729	25,331	29 %
Facilities, equipment and pipelines	6,761	7,100	(5)%
Other	1,338	1,401	(4)%
Total exploration and development	41,261	34,909	18 %
Acquisitions - cash consideration	273	174	57 %
Acquisitions - share based	—	—	— %
Property dispositions	(28,080)	(6,659)	322 %
Total acquisitions & dispositions	(27,807)	(6,485)	329 %
Total capital expenditures	13,454	28,424	(53)%

During the first quarter of 2019, Surge invested $26.0 million to drill, complete and bring on stream eight gross (7.6 net) wells in the Sparky area, two gross wells (2.0 net) in the Greater Sawn Area, and two gross (2.0 net) wells at Valhalla. An additional $6.0 million was spent on two gross (2.0 net) wells in the Greater Sawn area and four gross (4.0 net) wells in Shaunavon that were drilled in the fourth quarter of 2018 but completed and brought on stream in the first quarter of 2019.

During the first quarter of 2019, Surge invested $6.8 million in facilities, pipelines, waterflood expansions and pilots. An additional $1.8 million was spent on land and seismic acquisitions and other capital items during the quarter.

During the period ended March 31, 2019 the Company disposed of certain non-core assets in Northwest Alberta for cash proceeds of $28.1 million.

Due to weather and road ban restrictions during certain times of the year, the Company has historically spent a significant portion of its capital budget during the first quarter. Of the $135 million capital budget for 2019, the Company spent a total of $41.3 million, or 31 percent during the three months ended March 31, 2019. Throughout the remainder of 2019, Management is committed to executing its capital program and, consistent with our 2019 guidance, is on pace spend approximately $135 million.

Capital budget and production guidance for 2019 is available on the Company's website surgeenergy.ca.

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 second quarter of 2017 through the current quarter is due to Surge's successful drilling programs and acquisitions over that period. Please refer to the Financial and Operating Results section and other sections of this MD&A for detailed discussions on variations during the comparative quarters and to Surge's previously issued interim and annual MD&A for changes in prior quarters.

Share Capital and Option Activity

	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Weighted common shares	**309,447,717**	288,743,803	231,988,109	230,812,437
Dilutive instruments (treasury method)	**—**	—	4,234,451	5,264,860
Weighted average diluted shares outstanding	**309,447,717**	288,743,803	236,222,560	236,077,297

	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Weighted common shares	233,006,881	232,928,730	228,309,427	225,766,393
Dilutive instruments (treasury method)	—	—	—	3,790,055
Weighted average diluted shares outstanding	233,006,881	232,928,730	228,309,427	229,556,448

On May 6, 2019, Surge had 313,980,037 common shares, 5,420,984 PSAs, and 3,933,446 RSAs outstanding.

Quarterly Financial Information

	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Oil, Natural gas & NGL sales	**97,868**	58,127	91,036	87,094
Net earnings (loss)	**(7,983)**	(82,473)	9,034	3,015
Net earnings (loss) per share ($):				
Basic	**(0.03)**	(0.29)	0.04	0.01
Diluted	**(0.03)**	(0.29)	0.04	0.01
Cash flow from operating activities	**28,908**	26,770	37,197	33,725
Cash flow from operating activities per share ($):				
Basic	**0.09**	0.09	0.16	0.15
Diluted	**0.09**	0.09	0.16	0.14
Adjusted funds flow	**41,851**	6,249	40,638	38,596
Adjusted funds flow per share ($):				
Basic	**0.14**	0.02	0.18	0.17
Diluted	**0.14**	0.02	0.17	0.17
Average daily sales				
Oil (bbls/d)	**17,542**	16,578	13,560	13,343
NGL (bbls/d)	**644**	703	669	556
Natural gas (mcf/d)	**20,663**	22,598	22,797	19,038
Barrels of oil equivalent (boe per day) (6:1)	**21,630**	21,047	18,029	17,072
Average sales price				
Natural gas ($/mcf)	**2.32**	2.03	0.71	0.63
Oil ($/bbl)	**57.72**	33.72	68.89	68.78
NGL ($/bbl)	**41.86**	38.28	58.46	49.15
Barrels of oil equivalent ($/boe)	**50.27**	30.02	54.89	56.06

