FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended			Six Months Ended June 30,		
	Jun 30, 2023	Mar 31, 2023	% Change	**2023**	2022	% Change
Financial highlights						
Oil sales	**149,530**	152,664	(2)%	**302,194**	353,910	(15)%
NGL sales	**2,642**	3,618	(27)%	**6,260**	8,992	(30)%
Natural gas sales	**3,305**	5,688	(42)%	**8,993**	19,221	(53)%
Total oil, natural gas, and NGL revenue	**155,477**	161,970	(4)%	**317,447**	382,123	(17)%
Cash flow from operating activities	**60,608**	54,506	11 %	**115,114**	127,980	(10)%
Per share - basic ($)	**0.62**	0.56	11 %	**1.18**	1.54	(23)%
Per share - diluted ($)	**0.60**	0.55	9 %	**1.15**	1.49	(23)%
Adjusted funds flow[1]	**64,640**	63,331	2 %	**127,971**	141,454	(10)%
Per share - basic ($)[1]	**0.66**	0.65	2 %	**1.31**	1.70	(23)%
Per share - diluted ($)	**0.64**	0.64	— %	**1.27**	1.64	(23)%
Net income	**14,055**	14,789	(5)%	**28,844**	50,159	(42)%
Per share - basic ($)	**0.14**	0.15	(7)%	**0.30**	0.60	(50)%
Per share - diluted ($)	**0.14**	0.15	(7)%	**0.29**	0.58	(50)%
Expenditures on property, plant and equipment	**30,589**	45,733	(33)%	**76,322**	79,858	(4)%
Net acquisitions and dispositions	**(1,696)**	(678)	nm[2]	**(2,374)**	(32)	nm
Net capital expenditures	**28,893**	45,055	(36)%	**73,948**	79,826	(7)%
Net debt[1], end of period	**311,833**	331,917	(6)%	**311,833**	280,131	11 %
Operating highlights						
Production:						
Oil (bbls per day)	**19,758**	21,055	(6)%	**20,403**	16,936	20 %
NGLs (bbls per day)	**629**	721	(13)%	**674**	745	(10)%
Natural gas (mcf per day)	**18,458**	20,172	(8)%	**19,310**	18,579	4 %
Total (boe per day) (6:1)	**23,463**	25,138	(7)%	**24,295**	20,778	17 %
Average realized price (excluding hedges):						
Oil ($ per bbl)	**83.17**	80.57	3 %	**81.83**	115.45	(29)%
NGL ($ per bbl)	**46.16**	55.78	(17)%	**51.31**	66.67	(23)%
Natural gas ($ per mcf)	**1.97**	3.13	(37)%	**2.57**	5.72	(55)%
Netback ($ per boe)						
Petroleum and natural gas revenue	**72.82**	71.59	2 %	**72.19**	101.61	(29)%
Realized loss on commodity and FX contracts	**(0.93)**	(0.88)	6 %	**(0.91)**	(19.88)	(95)%
Royalties	**(12.11)**	(12.84)	(6)%	**(12.48)**	(17.59)	(29)%
Net operating expenses[1]	**(21.58)**	(22.26)	(3)%	**(21.93)**	(19.22)	14 %
Transportation expenses	**(1.59)**	(1.79)	(11)%	**(1.69)**	(1.56)	8 %
Operating netback[1]	**36.61**	33.82	8 %	**35.18**	43.36	(19)%
G&A expense	**(2.24)**	(2.04)	10 %	**(2.14)**	(2.19)	(2)%
Interest expense	**(4.09)**	(3.80)	8 %	**(3.94)**	(3.56)	11 %
Adjusted funds flow[1]	**30.28**	27.98	8 %	**29.10**	37.61	(23)%
Common shares outstanding, end of period	**98,334**	98,334	— %	**98,334**	83,357	18 %
Weighted average basic shares outstanding	**98,334**	97,087	1 %	**97,714**	83,357	17 %
Stock-based compensation dilution	**2,853**	2,296	24 %	**2,706**	2,666	2 %
Weighted average diluted shares outstanding	**101,187**	99,383	2 %	**100,420**	86,023	17 %

1 This is a non-GAAP and other financial measure which is defined in the Non-GAAP and Other Financial Measures section of this document.
2 The Company views this change calculation as not meaningful, or "nm".

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, is for the three months and six months ended June 30, 2023 and 2022. 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 August 2, 2023.

DESCRIPTION OF BUSINESS

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

CASH FLOW FROM OPERATING ACTIVITIES AND ADJUSTED FUNDS FLOW

	Three Months Ended			**Six Months Ended June 30,**	
($000s except per share and per boe)	**June 30, 2023**	March 31, 2023	June 30, 2022	**2023**	2022
Cash flow from operating activities	**60,608**	54,506	75,798	**115,114**	127,980
Per share - basic ($)	**0.62**	0.56	0.91	**1.18**	1.54
Per share - diluted ($)	**0.60**	0.55	0.88	**1.15**	1.49
$ per boe	**28.39**	24.09	39.66	**26.18**	34.03
Adjusted funds flow	**64,640**	63,331	78,561	**127,971**	141,454
Per share - basic ($)	**0.66**	0.65	0.94	**1.31**	1.70
Per share - diluted ($)	**0.64**	0.64	0.91	**1.27**	1.64
$ per boe	**30.28**	27.98	41.10	**29.10**	37.61

Cash flow from operating activities for the second quarter of 2023 increased 11 percent when compared to the first quarter of 2023 and decreased 20 percent when compared to the second quarter of 2022. On a per basic share basis, cash flow from operating activities increased 11 percent when compared to the first quarter of 2023 and decreased 32 percent compared to the second quarter of 2022.

