FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended			Years Ended December 31,		
	Dec 31, 2023	Sep 30, 2023	% Change	**2023**	2022	% Change
Financial highlights						
Oil sales	**160,755**	177,440	(9)%	**640,389**	672,862	(5)%
NGL sales	**3,619**	3,173	14 %	**13,052**	16,783	(22)%
Natural gas sales	**4,079**	3,862	6 %	**16,934**	37,583	(55)%
Total oil, natural gas, and NGL revenue	**168,453**	184,475	(9)%	**670,375**	727,228	(8)%
Cash flow from operating activities	**79,712**	71,315	12 %	**266,141**	276,125	(4)%
Per share - basic ($)	**0.79**	0.72	10 %	**2.69**	3.26	(17)%
Per share - diluted ($)	**0.78**	0.71	10 %	**2.63**	3.17	(17)%
Adjusted funds flow[1]	**77,001**	86,874	(11)%	**291,846**	293,555	(1)%
Per share - basic ($)[1]	**0.77**	0.87	(11)%	**2.95**	3.47	(15)%
Per share - diluted ($)	**0.75**	0.86	(13)%	**2.89**	3.37	(14)%
Net income (loss)	**(29,676)**	16,583	(279)%	**15,751**	231,718	(93)%
Per share - basic ($)	**(0.30)**	0.17	(276)%.	**0.16**	2.74	(94)%
Per share - diluted ($)	**(0.29)**	0.16	(281)%	**0.16**	2.66	(94)%
Expenditures on property, plant and equipment	**61,305**	43,945	40 %	**181,572**	169,944	7 %
Net acquisitions and dispositions	**3,813**	231	nm[2]	**1,670**	200,270	(99)%
Net capital expenditures	**65,118**	44,176	47 %	**183,242**	370,214	(51)%
Net debt[1], end of period	**290,070**	286,295	1 %	**290,070**	352,213	(18)%
Operating highlights						
Production:						
Oil (bbls per day)	**20,741**	20,188	3 %	**20,434**	17,413	17 %
NGLs (bbls per day)	**808**	659	23 %	**704**	708	(1)%
Natural gas (mcf per day)	**21,005**	19,564	7 %	**19,801**	18,844	5 %
Total (boe per day) (6:1)	**25,050**	24,108	4 %	**24,438**	21,262	15 %
Average realized price (excluding hedges):						
Oil ($ per bbl)	**84.24**	95.53	(12)%	**85.86**	105.87	(19)%
NGL ($ per bbl)	**48.68**	52.34	(7)%	**50.78**	64.96	(22)%
Natural gas ($ per mcf)	**2.11**	2.15	(2)%	**2.34**	5.46	(57)%
Netback ($ per boe)						
Petroleum and natural gas revenue	**73.09**	83.17	(12)%	**75.15**	93.71	(20)%
Realized gain (loss) on commodity and FX contracts	**1.02**	(0.69)	(248)%	**(0.35)**	(12.65)	(97)%
Royalties	**(13.55)**	(15.05)	(10)%	**(13.40)**	(16.44)	(18)%
Net operating expenses[1]	**(19.90)**	(20.82)	(4)%	**(21.13)**	(19.70)	7 %
Transportation expenses	**(1.48)**	(1.31)	13 %	**(1.54)**	(1.45)	6 %
Operating netback[1]	**39.18**	45.30	(14)%	**38.73**	43.47	(11)%
G&A expense	**(2.19)**	(2.13)	3 %	**(2.15)**	(2.14)	— %
Interest expense	**(3.58)**	(4.01)	(11)%	**(3.86)**	(3.50)	10 %
Adjusted funds flow[1]	**33.41**	39.16	(15)%	**32.72**	37.83	(14)%
Common shares outstanding, end of period	**100,314**	100,314	— %	**100,314**	96,477	4 %
Weighted average basic shares outstanding	**100,314**	99,384	1 %	**98,790**	84,619	17 %
Stock-based compensation dilution	**1,808**	1,589	14 %	**2,227**	2,404	(7)%
Weighted average diluted shares outstanding	**102,122**	100,973	1 %	**101,017**	87,023	16 %

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 financial position and results of operations of Surge Energy Inc. ("Surge" or the "Company"), is for the three months and years ended December 31, 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.sedarplus.ca.

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 IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board.

Surge's Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A. This MD&A is dated March 6, 2024.

Evolving Demand for Energy

(a) Changing Regulation

Emissions, carbon and other regulations impacting climate and climate related matters are dynamic and constantly evolving. With respect to environmental, social and governance ("ESG") and climate reporting, the International Sustainability Standards Board ("ISSB") has issued an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. The Canadian Securities Administrators ("CSA") has indicated it will consider the ISSB sustainability standards and developments in its decisions related to developing climate-related disclosure requirements for reporting issuers in Canada. The CSA will involve the Canadian Sustainability Standards Board ("CSSB") for their combined review of the ISSB issued sustainability standards for their suitability for adoption in Canada. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 Disclosure of Climate-related Matters. The cost to comply with these standards, and others that may be developed or evolve over time, has not yet been quantified by the Company.

(b) Impairment and Impairment Reversal

The Company has considered the impact of the evolving worldwide demand for energy and global advancement of alternative sources of energy that are not sourced from fossil fuels in its assessment of impairment and impairment reversal on its property, plant and equipment, both as a possible indication of impairment and as part of the estimates and judgements involved in testing for impairment and impairment reversal. The estimated recoverable amount of the Company's property, plant and equipment was based on proved and probable reserves, the life of which is generally less than 20 years. The ultimate period in which global energy markets can transition from carbon based sources to alternative energy is highly uncertain, however, the majority of the cash flows associated with proved and probable reserves per the 2023 reserve report should be realized prior to the elimination of carbon based energy.

A specific adjustment to the recoverable amount of the fair value of property, plant and equipment acquired in a business combination to account for the risk of the evolving demand for energy was not considered necessary, however, the recoverable amount/fair value is based on an estimated period of cash flows that indirectly reflects changing energy demands and the discount rate applied in the impairment test incorporates the current cost of capital in the energy industry which indirectly reflects current market trends and uncertainty around the evolving demand for energy and climate change.