Quarterly Financial Information

	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Oil, Natural gas & NGL sales	68,290	69,260	56,425	60,773
Net earnings (loss)	(1,109)	(13,078)	(8,188)	6,926
Net earnings (loss) per share ($):				
Basic	(0.01)	(0.06)	(0.04)	0.03
Diluted	(0.01)	(0.06)	(0.04)	0.03
Cash flow from operating activities	24,215	28,640	24,589	24,628
Cash flow from operating activities per share ($):				
Basic	0.10	0.12	0.11	0.11
Diluted	0.10	0.12	0.11	0.11
Adjusted funds flow	28,169	32,173	22,985	27,018
Adjusted funds flow per share ($):				
Basic	0.12	0.14	0.10	0.12
Diluted	0.12	0.14	0.10	0.12
Average daily sales				
Oil (bbls/d)	12,446	12,169	11,380	11,522
NGL (bbls/d)	560	571	627	678
Natural gas (mcf/d)	18,128	17,607	17,997	17,547
Barrels of oil equivalent (boe per day) (6:1)	16,027	15,675	15,007	15,125
Average sales price				
Natural gas ($/mcf)	0.82	1.41	2.24	2.68
Oil ($/bbl)	57.58	57.36	48.29	51.71
NGL ($/bbl)	48.82	52.41	37.42	36.99
Barrels of oil equivalent ($/boe)	47.34	48.03	40.87	44.16

LIQUIDITY AND CAPITAL RESOURCES

On March 31, 2019, Surge had $398.7 million drawn on its credit facility, $44.5 million principal amount of convertible subordinated unsecured debentures ("Debentures") with a 5.75 percent interest rate, and total net debt of $438.2 million, an increase in total net debt of 73 percent as compared to the same date in 2018. At March 31, 2019, Surge had approximately $150 million of borrowing capacity in relation to the $550 million credit facility. Subsequent to the quarter, on April 17, 2019, Surge announced that it had entered into a $30 million financing of five-year convertible debentures (see "Subsequent Events" for details of the financing). The net proceeds will be used to pay down a portion of the outstanding indebtedness under the 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 (excluding subsequently announced debentures):

Consolidated Capitalization

($000s)	Outstanding as at Mar 31, 2019
Shareholder Equity	
Share capital	1,448,069
Common shares outstanding	313,980
Debentures - equity	3,551
Debt	
Credit Facilities	
Authorized	550,000
Amount drawn	398,666
Debentures - liability	38,308

Convertible Debentures

	Number of convertible debentures	Liability Component ($000s)	Equity Component ($000s)
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
Accretion of discount	—	335	—
Balance at March 31, 2019	**44,500**	**38,308**	**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, specifically targeting an all-in payout ratio[1] for 2019 of less than 100 percent. Furthermore, the Company's flexible capital program and unused bank line further add to Surge's ability to fund future capital requirements as 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.

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

Net Debt

($000s)	As at March 31, 2019
Bank debt	(398,666)
Accounts receivable	50,814
Prepaid expenses and deposits	7,465
Accounts payable and accrued liabilities	(56,839)
Dividends payable	(2,616)
Convertible debentures	(38,308)
Total	**(438,150)**

As at March 31, 2019, 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 2.50 percent as at March 31, 2019 (December 31, 2018 – prime plus 1.25 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 period ended March 31, 2019.

CONTRACTUAL OBLIGATIONS AND LEASES

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

As at March 31, 2019, Surge had future minimum payments relating to its operating lease and firm transport commitments totaling $21.9 million, as summarized below:

	March 31, 2019	December 31, 2018
Less than 1 year	$ 4,032	$ 12,058
1 - 3 years	6,486	17,874
3 - 5 years	4,945	10,105
5+ years	6,422	9,394
Total commitments	$ 21,885	$ 49,431

The decrease in total commitments as at March 31, 2019 compared to December 31, 2018 is due to the adoption of IFRS 16 effective January 1, 2019 (see note 3 in the March 31, 2019 Financial Statements).

The Company had the following future commitments associated with its lease obligations:

	Total
Balance at December 31, 2018	$ 5,871
Additions upon adoption of IFRS 16 at January 1, 2019	29,886
Interest expense	575
Lease payments	(2,281)
Balance at March 31, 2019	$ 34,051
Current portion	7,047
Long-term portion	27,004

Upon adoption of IFRS 16 on January 1, 2019, the Company recorded a $29.9 million right-of-use asset (included in "Petroleum and natural gas properties") and a $29.9 million lease obligation.

In relation to those leases recognized upon adoption of under IFRS 16, the Company has recognized during the period ended March 31, 2019, $1.9 million of depreciation charges, $2.3 million of lease payments and $0.6 million of interest expense from these leases.