Adjusted funds flow for the second quarter of 2023 was comparable to the first quarter of 2023 and decreased 18 percent when compared to the second quarter of 2022. On a per basic share basis, adjusted funds flow was comparable to the first quarter of 2023 and decreased 30 percent compared to the second quarter of 2022.

Cash flow from operating activities and adjusted funds flow for the three months ended June 30, 2023 increased when compared to the immediately preceding quarter primarily due to lower royalty, operating, and transportation expenses as a result of lower production volumes, slightly offset by a decrease in petroleum and natural gas revenue resulting from a lower crude oil price environment and lower production volumes.

Cash flow from operating activities and adjusted funds flow for the three and six months ended June 30, 2023 decreased when compared to the same periods of the prior year, primarily due to a decrease in petroleum and natural gas revenue resulting from a lower crude oil price environment.

See the following Operations section for additional information regarding the cash flow and operating results of the Company for the three and six months ended June 30, 2023 and see the Non-GAAP and Other 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 2023	18.0	17.9	100 %	99 %
Q2 2023	10.0	8.8	100 %	88 %
Total	**28.0**	**26.7**	**100 %**	**95 %**

Surge achieved a 100 percent success rate during the period ended June 30, 2023, drilling 7 gross (7.0 net) wells in Southeast Alberta ("Sparky") and 3 gross (1.8 net) wells in Southeast Saskatchewan during the quarter.

Production

	Three Months Ended			**Six Months Ended June 30,**	
	June 30, 2023	March 31, 2023	June 30, 2022	**2023**	2022
Oil (bbls per day)	**19,758**	21,055	17,110	**20,403**	16,936
NGL (bbls per day)	**629**	721	799	**674**	745
Oil and NGL (bbls per day)	**20,387**	21,776	17,909	**21,077**	17,681
Natural gas (mcf per day)	**18,458**	20,172	18,565	**19,310**	18,579
Total (boe per day) (6:1)	**23,463**	25,138	21,003	**24,295**	20,778
% Oil and NGL	**87 %**	87 %	85 %	**87 %**	85 %

Surge averaged production of 23,463 boe per day in the second quarter of 2023 (87 percent oil and NGLs), a 7 percent decrease compared to the average production rate in the first quarter of 2023 and a 12 percent increase from the average production rate in the same period of 2022.

Production during the second quarter of 2023 decreased as compared to the first quarter of 2023, primarily a result of natural declines as drilling activity is limited in the second quarter due to annual road bans, combined with unscheduled third party turnarounds impacting the quarter by approximately 700 boe per day. Production during the second quarter and first half of 2023 increased as compared to the same periods of the prior year, primarily the result of the acquisition of certain assets in the fourth quarter of 2022, which added approximately 3,800 boe per day to the current periods.

Additionally, the Company's successful drilling programs through the second half of 2022 and first half of 2023 offset natural declines during the first half of 2023.

Petroleum and Natural Gas Revenue, Realized Prices and Benchmark Pricing

	Three Months Ended			Six Months Ended June 30,	
($000s except per amount)	**June 30, 2023**	March 31, 2023	June 30, 2022	**2023**	2022
Petroleum and Natural Gas Revenue					
Oil	**149,530**	152,664	196,470	**302,194**	353,910
NGL	**2,642**	3,618	4,939	**6,260**	8,992
Oil and NGL	**152,172**	156,282	201,409	**308,454**	362,902
Natural gas	**3,305**	5,688	11,590	**8,993**	19,221
Total petroleum and natural gas revenue	**155,477**	161,970	212,999	**317,447**	382,123
Realized Prices					
Oil ($ per bbl)	**83.17**	80.57	126.19	**81.83**	115.45
NGL ($ per bbl)	**46.16**	55.78	67.95	**51.31**	66.67
Oil and NGL ($ per bbl)	**82.02**	79.74	123.59	**80.85**	70.87
Natural gas ($ per mcf)	**1.97**	3.13	6.86	**2.57**	5.72
Total petroleum and natural gas revenue before realized commodity and FX contracts ($ per boe)	**72.82**	71.59	111.44	**72.19**	101.61
Benchmark Prices					
WTI (US$ per bbl)	**73.78**	76.13	108.41	**74.96**	101.35
CAD/USD exchange rate	**1.34**	1.35	1.28	**1.35**	1.28
WTI (C$ per bbl)	**98.87**	102.78	138.76	**101.20**	129.73
Edmonton Light Sweet (C$ per bbl)	**95.19**	99.32	137.80	**97.25**	126.70
WCS (C$ per bbl)	**78.87**	69.46	122.08	**74.16**	111.55
AECO Daily Index (C$ per mcf)	**2.45**	3.22	7.23	**2.84**	5.99