The carrying amount of the net assets of the Company was compared to the Company's market capitalization. As such, climate risk, to the extent it has been factored into the trading price of the Company's common shares by the market, was also considered in the impairment assessment of the recoverable amount. The ultimate period in which global energy markets can transition from carbon based sources to alternative energy is highly uncertain.

(c) Reserves

The Company engages a third party external reserve engineer to prepare the reserve report. The reserve report includes anticipated impacts from emissions related taxes and carbon pricing. Most notably, the reserve report includes the estimated carbon charge related to the Company's operations based on current legislated rates.

DESCRIPTION OF BUSINESS

Surge is a Company existing under the laws of Alberta and is based in Calgary. The Company 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			Years Ended Dec 31,	
($000s except per share and per boe)	**Dec 31, 2023**	Sep 30, 2023	Dec 31, 2022	**2023**	2022
Cash flow from operating activities	**79,712**	71,315	78,975	**266,141**	276,125
Per share - basic ($)	**0.79**	0.72	0.90	**2.69**	3.26
Per share - diluted ($)	**0.78**	0.71	0.88	**2.63**	3.17
$ per boe	**34.59**	32.15	38.85	**29.84**	35.58
Adjusted funds flow	**77,001**	86,874	71,807	**291,846**	293,555
Per share - basic ($)	**0.77**	0.87	0.82	**2.95**	3.47
Per share - diluted ($)	**0.75**	0.86	0.80	**2.89**	3.37
$ per boe	**33.41**	39.16	35.32	**32.72**	37.83

Cash flow from operating activities for the fourth quarter of 2023 increased 12 percent when compared to the third quarter of 2023 and was comparable to the fourth quarter of 2022. On a per basic share basis, cash flow from operating activities increased 10 percent compared to the third quarter of 2023 and decreased 12 percent compared to the fourth quarter of 2022.

Cash flow from operating activities for the year ended December 31, 2023 decreased 4 percent when compared to the same period of the prior year and decreased 17 percent on a per basic share basis due to a decrease in petroleum and natural gas revenue as benchmark oil and gas pricing fell throughout the period.

Adjusted funds flow for the fourth quarter of 2023 decreased 11 percent when compared to the third quarter of 2023 primarily due to a decrease in petroleum and natural gas revenue as a result of a 12 percent decrease in average realized oil and natural gas prices, correlating to the 5 percent decrease in benchmark oil pricing and an 11 percent decrease in benchmark gas pricing during the period. On a per basic share basis, adjusted funds flow decreased 11 percent when compared to the third quarter of 2023. Adjusted funds flow for the fourth quarter of 2023 increased 7 percent when compared to the fourth quarter of 2022 primarily due to additional petroleum and natural gas revenue generated from the acquisition of certain assets in the fourth quarter of 2022, which was partially offset by a lower commodity price environment when compared to the prior year. On a per basic share basis, adjusted funds flow decreased 6 percent compared to the fourth quarter of 2022.

Adjusted funds flow for the year ended December 31, 2023 was comparable to the same period of the prior year. On a per basic share basis, adjusted funds flow decreased 15 percent primarily due to a decrease in petroleum and natural gas revenue as a result of a 20 percent decrease in average realized oil and natural gas prices, correlating to the 18 percent decrease in benchmark oil pricing and a 58 percent decrease in benchmark gas pricing during the period.

See the following Operations section for additional information regarding the cash flow and operating results of the Company for the three months and year ended December 31, 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		Working interest (%)
	Gross	**Net**	
Q1 2023	18.0	17.9	99 %
Q2 2023	10.0	8.8	88 %
Q3 2023	19.0	16.3	86 %
Q4 2023	23.0	21.5	93 %
Total	**70.0**	**64.5**	**92 %**

During the fourth quarter of 2023, the Company drilled 12 gross (12.0 net) wells in Southeast Alberta ("Sparky") and 11 gross (9.5 net) wells in Southeast Saskatchewan.

Production

	Three Months Ended			**Years Ended Dec 31,**	
	Dec 31, 2023	Sep 30, 2023	Dec 31, 2022	**2023**	2022
Oil (bbls per day)	**20,741**	20,188	18,127	**20,434**	17,413
NGL (bbls per day)	**808**	659	695	**704**	708
Oil and NGL (bbls per day)	**21,549**	20,847	18,822	**21,138**	18,121
Natural gas (mcf per day)	**21,005**	19,564	19,647	**19,801**	18,844
Total (boe per day) (6:1)	**25,050**	24,108	22,097	**24,438**	21,262
% Oil and NGL	**86 %**	86 %	85 %	**86 %**	85 %

Surge averaged production of 25,050 boe per day in the fourth quarter of 2023 (86 percent oil and NGLs), a 4 percent increase compared to the average production rate in the third quarter of 2023 and a 13 percent increase from the average production rate in the same period of 2022. During the year ended December 31, 2023, Surge achieved production of 24,438 boe per day (86 percent oil and NGLs), a 15 percent increase when compared to the prior year.

The increase in production is primarily the result of the acquisition of certain assets on December 19, 2022, which added approximately 3,800 boe per day to the fourth quarter and year ended December 31, 2023. Additionally, the increase in production can also be attributed to a successful 2023 drilling program, offsetting natural declines during the year.

Petroleum and Natural Gas Revenue, Realized Prices and Benchmark Pricing

($000s except per amount)	Three Months Ended Dec 31, 2023	Sep 30, 2023	Dec 31, 2022	Years Ended Dec 31, 2023	2022
Petroleum and Natural Gas Revenue					
Oil	**160,755**	177,440	152,465	**640,389**	672,862
NGL	**3,619**	3,173	3,871	**13,052**	16,783
Oil and NGL	**164,374**	180,613	156,336	**653,441**	689,645
Natural gas	**4,079**	3,862	9,472	**16,934**	37,583
Total petroleum and natural gas revenue	**168,453**	184,475	165,808	**670,375**	727,228
Realized Prices					
Oil ($ per bbl)	**84.24**	95.53	91.43	**85.86**	105.87
NGL ($ per bbl)	**48.68**	52.34	60.51	**50.78**	64.96
Oil and NGL ($ per bbl)	**82.91**	94.17	90.28	**84.69**	104.27
Natural gas ($ per mcf)	**2.11**	2.15	5.24	**2.34**	5.46
Total petroleum and natural gas revenue before realized commodity and FX contracts ($ per boe)	**73.09**	83.17	81.56	**75.15**	93.71
Benchmark Prices					
WTI (US$ per bbl)	**78.32**	82.26	82.65	**77.62**	94.23
CAD/USD exchange rate	**1.36**	1.34	1.36	**1.34**	1.30
WTI (C$ per bbl)	**106.51**	110.23	112.40	**104.79**	122.50
Edmonton Light Sweet (C$ per bbl)	**99.71**	107.85	109.91	**100.52**	120.04
WCS (C$ per bbl)	**76.98**	93.07	77.09	**79.59**	98.42
AECO Daily Index (C$ per mcf)	**2.30**	2.59	6.15	**2.64**	6.29