As at March 31, 2019, the Company has recorded a $33.9 million right-of-use asset (included in "Petroleum and natural gas properties") and a $34.1 million lease obligation (the non-current portion of $27.0 million recorded in "Long term finance lease obligations" and the current $7.0 million portion recorded in "Current portion of finance lease obligations").

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 May 6, 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	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	—	—
WTI	2H 2019	1,000	USD	—	—	—	—	$60.04
WTI	1H 2020	250	USD	—	—	—	—	$57.50
WTI	May 2019 - Jun 2020	250	USD	—	—	—	—	$62.00
WTI	Q2 2019 - Q1 2020	250	USD	—	—	—	—	$61.15
WTI	1H 2020	500	USD	$47.50	$57.50	$70.00	—	—
WTI	2H 2019 - 2020	500	USD	$47.50	$57.50	$71.50	—	—
WTI	Q3 2019	1,000	USD	—	$58.00	$78.00	—	—

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 $13.70
WCS Swap	Q3 2019	2,000	USD	—	—	US$WTI less $17.73
WCS Swap	May 2019 - Jun 2019	250	USD	—	—	US$WTI less $10.35
WCS Swap	Q3 2019	500	USD	—	—	US$WTI less $15.95
WCS Collar	Mar 2019 - Jun 2019	1,500	USD	US$WTI less $13.00	US$WTI less $18.00	—

Natural Gas Hedges

Type	Term	Volume	Currency	Floor	Ceiling
Chicago Collar	Apr 2019-Oct 2019	4,000 mmbtu/d	USD	$2.50 per mmbtu	$3.10 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 March 31, 2019, the Company entered into an agreement with a syndicate of underwriters (the "Underwriters"), led by NBF pursuant to which the Underwriters will purchase $30.0 million principal amount of convertible subordinated unsecured debentures (the "Debentures") at a price of $1,000 per Debenture (the "Offering"), on a "bought deal" basis. The Company has granted the Underwriters an over-allotment option to purchase up to an additional $4.5 million aggregate principal amount of the Debentures, on the same terms, exercisable in whole or in part at any time up to the 30th day following initial closing of the Debenture financing.

The Debentures will mature and be repayable on June 30, 2024 (the "Maturity Date") and will accrue interest at the rate of 6.75 percent per annum payable semi-annually in arrears on December 31 and June 30 of each year (each an "Interest Payment Date"), with the first such payment to be made December 31, 2019. At the holder's option, the Debentures may be converted into common shares of the Company at any time prior to the close of business on the earlier of the business day immediately preceding (i) the Maturity Date, (ii) if called for redemption, the date fixed for redemption by the Company, or (iii) if called for repurchase in the event of a change of control, the payment date, at a conversion price of $2.25 per share, subject to adjustment in certain events (the "Conversion Price"). This represents a conversion rate of approximately 444.4444 common shares for each $1,000 principal amount of Debentures, subject to certain anti-dilution provisions. Holders who convert their Debentures will receive accrued and unpaid interest for the period from the date of the latest Interest Payment Date immediately prior to the date of conversion.

The Debentures will be direct, subordinated unsecured obligations of the Company, subordinated to any senior indebtedness of the Company and ranking equally with one another and with all other existing and future subordinated unsecured indebtedness of the Company to the extent subordinated on the same terms.

The Debentures may not be redeemed by the Company prior to June 30, 2022. On and after June 30, 2022 and prior to June 30, 2023, the Debentures may be redeemed by the Company, in whole or in part, from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption, provided that the volume weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending five trading days prior to the date on which notice of redemption is provided is at least 125 percent of the Conversion Price. On or after June 30, 2023 and prior to the Maturity Date, the Debentures may be redeemed by the Company, in whole or in part, from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

There were no changes in the Company's DC&P during the quarter ended March 31, 2019 that materially affected, or are reasonably likely to materially affect, the Company's DC&P.

Internal Controls over Financial Reporting

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

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

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

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

The Chief Executive Officer and 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.

There were no changes in the Company's ICFR during the quarter ended March 31, 2019 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

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. On January 1, 2019 the Corporation adopted IFRS 16 using the modified retrospective approach, whereby the cumulative effect of initially applying the standard was recognized as an increase to right-of-use assets (included in "Petroleum and natural gas properties") with a corresponding increase to lease obligations (the non-current portion recorded in "Long term finance lease obligations" and the current portion recorded in "Current portion of finance lease obligations").