Total petroleum and natural gas revenue for the second quarter of 2023 was comparable to the first quarter of 2023 and total petroleum and natural gas revenue during the three and six months ended June 30, 2023 decreased 27 percent and 17 percent when compared to the same periods of 2022. The decrease is primarily due to a 35 percent and 29 percent decrease in average realized revenue per boe as compared to the three and six months ended 2022. The decrease in realized pricing correlates to decreases in both oil and natural gas benchmark pricing during the periods, partially offset by higher production volumes as compared to the same periods of 2022.

ROYALTIES

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**June 30, 2023**	March 31, 2023	June 30, 2022	**2023**	2022
Royalties	**25,852**	29,042	37,734	**54,894**	66,135
% of petroleum and natural gas revenue	**17 %**	18 %	18 %	**17 %**	17 %
$ per boe	**12.11**	12.84	19.74	**12.48**	17.59

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 June 30, 2023 decreased 6 percent as compared to both the immediately preceding quarter and same period of the prior year, primarily as a result of newly acquired production with lower royalty rates than the Company's historical average, combined with a lower crude oil pricing environment. Royalties as a percentage of revenue for the six months ended June 30, 2023 were comparable to the same period of the prior year.

NET OPERATING EXPENSES

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**June 30, 2023**	March 31, 2023	June 30, 2022	**2023**	2022
Operating expenses	**47,774**	52,892	38,189	**100,666**	75,643
Less processing income	**(1,700)**	(2,534)	(1,569)	**(4,234)**	(3,375)
Net operating expenses	**46,074**	50,358	36,620	**96,432**	72,268
$ per boe	**21.58**	22.26	19.16	**21.93**	19.22

Total net operating expenses for the second quarter of 2023 decreased 9 percent when compared to the immediately preceding quarter primarily due to lower winter weather related operating costs such as propane, chemicals, and repair and maintenance costs.

Total net operating expenses for the three and six months ended June 30, 2023 increased 26 percent and 33 percent as compared to the same periods of the prior year primarily due to the fourth quarter 2022 acquisition in addition to the continued impact of inflationary pressures.

TRANSPORTATION EXPENSES

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**June 30, 2023**	March 31, 2023	June 30, 2022	**2023**	2022
Transportation expenses	**3,395**	4,047	3,095	**7,442**	5,872
$ per boe	**1.59**	1.79	1.62	**1.69**	1.56

Transportation expenses for the second quarter of 2023 decreased 16 percent when compared to the immediately preceding quarter, primarily due to lower production volumes and lower trucking costs due to more fields becoming pipeline connected.

Transportation expenses for the three and six months ended June 30, 2023 increased 10 percent and 27 percent when compared to the same periods of the prior year, primarily due to higher production volumes and inflationary pressures.

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**June 30, 2023**	March 31, 2023	June 30, 2022	**2023**	2022
G&A expenses	**6,373**	6,230	5,558	**12,603**	10,911
Recoveries and capitalized amounts	**(1,582)**	(1,620)	(1,372)	**(3,202)**	(2,693)
Net G&A expenses	**4,791**	4,610	4,186	**9,401**	8,218
Net G&A expenses $ per boe	**2.24**	2.04	2.19	**2.14**	2.19

Total net G&A expenses for the second quarter of 2023 were comparable to the immediately preceding quarter. Total net G&A expenses for the three and six months ended June 30, 2023 increased 14 percent when compared to the same periods of the prior year. The increase is primarily as a result of additional labour requirements to meet the Company's objectives following the asset acquisition done in the fourth quarter of 2022.

TRANSACTION AND OTHER COSTS (INCOME)

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**June 30, 2023**	March 31, 2023	June 30, 2022	**2023**	2022
Transaction and other costs (income)	**324**	352	(414)	**676**	(583)
$ per boe	**0.15**	0.16	(0.22)	**0.15**	(0.16)

Total transaction and other costs for the second quarter of 2023 were comparable to the immediately preceding quarter.

The Company had transaction and other costs for the three and six months ended June 30, 2023 compared to transaction and other income in the same periods of the prior year. This is primarily attributable to receiving no Alberta Site Rehabilitation Program ("SRP") grant income to pay service companies to complete abandonment and reclamation work in 2023, as compared to receiving approximately $0.6 million and $1.0 million in SRP grant income during the three and six months ended 2022.