Total petroleum and natural gas revenue for the fourth quarter of 2023 decreased 9 percent as compared to the third quarter of 2023. The decrease is primarily due to a widening of the WCS crude oil and Edmonton light sweet differentials throughout the period, resulting in a 12 percent decrease in average realized oil and natural gas prices. This correlates to the 17 percent decrease in WCS and the 8 percent decrease in Edmonton light sweet during the period. This decrease was partially offset by a 4 percent increase in production during the period.

Total petroleum and natural gas revenue for the fourth quarter of 2023 was comparable to the same period of the prior year. Total petroleum and natural gas revenue for the year ended December 31, 2023 decreased 8 percent when compared to the same periods of 2022. The decrease is primarily due to the weakening of WTI resulting in a decrease in average realized oil prices of 19 percent. Additionally, the Company realized a 57 percent decrease in the average natural gas price during the year ended December 31, 2023, primarily attributable to a 58 percent decrease in AECO. The decrease in pricing was partially offset by a 13 percent and 15 percent increase in production volumes as compared to the same periods of 2022.

ROYALTIES

	Three Months Ended			Years Ended Dec 31,	
($000s except per boe)	**Dec 31, 2023**	Sep 30, 2023	Dec 31, 2022	**2023**	2022
Royalties	**31,235**	33,384	27,449	**119,513**	127,548
% of petroleum and natural gas revenue	**19 %**	18 %	17 %	**18 %**	18 %
$ per boe	**13.55**	15.05	13.50	**13.40**	16.44

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 fourth quarter of 2023 increased 6 percent (from 18 percent to 19 percent) when compared to the immediate preceding quarter, primarily as a result of certain wells coming off of royalty holiday during the period. Royalties as a percentage of revenue for the fourth quarter of 2023 increased 12 percent (from 17 percent to 19 percent) when compared to the same period of the prior year, primarily as a result of higher production rates offsetting a lower crude oil pricing environment. Royalties as a percentage of revenue for the year ended December 31, 2023 was comparable to the same period of the prior year.

NET OPERATING EXPENSES

	Three Months Ended			Years Ended Dec 31,	
($000s except per boe)	**Dec 31, 2023**	Sep 30, 2023	Dec 31, 2022	**2023**	2022
Operating expenses	**47,602**	47,988	44,570	**196,256**	160,133
Less processing income	**(1,734)**	(1,812)	(1,926)	**(7,780)**	(7,242)
Net operating expenses	**45,868**	46,176	42,644	**188,476**	152,891
$ per boe	**19.90**	20.82	20.98	**21.13**	19.70

Total net operating expenses for the fourth quarter of 2023 were comparable to the immediately preceding quarter, while total net operating expenses per boe decreased 4 percent as production increased in the fourth quarter of 2023.

Total net operating expenses for the three months and year ended December 31, 2023 increased 8 percent and 23 percent as compared to the same periods of the prior year primarily due to an acquisition of certain assets in the fourth quarter of 2022 in addition to the continued impact of inflationary pressures, as compared to the prior periods.

Total net operating expenses per boe for the fourth quarter of 2023 decreased 5 percent compared to the same period of the prior year, primarily due to milder weather during the current period. Total net operating expenses per boe for the year ended December 31, 2023 increased 7 percent as compared to the same period of the prior year, primarily due to the assets acquired during the fourth quarter of 2022 having higher operating costs per boe than the Company's historical average.

TRANSPORTATION EXPENSES

	Three Months Ended			Years Ended Dec 31,	
($000s except per boe)	**Dec 31, 2023**	Sep 30, 2023	Dec 31, 2022	**2023**	2022
Transportation expenses	**3,411**	2,902	2,846	**13,755**	11,272
$ per boe	**1.48**	1.31	1.40	**1.54**	1.45

Transportation expenses per boe for the fourth quarter of 2023 increased 13 percent when compared to the third quarter of 2023 primarily due to increased trucking for wells brought on production in the fourth quarter of 2023 that were not yet pipeline connected.

Transportation expenses per boe for the three months and year ended December 31, 2023 increased 6 percent as compared to the same periods of the prior year, primarily due to the geographic location of assets acquired during the fourth quarter of 2022 and the continued impact of inflationary pressures.

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

	Three Months Ended			Years Ended Dec 31,	
($000s except per boe)	**Dec 31, 2023**	Sep 30, 2023	Dec 31, 2022	**2023**	2022
G&A expenses	**6,889**	6,363	5,930	**25,855**	22,500
Recoveries and capitalized amounts	**(1,848)**	(1,647)	(1,740)	**(6,697)**	(5,874)
Net G&A expenses	**5,041**	4,716	4,190	**19,158**	16,626
$ per boe	**2.19**	2.13	2.06	**2.15**	2.14

Total net G&A expenses for the fourth quarter of 2023 increased 7 percent when compared to the immediately preceding quarter and increased 20 percent when compared to the fourth quarter of 2022. Total net G&A expenses increased 15 percent as compared to the year ended December 31, 2022. The increase is primarily as a result of additional labour requirements to meet the Company's objectives following significant production growth and the acquisition of certain assets in the fourth quarter of 2022, in addition to the continued impact of inflationary pressures.