The right-of-use assets recognized were measured at amounts equal to the lease obligations. The weighted average incremental borrowing rate used to determine the lease obligation at adoption was approximately 6%. The right-of-use assets and lease obligations recognized largely relate to the Company's head office lease in Calgary and long-term leases for oil batteries and equipment rentals. The adoption of IFRS 16 included the following elections:

- The Corporation elected to retain the classification of contracts previously identified as leases under IAS 17 and IFRIC 4;
- The Corporation elected to use hindsight in determining the lease term where the contract contains terms to extend or terminate the lease;
- The Corporation elected to not apply lease accounting to certain leases for which the lease term ends within 12 months of the January 1, 2019 adoption;
- The Corporation elected to not apply lease accounting to certain leases of low value assets;
- The Corporation elected to apply a single discount rate to a portfolio of leases with similar characteristics.

As a result of this adoption, the Corporation has revised the description of its accounting policy for leases as follows:

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease obligation is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date. Interest expense is recognized on the lease obligations using the effective interest rate method and payments are applied against the lease obligation. At the commencement date, a corresponding right-of-use asset is recognized at the amount of the lease obligation, adjusted for lease incentives received and initial direct costs. Depreciation is recognized on the right-of-use asset over the lease term.

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

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

RISK FACTORS

Additional risk factors can be found under “Risk Factors” in the Company’s AIF for the year ended December 31, 2018, 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; management's expectations regarding net operating, transportation and G&A expenses for the remainder of 2019; Surge's capital program for the remainder of 2019; Surge's capital budget and production guidance for the remainder of 2019; the anticipated use of net proceeds from Surge's convertible debenture offering announced on April 17, 2019 and the terms of the debentures; 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 market conditions; 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”, "net operating expenses", and "all-in payout ratio" 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. 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		
($000s except per share)	**Mar 31, 2019**	Dec 31, 2018	Mar 31, 2018
Cash flow from operating activities	**28,908**	26,770	24,215
Change in non-cash working capital	**11,042**	(25,464)	498
Decommissioning expenditures	**1,707**	1,439	2,748
Transaction and other costs	**194**	3,504	708
Adjusted funds flow	**$ 41,851**	$ 6,249	$ 28,169
Per share - basic	**$ 0.14**	$ 0.02	$ 0.12

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, finance lease obligations, and other long term and finance lease 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.

($000s)	As at **Mar 31, 2019**	 Dec 31, 2018	 Mar 31, 2018
Bank debt	**(398,666)**	(408,593)	(222,353)
Accounts receivable	**50,814**	21,084	34,494
Prepaid expenses and deposits	**7,465**	9,222	6,733
Accounts payable and accrued liabilities	**(56,839)**	(42,350)	(32,767)
Convertible debentures	**(38,308)**	(37,973)	(37,017)
Dividends payable	**(2,616)**	(2,577)	(1,832)
Total	**(438,150)**	(461,187)	(252,742)

Operating Netback & Adjusted Funds Flow per boe

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

Operating Netback & Adjusted Funds Flow per boe

($000s)	Three Months Ended **Mar 31, 2019**	 Mar 31, 2018
Petroleum and natural gas revenue	**97,868**	68,290
Processing and other income	**474**	881
Royalties	**(11,061)**	(8,940)
Realized gain (loss) on financial contracts	**(716)**	(1,582)
Operating expenses	**(29,913)**	(21,940)
Transportation expenses	**(3,863)**	(1,815)
Operating netback	**52,789**	34,894
G&A expense	**(3,470)**	(3,201)
Interest expense	**(7,468)**	(3,524)
Adjusted funds flow	**41,851**	28,169
Barrels of oil equivalent (boe)	**1,946,676**	1,442,446
Operating netback ($ per boe)	**$ 27.12**	$ 24.18
Adjusted funds flow ($ per boe)	**$ 21.50**	$ 19.53

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.

All-in Payout Ratio

All-in payout ratio is calculated using the sum of total exploration and development capital plus dividends paid divided by adjusted funds flow. This capital management measure is used by management to analyze allocated capital in comparison to the cash being generated by the principal business activities. This measure is provided to allow readers to quantify the amount of adjusted funds flow that is being used to either: i) pay dividends; and ii) deployed into the Company's development and exploration program. A ratio of less than 100 percent indicates that a portion of the adjusted funds flow is being retained by the Company and can be used to fund items such as asset abandonment, repayment of debt, fund acquisitions or the costs related thereto, withholding tax obligations on stock based compensation or other items.