FINANCE EXPENSES

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**June 30, 2023**	March 31, 2023	June 30, 2022	**2023**	2022
Interest on bank debt and term debt	**7,947**	7,922	4,712	**15,869**	8,807
Interest on convertible debentures	**582**	582	1,222	**1,164**	2,444
Interest on lease and other obligations	**607**	632	557	**1,239**	1,140
Realized (gain) loss on interest contracts	**(396)**	(549)	346	**(945)**	1,010
Total interest expense	**8,740**	8,587	6,837	**17,327**	13,401
$ per boe	**4.09**	3.80	3.58	**3.94**	3.56
Accretion expense	**2,745**	2,703	2,905	**5,448**	5,609
Unrealized (gain) loss on interest contracts	**(116)**	613	(1,407)	**497**	(3,786)
Total finance expense	**11,369**	11,903	8,335	**23,272**	15,224
$ per boe	**5.32**	5.26	4.36	**5.29**	4.05
Average principal amount					
Bank debt	**21,510**	28,971	59,517	**23,136**	60,160
Term debt	**243,720**	251,878	147,939	**247,874**	155,806
Convertible debentures	**34,500**	34,500	79,000	**34,500**	79,000
Average total principal amount of debt outstanding	**299,730**	315,349	286,456	**305,510**	294,966

Total interest expense for the second quarter of 2023 is comparable to the immediately preceding quarter.

Interest expense for the three months ended June 30, 2023 increased 28 percent as compared to the same period of 2022 due to a higher average term debt balance during the period combined with a higher effective interest rate than bank debt, partially offset by a lower average bank debt balance during the period.

Total interest expense for the six months ended June 30, 2023 increased 29 percent as compared to the same period of 2022 due to a higher average term debt balance during the period, partially offset by lower average bank debt and a lower convertible debentures balance during the period.

Total finance expense includes accretion, representing the change in the time value of the decommissioning liability, term debt and convertible debentures as well as unrealized gains and losses on financial interest contracts. Accretion expense for the second quarter of 2023 is comparable to the immediately preceding quarter and the three and six months ended June 30, 2022.

NETBACKS

	Three Months Ended			Six Months Ended June 30,	
($ per boe, except production)	**June 30, 2023**	March 31, 2023	June 30, 2022	**2023**	2022
Average production (boe per day)	**23,463**	25,138	21,003	**24,295**	20,778
Petroleum and natural gas revenue	**72.82**	71.59	111.44	**72.19**	101.61
Realized loss on commodity and FX contracts	**(0.93)**	(0.88)	(24.05)	**(0.91)**	(19.88)
Royalties	**(12.11)**	(12.84)	(19.74)	**(12.48)**	(17.59)
Net operating expenses	**(21.58)**	(22.26)	(19.16)	**(21.93)**	(19.22)
Transportation expenses	**(1.59)**	(1.79)	(1.62)	**(1.69)**	(1.56)
Operating netback	**36.61**	33.82	46.87	**35.18**	43.36
G&A expense	**(2.24)**	(2.04)	(2.19)	**(2.14)**	(2.19)
Interest expense	**(4.09)**	(3.80)	(3.58)	**(3.94)**	(3.56)
Adjusted funds flow	**30.28**	27.98	41.10	**29.10**	37.61

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

STOCK-BASED COMPENSATION

	Three Months Ended			Six Months Ended June 30,	
($000s except per boe)	**June 30, 2023**	March 31, 2023	June 30, 2022	**2023**	2022
Stock-based compensation	**4,516**	2,868	1,893	**7,384**	3,771
Capitalized stock-based compensation	**(1,776)**	(1,053)	(683)	**(2,829)**	(1,378)
Net stock-based compensation	**2,740**	1,815	1,210	**4,555**	2,393
Net stock-based compensation $ per boe	**1.28**	0.80	0.64	**1.04**	0.63

Net stock-based compensation expense for the second quarter of 2023 increased 51 percent and 126 percent when compared to the immediately preceding quarter and three months ended June 30, 2022. For the six months ended June 30, 2023, net stock-based compensation increased 90 percent as compared to the same period of 2022. The increase in stock-based compensation as compared to prior periods is primarily due to a higher fair value associated with more recently granted awards as compared to prior periods, in addition to a higher number of awards granted during the current period.

The weighted average fair value of awards granted for the period ended June 30, 2023 is nil (2022 - $11.54) per PSA granted and $7.43 (2022 - $11.25) 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, 2022	1,465,379	2,214,024
Granted	546,550	—
Reinvested	47,544	60,865
Exercised	(4,201)	(2,892)
Forfeited	(24,889)	(6,178)
Balance at June 30, 2023	**2,030,383**	**2,265,819**

DEPLETION AND DEPRECIATION

	Three Months Ended			**Six Months Ended June 30,**	
($000s except per boe)	**June 30, 2023**	March 31, 2023	June 30, 2022	**2023**	2022
Depletion and depreciation expense	**44,740**	44,357	36,023	**89,097**	71,463
$ per boe	**20.95**	19.61	18.85	**20.26**	19.00

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

Depletion and depreciation expense for the three months ended June 30, 2023 was comparable to the immediately preceding quarter. Depletion and depreciation expense for the three and six months ended June 30, 2023 increased 24 percent and 25 percent when compared to the same periods of 2022 due to an increase in the depletable base as a result of the acquisition of certain assets in the fourth quarter of 2022, as well as higher production volumes.