TRANSACTION AND OTHER COSTS

	Three Months Ended			Years Ended Dec 31,	
($000s except per boe)	**Dec 31, 2023**	Sep 30, 2023	Dec 31, 2022	**2023**	2022
Transaction and other costs	**437**	310	3,752	**1,423**	3,679
$ per boe	**0.19**	0.14	1.85	**0.16**	0.47

Total transaction and other costs for the fourth quarter of 2023 increased 41 percent when compared to the immediately preceding quarter, primarily attributable to debt settlement and restructuring costs incurred in the fourth quarter of 2023. Total transaction and other costs for the three months and year ended December 31, 2023 decreased 88 percent and 61 percent when compared to the same periods of 2022, primarily due to increased acquisition costs attributable to the acquisition of certain assets in the fourth quarter of 2022.

FINANCE EXPENSES

	Three Months Ended			Years Ended Dec 31,	
($000s except per boe)	**Dec 31, 2023**	Sep 30, 2023	Dec 31, 2022	**2023**	2022
Interest on bank debt and term debt	**7,004**	8,168	6,589	**31,041**	20,388
Interest on convertible debentures	**1,142**	582	784	**2,889**	4,449
Interest on lease and other obligations	**553**	581	622	**2,373**	2,291
Realized (gain) loss on interest contracts	**(451)**	(443)	(702)	**(1,840)**	63
Total interest expense	**8,248**	8,888	7,293	**34,463**	27,191
$ per boe	**3.58**	4.01	3.59	**3.86**	3.50
Accretion expense	**2,980**	2,969	3,016	**11,397**	11,492
Unrealized (gain) loss on interest contracts	**535**	390	314	**1,422**	(3,946)
Other finance expenses	**870**	—	360	**870**	360
Total finance expense	**12,633**	12,247	10,983	**48,152**	35,097
$ per boe	**5.48**	5.52	5.40	**5.40**	4.52
Average principal amount					
Bank debt	**27,348**	13,787	20,177	**36,697**	64,331
Term debt	**217,743**	235,662	207,570	**229,956**	195,013
Convertible debentures	**41,400**	34,500	56,750	**41,400**	56,750
Average total principal amount of debt outstanding	**286,491**	283,949	284,497	**308,053**	316,094

Total interest expense for the fourth quarter of 2023 decreased 7 percent when compared to the immediately preceding quarter, primarily due to lower average term debt during the period, partially offset by higher average bank debt and a higher average convertible debentures balance during the period.

Total interest expense for the fourth quarter of 2023 and year ended December 31, 2023 increased 13 percent and 27 percent when compared to the same periods of 2022 due to higher average term debt balance during the period with a higher effective interest rate than bank debt, partially offset by a lower average 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 fourth quarter of 2023 and year ended December 31, 2023 was comparable to the same periods of 2022. The Company had an unrealized loss on financial interest contracts during the year ended December 31, 2023 as compared to an unrealized gain on financial interest contracts during the same period of 2022, primarily a result of changes in the forward benchmark interest rate curve.

NETBACKS

	Three Months Ended			Years Ended Dec 31,	
($ per boe, except production)	**Dec 31, 2023**	Sep 30, 2023	Dec 31, 2022	**2023**	2022
Average production (boe per day)	**25,050**	24,108	22,097	**24,438**	21,262
Petroleum and natural gas revenue	**73.09**	83.17	81.56	**75.15**	93.71
Realized gain (loss) on commodity and FX contracts	**1.02**	(0.69)	(4.71)	**(0.35)**	(12.65)
Royalties	**(13.55)**	(15.05)	(13.50)	**(13.40)**	(16.44)
Net operating expenses	**(19.90)**	(20.82)	(20.98)	**(21.13)**	(19.70)
Transportation expenses	**(1.48)**	(1.31)	(1.40)	**(1.54)**	(1.45)
Operating netback	**39.18**	45.30	40.97	**38.73**	43.47
G&A expense	**(2.19)**	(2.13)	(2.06)	**(2.15)**	(2.14)
Interest expense	**(3.58)**	(4.01)	(3.59)	**(3.86)**	(3.50)
Adjusted funds flow	**33.41**	39.16	35.32	**32.72**	37.83

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			Years Ended Dec 31,	
($000s except per boe)	**Dec 31, 2023**	Sep 30, 2023	Dec 31, 2022	**2023**	2022
Stock-based compensation	**3,156**	3,722	2,011	**14,262**	7,858
Capitalized stock-based compensation	**(1,240)**	(1,420)	(787)	**(5,489)**	(2,933)
Net stock-based compensation	**1,916**	2,302	1,224	**8,773**	4,925
$ per boe	**0.83**	1.04	0.60	**0.98**	0.63

Net stock-based compensation expense for the fourth quarter of 2023 decreased 17 percent when compared to the immediately preceding quarter and increased 57 percent when compared to the same period of the prior year. Net stock-based compensation expense for the year ended December 31, 2023 increased 78 percent as compared to the prior year. The increase in stock-based compensation as compared to the same periods in 2022 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 stock-based compensation recorded in the year ended December 31, 2023 relates to the restricted share award ("RSA") and PSA grants. Subject to terms and conditions of the plan, each RSA entitles the holder to an award value not limited to, but typically paid as to one-third on each of the first, second and third anniversaries of the date of grant. Each PSA entitles the holder to an award value to be typically paid on the third anniversary of the date of grant. For the purpose of calculating share-based compensation, the fair value of each award is determined at the grant date using the closing price of the common shares. A weighted average forfeiture rate of 6.1% (2022 - 7.6%) for PSAs and 6.6% (2022 - 7.2%) for RSAs was used to value all awards granted for the period ended December 31, 2023. The weighted average fair value of awards granted for the period ended December 31, 2023 is $8.37 (2022 - $9.46) per PSA and $8.62 (2022 - $9.24) 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. On the vesting dates, the Company has the option of settling the award value in cash or common shares of the Company. For purposes of stock-based compensation a payout multiple of 1.0 was assumed for the PSAs granted during the 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	1,201,285	848,415
Reinvested	97,948	126,055
Exercised	(1,027,192)	(959,553)
Forfeited	(29,877)	(6,178)
Balance at December 31, 2023	**1,707,543**	**2,222,763**

DEPLETION AND DEPRECIATION

	Three Months Ended			Years Ended Dec 31,	
($000s except per boe)	**Dec 31, 2023**	Sep 30, 2023	Dec 31, 2022	**2023**	2022
Depletion and depreciation expense	**57,719**	50,658	32,630	**197,474**	142,316
$ per boe	**25.05**	22.84	16.05	**22.14**	18.34

Depletion and depreciation are calculated based on total capital expenditures (including acquisitions and dispositions), production rates and proved and probable oil and gas reserves. Deducted from the Company's fourth quarter of 2023 depletion and depreciation calculation are costs associated with salvage values of $83.4 million. Future development costs for proved and probable oil and gas reserves of $1,039.4 million have been included in the depletion calculation.

Depletion and depreciation expense for the three months ended December 31, 2023 increased 14 percent and 77 percent when compared to the third quarter of 2023 and same period of the prior year primarily due to higher production and capital additions, in addition to the Company recording a reduction of $9.6 million to earnings related to changes in the discounted carrying value of estimated decommissioning obligations in respect of properties that had a nil carrying value ascribed. Depletion and depreciation expense for the year ended December 31, 2023 increased 39 percent when compared to same period of the prior year due to the Company realizing a full year end of depletion and depreciation on the assets acquired in the fourth quarter of 2022, as well as higher production volumes.

IMPAIRMENT

	Three Months Ended			Years Ended Dec 31,	
($000s except per boe)	**Dec 31, 2023**	Sep 30, 2023	Dec 31, 2022	**2023**	2022
Impairment of property, plant and equipment	**59,150**	—	—	**59,150**	—
$ per boe	**25.67**	—	—	**6.63**	—

The Company identified six cash generating units as of December 31, 2023 based on the lowest level at which properties generate cash inflows while applying judgment to consider factors such as shared infrastructure, geographic proximity, petroleum type and similar exposures to market risk and materiality. The Company's CGUs at December 31, 2023 were geographically labeled Northwest Alberta, North Central Alberta, Central Alberta, Southeast Alberta, Southwest Saskatchewan and Southeast Saskatchewan.

For the year ended December 31, 2023, due to decreases in forward natural gas prices and the significant decrease in cash flows from proved and probable oil and gas reserves, the Company identified an indicator of potential impairment was present in its Northwest Alberta CGU. As a result, the Company completed an impairment test. Recoverable value was estimated at fair value less costs to sell based on before tax discounted cash flows from oil and gas proved plus probable reserves.

It was determined that the carrying value of the Northwest Alberta CGU exceeded the recoverable amount of $79.7 million and a $59.2 million impairment charge was recognized. The before tax discount rate applied in the calculation as at December 31, 2023 was 22 percent.

The results of the Company's impairment tests are sensitive to changes in any of the key significant assumptions including forecasted oil and gas commodity prices, forecasted production, forecasted operating costs, royalty costs and future development costs which impact the estimate of cash flows from proved and probable oil and gas reserves, in addition to the discount rate, of which changes could decrease or increase the estimated recoverable amounts of CGUs and result in additional impairment charges or in the recovery of previously recorded impairment charges.

NET INCOME (LOSS)

	Three Months Ended			Years Ended Dec 31,	
($000s except per share)	**Dec 31, 2023**	Sep 30, 2023	Dec 31, 2022	**2023**	2022
Net income (loss)	**(29,676)**	16,583	103,502	**15,751**	231,718
Per share - basic ($)	**(0.30)**	0.17	1.17	**0.16**	2.74
Per share - diluted ($)	**(0.29)**	0.16	1.15	**0.16**	2.66

Please refer to the financial statements for further information regarding the changes in net income (loss) over the period.

INCOME TAXES

The estimated tax pools in place at December 31, 2023 are as follows:

($000s)	**Total**
Canadian oil and gas property expenses	328,627
Canadian development expenses	174,689
Canadian exploration expenses	61,070
Undepreciated capital cost	163,779
Non-capital losses	612,544
Other	14,614
	1,355,323

CAPITAL EXPENDITURES

Capital Expenditure Summary

($000s)	Q1 2023	Q2 2023	Q3 2023	**Q4 2023**	**2023 YTD**	2022 YTD	% Change
Land	634	4,041	534	**388**	**5,597**	18,563	(70)%
Seismic	281	262	276	**3,156**	**3,975**	2,137	86 %
Drilling and completions	28,530	12,182	28,945	**39,469**	**109,126**	101,601	7 %
Facilities, equipment and pipelines	14,180	11,996	12,175	**15,879**	**54,230**	40,282	35 %
Other	2,108	2,108	2,015	**2,413**	**8,644**	7,361	17 %
Expenditures on property, plant and equipment	45,733	30,589	43,945	**61,305**	**181,572**	169,944	7 %
Expenditures on acquisitions	—	—	246	**3,994**	**4,240**	169,275	(97)%
Share based consideration on acquisitions	—	—	—	**—**	**—**	31,027	(100)%
Proceeds from dispositions	(678)	(1,696)	(15)	**(181)**	**(2,570)**	(32)	nm[1]
Net acquisitions & dispositions	(678)	(1,696)	231	**3,813**	**1,670**	200,270	(99)%
Net capital expenditures	45,055	28,893	44,176	**65,118**	**183,242**	370,214	(51)%

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

During the three months and year ended December 31, 2023, Surge invested a total of $61.3 million and $181.6 million on capital projects, excluding acquisitions and dispositions.

During the fourth quarter of 2023, Surge invested $39.5 million to drill and complete 23 gross (21.5 net) wells in Southeast Alberta ("Sparky") and Southeast Saskatchewan. Of this amount, $27.8 million was spent on drilling; $7.6 million on completions; and $4.1 million on workovers. Production from an additional 6 gross (5.5 net) wells from the fourth quarter drilling program will be completed and brought on stream in the first quarter of 2024. The Company invested $15.9 million to equip and tie-in wells drilled in the fourth quarter and complete scheduled facility turnarounds on operated facilities. Of this amount, $10.8 million was spent on facilities and $5.1 million was spent on equipment and pipelines. An additional $5.9 million was spent on land, seismic and other capital items during the quarter.