NET INCOME

	Three Months Ended			**Six Months Ended June 30,**	
($000s except per share)	**June 30, 2023**	March 31, 2023	June 30, 2022	**2023**	2022
Net income	**14,055**	14,789	72,027	**28,844**	50,159
Per share - basic ($)	**0.14**	0.15	0.86	**0.30**	0.60
Per share - diluted ($)	**0.14**	0.15	0.83	**0.29**	0.58

The Company realized lower net income for the second quarter of 2023 compared to the immediately preceding quarter primarily due to a higher deferred income tax expense in the period.

The Company realized lower net income and net income per basic share for the three and six months ended June 30, 2023 as compared to the same periods of the prior year, primarily due to lower petroleum and natural gas revenues as a result of lower commodity prices, as well as higher expenses primarily as a result of the acquisition in the fourth quarter of 2022.

CAPITAL EXPENDITURES

Capital Expenditure Summary

($000s)	Q1 2023	Q2 2023	**2023 YTD**	2022 YTD	% Change
Land	634	4,041	**4,675**	14,084	(67)%
Seismic	281	262	**543**	1,334	(59)%
Drilling and completions	28,530	12,182	**40,712**	45,780	(11)%
Facilities, equipment and pipelines	14,180	11,996	**26,176**	15,659	67 %
Other	2,108	2,108	**4,216**	3,001	40 %
Expenditures on property, plant and equipment	45,733	30,589	**76,322**	79,858	(4)%
Cash from dispositions	(678)	(1,696)	**(2,374)**	(32)	nm[1]
Net acquisitions & dispositions	(678)	(1,696)	**(2,374)**	(32)	nm
Net capital expenditures	45,055	28,893	**73,948**	79,826	(7)%

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

During the second quarter of 2023, Surge invested a total of $30.6 million, excluding acquisitions and dispositions.

During the second quarter of 2023, Surge invested $12.2 million to drill and complete 7 gross (7.0 net) wells in Southeast Alberta ("Sparky") and 3 gross (1.8 net) wells in Southeast Saskatchewan. Surge also invested $12.0 million on scheduled facility turnarounds and pipeline upgrades in order to accommodate the Company's 2023 drilling program. A further $4.0 million was invested in Crown land sale purchases in the Company's Southeast Saskatchewan core area and Crown land sale purchases and freehold leasing in the Company's Sparky core area. An additional $2.4 million was spent on land, seismic 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, realized and unrealized gains or losses on derivative instruments, and changes in impairment reversals and non-cash items. The change in production from the third quarter of 2021 through the current quarter is due to Surge's drilling programs and acquisitions and dispositions 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's for changes in prior quarters.

Share Capital and Option Activity

	Q2 2023	Q1 2023	Q4 2022	Q3 2022
Weighted common shares	**98,334,459**	97,086,527	88,094,339	83,626,295
Dilutive instruments (treasury method)	**2,853,449**	2,296,200	2,096,748	2,413,802
Weighted average diluted shares outstanding	**101,187,908**	99,382,727	90,191,087	86,040,097

	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Weighted common shares	83,357,221	83,357,221	79,468,797	57,379,790
Dilutive instruments (treasury method)	2,917,383	—	1,108,395	1,242,800
Weighted average diluted shares outstanding	86,274,604	83,357,221	80,577,192	58,622,590

On August 2, 2023, Surge had 98,588,523 common shares, 2,277,469 PSAs, and 1,786,695 RSAs outstanding.

Quarterly Financial Information

	Q2 2023	Q1 2023	Q4 2022	Q3 2022
Oil, Natural gas & NGL sales	**155,477**	161,970	165,808	179,297
Net income	**14,055**	14,789	103,502	78,057
Net income per share ($):				
Basic	**0.14**	0.15	1.17	0.93
Diluted	**0.14**	0.15	1.15	0.91
Cash flow from operating activities	**60,608**	54,506	78,975	69,170
Cash flow from operating activities per share ($):				
Basic	**0.62**	0.56	0.90	0.83
Diluted	**0.60**	0.55	0.88	0.80
Adjusted funds flow	**64,640**	63,331	71,807	80,294
Adjusted funds flow per share ($):				
Basic	**0.66**	0.65	0.82	0.96
Diluted	**0.64**	0.64	0.80	0.93
Average daily sales				
Oil (bbls/d)	**19,758**	21,055	18,127	17,639
NGL (bbls/d)	**629**	721	695	647
Natural gas (mcf/d)	**18,458**	20,172	19,647	18,561
Barrels of oil equivalent (boe per day) (6:1)	**23,463**	25,138	22,097	21,380
Average sales price				
Natural gas ($/mcf)	**1.97**	3.13	5.24	5.21
Oil ($/bbl)	**83.17**	80.57	91.43	102.59
NGL ($/bbl)	**46.16**	55.78	60.51	65.91
Barrels of oil equivalent ($/boe)	**72.82**	71.59	81.56	91.16

Quarterly Financial Information

	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Oil, Natural gas & NGL sales	212,999	169,124	143,381	105,104
Net income (loss)	72,027	(21,868)	42,868	67,612
Net income (loss) per share ($):				
Basic	0.86	(0.26)	0.54	1.18
Diluted	0.83	(0.26)	0.53	1.15
Cash flow from operating activities	75,798	52,182	50,417	26,263
Cash flow from operating activities per share ($):				
Basic	0.91	0.63	0.63	0.46
Diluted	0.88	0.63	0.63	0.46
Adjusted funds flow	78,561	62,893	43,320	27,804
Adjusted funds flow per share ($):				
Basic	0.94	0.75	0.55	0.48
Diluted	0.91	0.75	0.54	0.47
Average daily sales				
Oil (bbls/d)	17,110	16,760	17,192	14,264
NGL (bbls/d)	799	691	720	575
Natural gas (mcf/d)	18,565	18,592	19,503	16,815
Barrels of oil equivalent (boe per day) (6:1)	21,003	20,550	21,163	17,642
Average sales price				
Natural gas ($/mcf)	6.86	4.56	4.75	3.34
Oil ($/bbl)	126.19	104.38	82.84	74.12
NGL ($/bbl)	67.95	65.17	58.10	50.31
Barrels of oil equivalent ($/boe)	111.44	91.45	73.65	64.76

LIQUIDITY AND CAPITAL RESOURCES

On June 30, 2023, Surge had $15.7 million drawn on its credit facilities, $235.3 million drawn on its term facilities, excluding unamortized issue costs of $5.5 million, $34.5 million principal amount of convertible subordinated unsecured debentures ("Debentures"), and total net debt of $311.8 million, an increase in total net debt of 11 percent compared to the same date in 2022. At June 30, 2023, Surge had approximately $134.3 million of borrowing capacity in relation to the $150.0 million credit facilities. The following table sets forth the consolidated capitalization of Surge and the change in the components of the Debentures:

Consolidated Capitalization

($000s)	Outstanding as at June 30, 2023
Shareholder Equity	
Share capital	1,781,954
Common shares outstanding	98,334
Debentures - equity	2,715
Debt	
Credit Facilities	
Total Commitment	150,000
Amount drawn	15,675
Term Facilities	
Total Commitment	256,000
Amount drawn	235,263
Amount drawn net of unamortized issue costs	229,731
Emissions Reduction Fund and other	9,985
Debentures - liability	33,124

Convertible Debentures

	Number of convertible debentures	Liability Component ($000s)	Equity Component ($000s)
Balance at December 31, 2021	79,000	73,935	6,266
Accretion of discount	—	2,696	—
Other finance expenses	—	360	—
Redeemed	(44,500)	(44,500)	(3,551)
Balance at December 31, 2022	34,500	32,491	2,715
Accretion of discount	—	633	—
Balance at June 30, 2023	**34,500**	**33,124**	**2,715**

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

Net Debt

($000s)	As at June 30, 2023
Bank debt	(15,675)
Term debt	(239,716)
Accounts receivable	50,839
Prepaid expenses and deposits	5,814
Accounts payable and accrued liabilities	(76,038)
Dividends payable	(3,933)
Convertible debentures	(33,124)
Total	**(311,833)**

Bank Debt

As at June 30, 2023, the Company had a total commitment of $150 million, being the aggregate of a committed revolving term facility of $120 million and an operating loan facility of $30 million, with a syndicate of banks. A review and redetermination of the borrowing base is scheduled to occur semi-annually on or before May 31 and November 30 of each year. During the period, the Company reconfirmed and extended its existing $150 million first lien credit facility, with the option of the facilities being extended for a further 364-day period at the request of the Company and subject to the approval of the syndicate. The maturity of the newly reconfirmed first lien credit facility is extended through to May 30, 2025.

Term Debt

As at June 30, 2023, the Company had a non-revolving first lien term facility commitment of $56 million with a syndicate of banks, maturing on December 19, 2024. The principal amount is repayable in scheduled quarterly repayments, commencing on March 31, 2023. As at June 30, 2023, the Company had $52 million drawn on the facility.

As at June 30, 2023, the Company had a non-revolving second lien term loan commitment of $200 million, being the aggregate of two term facilities of $160 million, maturing on December 9, 2026 (Term Facility A) and $40 million, maturing on April 30, 2025 (Term Facility B). As at June 30, 2023, the Company had $183.3 million, excluding unamortized issue costs of $5.5 million, drawn on these facilities.

The principal amounts are repayable in scheduled quarterly repayments, commencing on December 31, 2022 for Term Facility A and March 31, 2023 for Term Facility B.

Under Term Facility A, the Company is required to make additional principal repayments in each calendar month in which a shareholder distribution is paid. Under Term Facility B, the Company is required to make an additional principal repayment in each calendar month based on the applicable level of the WTI band for the prior month commodity price, commencing on May 31, 2024.

Financial Covenants

The Company is subject to certain financial covenants under the first lien and second lien facilities. As at June 30, 2023, the Company was compliant with all restrictions and covenants in its first and second lien credit agreements.

Emissions Reduction Fund

As at June 30, 2023, the Company had a $7.3 million (December 31, 2022 - $7.2 million) loan repayable relating to the Government of Canada Emissions Reduction Fund (“ERF”). As at June 30, 2023, the Company has received $10.4 million (December 31, 2022 – $9.8 million) of funds from ERF for the Company's planned gas emissions reduction program.