During the year ended December 31, 2023, Surge invested $109.1 million to drill and complete 70 gross (64.5 net) wells in Southeast Alberta ("Sparky") and Southeast Saskatchewan. Of this amount, $71.0 million was spent on drilling; $26.5 million on completions; and $11.6 million on workovers. The Company invested $54.2 million to equip and tie-in wells drilled in the year and complete scheduled facility turnarounds on operated facilities. Of this amount, $37.7 million was spent on facilities and $16.5 million was spent on equipment and pipelines. An additional $18.2 million was spent on land, seismic and other capital items during the quarter.

During the fourth quarter of 2023, Surge acquired certain oil infrastructure through an asset swap for cash consideration of $2.9 million. During the year ended December 31, 2023, the Company disposed of certain assets in Central Alberta for cash proceeds of $1.7 million.

FACTORS THAT HAVE CAUSED VARIATIONS OVER THE QUARTERS

The fluctuations in Surge's revenue and net earnings from quarter to quarter are primarily caused by changes in production volumes, changes in realized commodity prices and the related impact on royalties, realized and unrealized gains or losses on derivative instruments, and changes in impairment charges and non-cash items. The change in production from the first quarter of 2022 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

	Q4 2023	Q3 2023	Q2 2023	Q1 2023
Weighted common shares	**100,314,111**	99,384,440	98,334,459	97,086,527
Dilutive instruments (treasury method)	**1,808,477**	1,588,786	2,853,449	2,296,200
Weighted average diluted shares outstanding	**102,122,588**	100,973,226	101,187,908	99,382,727
	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Weighted common shares	88,094,339	83,626,295	83,357,221	83,357,221
Dilutive instruments (treasury method)	2,096,748	2,413,802	2,917,383	—
Weighted average diluted shares outstanding	90,191,087	86,040,097	86,274,604	83,357,221

On March 6, 2024, Surge had 100,578,025 common shares, 2,235,093 PSAs, and 1,454,125 RSAs outstanding.

Quarterly Financial Information

	Q4 2023	Q3 2023	Q2 2023	Q1 2023
Oil, Natural gas & NGL sales	**168,453**	184,475	155,477	161,970
Net income (loss)	**(29,676)**	16,583	14,055	14,789
Net income (loss) per share ($):				
Basic	**(0.30)**	0.17	0.14	0.15
Diluted	**(0.29)**	0.16	0.14	0.15
Cash flow from operating activities	**79,712**	71,315	60,608	54,506
Cash flow from operating activities per share ($):				
Basic	**0.79**	0.72	0.62	0.56
Diluted	**0.78**	0.71	0.60	0.55
Adjusted funds flow	**77,001**	86,874	64,640	63,331
Adjusted funds flow per share ($):				
Basic	**0.77**	0.87	0.66	0.65
Diluted	**0.75**	0.86	0.64	0.64
Average daily sales				
Oil (bbls/d)	**20,741**	20,188	19,758	21,055
NGL (bbls/d)	**808**	659	629	721
Natural gas (mcf/d)	**21,005**	19,564	18,458	20,172
Barrels of oil equivalent (boe per day) (6:1)	**25,050**	24,108	23,463	25,138
Average sales price				
Natural gas ($/mcf)	**2.11**	2.15	1.97	3.13
Oil ($/bbl)	**84.24**	95.53	83.17	80.57
NGL ($/bbl)	**48.68**	52.34	46.16	55.78
Barrels of oil equivalent ($/boe)	**73.09**	83.17	72.82	71.59

Quarterly Financial Information

	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Oil, Natural gas & NGL sales	**165,808**	179,297	212,999	169,124
Net income (loss)	**103,502**	78,057	72,027	(21,868)
Net income (loss) per share ($):				
Basic	**1.17**	0.93	0.86	(0.26)
Diluted	**1.15**	0.91	0.83	(0.26)
Cash flow from operating activities	**78,975**	69,170	75,798	52,182
Cash flow from operating activities per share ($):				
Basic	**0.90**	0.83	0.91	0.63
Diluted	**0.88**	0.80	0.88	0.63
Adjusted funds flow	**71,807**	80,294	78,561	62,893
Adjusted funds flow per share ($):				
Basic	**0.82**	0.96	0.94	0.75
Diluted	**0.80**	0.93	0.91	0.75
Average daily sales				
Oil (bbls/d)	**18,127**	17,639	17,110	16,760
NGL (bbls/d)	**695**	647	799	691
Natural gas (mcf/d)	**19,647**	18,561	18,565	18,592
Barrels of oil equivalent (boe per day) (6:1)	**22,097**	21,380	21,003	20,550
Average sales price				
Natural gas ($/mcf)	**5.24**	5.21	6.86	4.56
Oil ($/bbl)	**91.43**	102.59	126.19	104.38
NGL ($/bbl)	**60.51**	65.91	67.95	65.17
Barrels of oil equivalent ($/boe)	**81.56**	91.16	111.44	91.45

Annual Financial Information

	Years Ended December 31,		
($000s except per share)	**2023**	2022	2021
Total petroleum and natural gas revenue	**670,375**	727,228	410,063
Net income	**15,751**	231,718	407,608
Net income per share ($):			
Basic	**0.16**	2.74	7.42
Diluted	**0.16**	2.66	7.28
Total assets	**1,480,763**	1,550,077	1,275,447
Total long-term financial liabilities[1]	**261,790**	316,658	283,384
Dividends declared	**47,459**	21,274	—
Dividends declared per share ($):			
Basic	**0.48**	0.25	—
Diluted	**0.47**	0.24	—

1 Total of non-current liabilities excluding decommissioning obligations.

LIQUIDITY AND CAPITAL RESOURCES

On December 31, 2023, Surge had $42.8 million drawn on its credit facilities, $173.2 million drawn on its term facility, excluding unamortized issue costs of $5.5 million, $48.3 million principal amount of convertible subordinated unsecured debentures ("Debentures"), and total net debt of $290.1 million, a decrease in total net debt of 18 percent compared to the same date in 2022. At December 31, 2023, Surge had approximately $107.2 million of borrowing capacity in relation to the $150 million credit facilities. The following tables sets forth the capitalization of Surge and the change in the components of the Debentures:

Capitalization

($000s)	Outstanding as at December 31, 2023
Shareholder Equity	
Share capital	1,790,559
Common shares outstanding	100,314
Debentures - equity	6,375
Debt	
Credit Facilities	
Total Commitment	150,000
Amount drawn	42,797
Term Facilities	
Total Commitment	200,000
Amount drawn	173,222
Amount drawn net of unamortized issue costs	167,691
Emissions Reduction Fund and other	11,040
Debentures - liability	37,848

Convertible Debentures

	Number of convertible debentures	Liability Component ($000s)	Equity Component ($000s)
Balance at December 31, 2021	79,000	73,935	6,266
Accretion of discount	—	2,696	—
Other finance expenses	—	360	—
Redeemed	(44,500)	(44,500)	(3,551)
Balance at December 31, 2022	34,500	32,491	2,715
Issuance of convertible debentures	48,300	39,484	8,816
Issue costs	—	(1,920)	(428)
Deferred income tax liability	—	—	(2,013)
Accretion of discount	—	1,423	—
Other finance expenses	—	870	—
Redeemed	(34,500)	(34,500)	(2,715)
Balance at December 31, 2023	**48,300**	**$ 37,848**	**$ 6,375**

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 December 31, 2023
Accounts receivable	53,354
Prepaid expenses and deposits	5,355
Accounts payable and accrued liabilities	(85,390)
Dividends payable	(4,013)
Bank debt	(42,797)
Term debt	(178,731)
Convertible debentures	(37,848)
Total	**(290,070)**

Bank Debt

As at December 31, 2023, the Company had a total commitment of $150 million, being the aggregate of a committed revolving first-lien 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. The facility is available on a revolving basis until May 30, 2024. On May 30, 2024, at the Company's discretion, the facility is available on a non-revolving basis for a one-year period, at the end of which time the facility would be due and payable. Alternatively, the facilities may be extended for a further 364-day period at the request of the Company and subject to the approval of the syndicate. As the available lending limits of the facilities are based on the syndicate's interpretation of the Company's reserves, commodity prices and decommissioning obligations, there can be no assurance that the amount of the available facilities will not decrease at the next scheduled review. In the current pricing environment, there is an increased risk that the lenders may decrease the amount available under the credit facility and the decreases could be material. Interest rates vary depending on the ratio of Senior Debt to EBITDA (as defined in the lending agreement). As at December 31, 2023, the Company had an effective interest rate of prime plus 1.75 percent on the revolving term/operating loan facilities (December 31, 2022 – prime plus 1.75 percent).

The facilities are secured by a general assignment of book debts, debentures of $0.8 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.

As at December 31, 2023, the Company had $0.9 million of outstanding letters of credit (December 31, 2022 - $1.0 million), all of which is under the $30 million operating loan facility.

A summary of outstanding bank debt is as follows:

	As at December 31, 2023	As at December 31, 2022
Credit Facilities		
Total Commitment	$ 150,000	$ 150,000
Amount drawn	42,797	30,597

Term Debt

As at December 31, 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 December 31, 2023, the Company had $173.2 million, excluding unamortized issue costs of $5.5 million, drawn on these facilities, of which $13.7 million was reflected as current term debt.

The principal amount of Term Facility A is repayable in scheduled quarterly repayments, as follows:

i. Q1 2024 - Q4 2024: $2,000,000

ii. Q1 2025 - Q4 2025: $3,000,000

iii. Q1 2026 - Q4 2026: $4,000,000

Under Term Facility A, the Company is required to make an additional principal repayment of $0.8 million in each calendar month in which a shareholder distribution is paid.

The principal amount of Term Facility B is due and repayable in scheduled quarterly repayments equal to 2.50% of the initial principal.

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.

Interest on the outstanding term loan of both term facilities is due and payable quarterly by the Company. Interest on borrowings is summarized as follows:

i. Until December 9, 2024, at a per annum fixed rate equal to 8.85 percent of 35 percent of the aggregate principal amount and a floating rate of adjusted term CORRA plus 8.4125 percent of the remainder;

ii. thereafter, at the floating rate of adjusted term CORRA plus 8.4125 percent.

Emissions Reduction Fund

During the period ended December 31, 2021, the Company assumed two five-year, interest free term loans with the Federal Government of Canada via the Emissions Reduction Fund (“ERF”) administered by the Department of Natural Resources.

The ERF will provide Surge with up to $11.2 million for the Company’s planned gas emission reduction program which will see the Company build infrastructure to eliminate greenhouse gas emissions in specific operating areas. Loan repayments will begin on March 31 2025, when 10.0 percent of the repayable portion will be repaid, followed by 33.3 percent on March 31, 2026 and the remaining 56.7 percent on March 31, 2027.

As at December 31, 2023, the Company had a $7.6 million (December 31, 2022 - $7.2 million) loan repayable relating to the Government of Canada Emissions Reduction Fund (“ERF”). As at December 31, 2023, the Company had received $10.4 million (December 31, 2022 – $9.8 million) of funds from ERF for the Company's planned gas emissions reduction program.

A summary of outstanding term debt is as follows:

	As at December 31, 2023	As at December 31, 2022
Term Facilities		
Total Commitment	200,000	260,000
Amount drawn	173,222	252,319
Amount drawn, net of unamortized issue costs	167,691	246,787
Emissions Reduction Fund and other	11,040	9,245
Total term debt, net of unamortized issue costs	178,731	256,032
Less: Current portion	(13,699)	(24,849)
Long term portion	165,032	231,183

At December 31, 2023, the Company's contractual payments mature as follows:

		December 31, 2023
2024	$	12,113
2025		86,571
2026		111,800
Thereafter		37,848
	$	**248,332**

Financial Covenants

The Company is subject to certain financial and non-financial covenants under the first lien and second lien facilities including, but not limited to:

For so long as the covenant applies to the term debt facility, the Company’s ratio of Total Debt to EBITDA shall not exceed 2.50:1.00, calculated quarterly effective of the last day of each fiscal quarter. The EBITDA used in the covenant calculation is net income and comprehensive income for an annualized period adjusted for lease payments, non-cash items, non-recurring transaction costs and extraordinary and non-recurring items such as material acquisitions or dispositions. The Total Debt used in the covenant calculation includes first lien bank debt and second lien term debt.