RELATED-PARTY AND OFF-BALANCE-SHEET TRANSACTIONS

Surge was not involved in any off-balance-sheet transactions or related-party transactions during the period ended June 30, 2023.

FINANCIAL INSTRUMENTS

The following table summarizes the Company's financial derivatives as at August 2, 2023 by period and by product.

Commodity Contracts

West Texas Intermediate Crude Oil Derivative Contracts (WTI)

	Bought Put		Collars		
Period	Volumes (bbls/d)	Average Price (CAD/bbl)	Volumes (bbls/d)	Average Bought Put (CAD/bbl)	Average Sold Call (CAD/bbl)
Qtr. 3 2023	5,500	$84.90	—	—	—
Qtr. 4 2023	—	—	4,995	$82.58	$132.74
Qtr. 1 2024	—	—	5,336	$84.63	$122.77
Qtr. 2 2024	3,900	$83.10	1,300	$83.02	$112.60
Qtr. 3 2024	1,853	$79.48	1,617	$79.48	$119.22

Western Canadian Select Derivative Contracts (WCS)

	Bought Put		Collars		
Period	Volumes (bbls/d)	Average Price (CAD/bbl)	Volumes (bbls/d)	Average Bought Put (CAD/bbl)	Average Sold Call (CAD/bbl)
Qtr. 3 2023	—	—	489	$18.55	$25.50
Qtr. 4 2023	—	—	1,500	$18.55	$25.50
Qtr. 1 2024	1,000	$18.35	1,000	$14.57	$23.58
Qtr. 2 2024	1,000	$18.35	1,000	$14.57	$23.58
Qtr. 3 2024	1,000	$18.35	1,000	$14.57	$23.58
Qtr. 4 2024	1,000	$18.35	1,000	$14.57	$23.58

Natural Gas Derivative Contracts

	NYMEX Collars			NYMEX - AECO Basis Swaps		AECO Collars		
Period	Volumes (MMBtu/d)	Average Bought Put (CAD/ MMBtu)	Average Sold Call (CAD/ MMBtu)	Volumes (MMBtu/d)	Average Price (CAD/ MMBtu)	Volumes (GJ/d)	Average Bought Put (CAD/GJ)	Average Sold Call (CAD/GJ)
Qtr. 3 2023	3,000	$5.30	$10.93	3,000	$(1.91)	2,000	$2.75	$3.73
Qtr. 4 2023	4,326	$5.30	$11.44	4,326	$(2.57)	674	$2.75	$3.73
Qtr. 1 2024	4,500	$5.30	$12.95	4,500	$(2.20)	—	—	—
Qtr. 2 2024	5,000	$3.97	$6.62	5,000	$(1.51)	—	—	—
Qtr. 3 2024	5,000	$3.97	$6.62	5,000	$(1.51)	—	—	—
Qtr. 4 2024	1,685	$3.97	$6.62	3,674	$(1.70)	—	—	—
Qtr. 1 2025	—	—	—	3,000	$(1.52)	—	—	—

Foreign Currency Exchange Derivative Contracts

Type	Term	Notional Amount (USD)	Floor	Ceiling
Average Rate Collar	Oct 2022 - Dec 2023	$5,000,000	1.3420	1.4000
Average Rate Collar	Nov 2022 - Dec 2023	$5,000,000	1.3333	1.3850
Average Rate Collar	Mar 2023 - Dec 2023	$5,000,000	1.3200	1.4225

Interest Rate Derivative Contracts

Type	Term	Notional Amount (CAD)	Surge Receives	Surge Pays	Fixed Rate Surge Pays
Fixed-to-Floating Rate Swap	Jul 2019 - Jun 2024	$50,000,000	Floating Rate	Fixed Rate	1.7850%

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

There were no changes in the Company's DC&P during the period ended June 30, 2023 that materially affected, or are reasonably likely to materially affect, the Company's DC&P.

Internal Controls Over Financial Reporting

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

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

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

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

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

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

There were no changes in the Company's ICFR during the period ended June 30, 2023 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

CRITICAL ACCOUNTING ESTIMATES

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

Reserves

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

Forecasted Oil and Gas Commodity Prices

Management's estimates of forecasted oil and gas commodity prices are critical as these prices are used to determine the carrying amount of 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 independent third party reserve evaluators and the current forward market.

Business Combinations

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

Decommissioning Liability

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

Derivative Financial Instruments

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

Stock-based Compensation

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

Deferred Income Taxes

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

Leases

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

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

RISK FACTORS

Additional risk factors can be found under “Matters Relating to Economic Uncertainty” in the Company's MD&A for the year ended December 31, 2022 or under "Risk Factors" in the Company's AIF for the year ended December 31, 2022, 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: forecast commodity prices; Surge's assets and the characteristics thereof; management's beliefs regarding the estimates of the future values for certain of the Company's assets and liabilities; underlying causes of the fluctuations in Surge’s revenue and net earnings from quarter to quarter; 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; expectations with respect to its underlying decommissioning liabilities; the Company's plans for funding its future capital requirements;

the ongoing assessment of management and the Board of market conditions and other relevant considerations; and factors affecting the royalty rates applicable to the Company.

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

Although Surge believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Surge can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the condition of the global economy, including trade, public health (including the impact of COVID-19 and the Russian invasion of Ukraine) and other geopolitical risks; risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; inability of Surge to fund its future capital requirements; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks); commodity price and exchange rate fluctuations and constraint in the availability of services, adverse weather or break-up conditions; uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures; failure to obtain the continued support of the lenders under Surge’s current bank line; potential decrease in the available lending limits under Surge’s bank line as a result of the syndicate’s interpretation of the Company’s reserves, commodity prices and decommissioning obligations; or the inability to obtain consent of lenders to increase or maintain the bank line. Certain of these risks are set out in more detail in this MD&A under the headings ‘Matters Relating to Economic Uncertainty’ and ‘Risk Factors’ herein and in Surge’s AIF dated March 8, 2023 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 AND OTHER FINANCIAL MEASURES

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

Adjusted Funds Flow & Adjusted Funds Flow per Share

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

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

Adjusted funds flow per share is a non-GAAP ratio, calculated using the same weighted average basic and diluted shares used in calculating income per share.

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

	Three Months Ended			Six Months Ended June 30,	
($000s except per share)	**June 30, 2023**	March 31, 2023	June 30, 2022	**2023**	2022
Cash flow from operating activities	**60,608**	54,506	75,798	**115,114**	127,980
Change in non-cash working capital	**2,522**	5,445	2,198	**7,967**	11,259
Decommissioning expenditures	**1,361**	3,249	501	**4,610**	1,996
Cash settled transaction and other costs	**149**	131	64	**280**	219
Adjusted funds flow	**64,640**	63,331	78,561	**127,971**	141,454
Per share - basic	**$ 0.66**	$ 0.65	$ 0.94	**1.31**	$ 1.70

Net Debt

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

		As at	
($000s)	**June 30, 2023**	March 31, 2023	June 30, 2022
Bank debt	**(15,675)**	(27,345)	(22,254)
Term debt	**(239,716)**	(247,724)	(162,180)
Accounts receivable	**50,839**	64,642	80,589
Prepaid expenses and deposits	**5,814**	4,340	4,227
Accounts payable and accrued liabilities	**(76,038)**	(89,094)	(102,172)
Convertible debentures	**(33,124)**	(32,803)	(75,423)
Dividends payable	**(3,933)**	(3,933)	(2,918)
Total	**(311,833)**	(331,917)	(280,131)

Operating Netback, Operating Netback per boe & Adjusted Funds Flow per boe

Operating netback is a non-GAAP financial measure, calculated as petroleum and natural gas revenue and processing and other income, less royalties, realized gain (loss) on commodity and FX contracts, operating expenses, and transportation expenses. Operating netback per boe is a non-GAAP ratio, calculated as operating netback divided by total barrels of oil equivalent produced during a specific period of time. There is no comparable measure in accordance with IFRS. This metric is used by management to evaluate the Company's ability to generate cash margin on a unit of production basis.

Adjusted funds flow per boe is a non-GAAP ratio, calculated as adjusted funds flow divided by total barrels of oil equivalent produced during a specific period of time.

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

	Three Months Ended			Six Months Ended June 30,	
($000s)	**June 30, 2023**	March 31, 2023	June 30, 2022	**2023**	2022
Petroleum and natural gas revenue	**155,477**	161,970	212,999	**317,447**	382,123
Processing income	**1,700**	2,534	1,569	**4,234**	3,375
Royalties	**(25,852)**	(29,042)	(37,734)	**(54,894)**	(66,135)
Realized loss on commodity and FX contracts	**(1,985)**	(1,995)	(45,966)	**(3,980)**	(74,775)
Operating expenses	**(47,774)**	(52,892)	(38,189)	**(100,666)**	(75,643)
Transportation expenses	**(3,395)**	(4,047)	(3,095)	**(7,442)**	(5,872)
Operating netback	**78,171**	76,528	89,584	**154,699**	163,073
G&A expense	**(4,791)**	(4,610)	(4,186)	**(9,401)**	(8,218)
Interest expense	**(8,740)**	(8,587)	(6,837)	**(17,327)**	(13,401)
Adjusted funds flow	**64,640**	63,331	78,561	**127,971**	141,454
Barrels of oil equivalent (boe)	**2,135,101**	2,262,361	1,911,258	**4,397,462**	3,760,687
Operating netback ($ per boe)	**$ 36.61**	$ 33.82	$ 46.87	**$ 35.18**	$ 43.36
Adjusted funds flow ($ per boe)	**$ 30.28**	$ 27.98	$ 41.10	**$ 29.10**	$ 37.61

Net Operating Expenses & Net Operating Expenses per boe

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

Net operating expenses per boe is a non-GAAP ratio, calculated as net operating expenses divided by total barrels of oil equivalent produced during a specific period of time.