Commencing in the fiscal year ending December 31, 2022 and for so long as the covenant applies to the term debt facility, the Company must maintain an Asset Coverage Ratio of not less than 1.50:1.00, calculated as of December 31 of each Fiscal Year. The ratio is calculated annually as the proved developed producing reserves of the Company (before income tax; discounted at 10 percent), as evaluated by an independent third party engineering report and evaluated on strip commodity pricing, divided by the Total Debt of the Company.

As at December 31, 2023, the Company was compliant with all restrictions and covenants in its first and second lien credit agreements.

RELATED-PARTY AND OFF-BALANCE-SHEET TRANSACTIONS

Surge was not involved in any off-balance-sheet transactions or related party transactions during the year ended December 31, 2023.

CONTRACTUAL OBLIGATIONS

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

As at December 31, 2023, Surge had future minimum payments relating to variable office rent payments and firm transport commitments, except lease payments included in "Leases", totaling $21.9 million, as summarized below:

		December 31, 2023
Less than 1 year	$	4,480
1 - 3 years		8,377
3 - 5 years		3,583
5+ years		5,431
Total commitments	**$**	**21,871**

LEASES

The Company has recognized the following lease and other obligations:

		Total
Lease obligations at December 31, 2021	$	31,062
Dispositions		(5,131)
Additions		8,628
Interest expense		2,291
Principal payments		(8,051)
Lease and other obligations at December 31, 2022	$	28,799
Dispositions		(786)
Additions		40
Interest expense		2,373
Principal payments		(7,620)
Lease and other obligations at December 31, 2023	**$**	**22,806**
Current portion		**6,693**
Long term portion		**16,113**

The Company has recognized the following right-of-use assets:

		Total
Right-of-use assets at December 31, 2021	$	32,545
Dispositions		(6,124)
Additions		8,628
Depreciation		(3,104)
Right-of-use assets at December 31, 2022	$	31,945
Dispositions		(786)
Additions		40
Depreciation		(3,560)
Right-of-use assets at December 31, 2023	**$**	**27,639**

Future minimum payments relating to lease and other obligations at December 31, 2023 are as follows:

		December 31, 2023
Less than 1 year	$	6,813
1 - 3 years		10,654
3+ years		18,374
Lease and other obligation payments	**$**	**35,841**

FINANCIAL INSTRUMENTS

As a means of managing commodity price, interest rate, and foreign exchange volatility, the Company enters into various derivative financial instrument agreements and physical contracts. The fair value of forward contracts and swaps is determined by discounting the difference between the contracted prices and published forward price curves as at the statement of financial position date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates). The fair value of options and costless collars is based on option models that use published information with respect to volatility, prices and interest rates. Surge's financial derivative contracts are classified as level two.

The following table summarizes the Company's financial derivatives as at March 6, 2024 by period and by product.

West Texas Intermediate Crude Oil Derivative Contracts (WTI)

	Bought Put		Collars			Swaps	
Period	Volumes (bbls/d)	Average Price (CAD/bbl)	Volumes (bbls/d)	Average Bought Put (CAD/bbl)	Average Sold Call (CAD/bbl)	Volumes (bbls/d)	Average Price (CAD/bbl)
Qtr. 1 2024	—	—	5,336	$84.64	$122.80	681	$112.66
Qtr. 2 2024	2,599	$83.16	2,600	$83.04	$115.94	—	—
Qtr. 3 2024	2,766	$81.69	2,433	$81.72	$121.47	—	—
Qtr. 4 2024	2,500	$86.13	2,750	$86.13	$132.50	—	—
Qtr. 1 2025	4,204	$86.13	947	$86.13	$109.61	—	—

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. 1 2024	1,000	$18.35	1,000	$14.58	$23.59
Qtr. 2 2024	2,700	$19.00	1,000	$14.58	$23.59
Qtr. 3 2024	1,700	$18.64	1,000	$14.58	$23.59
Qtr. 4 2024	1,000	$18.35	1,000	$14.58	$23.59

Mixed Sweet Blend Derivative Contracts (MSW)

	Swaps	
Period	Volumes (bbls/d)	Average Price (CAD/bbl)
Qtr. 1 2024	—	—
Qtr. 2 2024	4,000	$3.98
Qtr. 3 2024	4,000	$3.98
Qtr. 4 2024	4,000	$3.98

Natural Gas Derivative Contracts

	NYMEX Collars			NYMEX - AECO Basis Swaps		AECO Swaps	
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 Price (CAD/GJ)
Qtr. 1 2024	4,500	$5.30	$12.96	4,500	$(2.20)	—	—
Qtr. 2 2024	5,000	$3.98	$6.63	5,000	$(1.51)	—	—
Qtr. 3 2024	5,000	$3.98	$6.63	5,000	$(1.51)	—	—
Qtr. 4 2024	3,674	$4.33	$7.06	5,000	$(1.54)	1,326	$5.51
Qtr. 1 2025	3,000	$4.64	$7.42	5,000	$(1.55)	2,000	$5.51
Qtr. 2 2025	—	—	—	5,000	$(1.38)	1,700	$4.29
Qtr. 3 2025	—	—	—	5,000	$(1.38)	1,700	$4.29
Qtr. 4 2025	—	—	—	1,685	$(1.38)	573	$4.29

Foreign Currency Exchange Derivative Contracts

Type	Term	Notional Amount (USD)	Floor	Ceiling
Average Rate Collar	Jan 2024 - Dec 2024	$10,000,000	1.3225	1.4040

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.

As of the year ended December 31, 2023, an evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, was performed by the Company's Management with the oversight of the Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's DCP are effective as of December 31, 2023.

Further, there were no changes in the Company's DC&P during the fourth quarter and year ended December 31, 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.

Management, with the oversight of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s internal control over financial reporting, as defined under NI 52-109 as at December 31, 2023. In making its evaluation, Management used the Committee of Sponsoring Organizations of the Treadway Commission framework. Based on this evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that the Company’s ICFR was effective as of December 31, 2023.

Further, there were no changes in the Company’s ICFR during the fourth quarter and year ended December 31, 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, as issued by the International Accounting Standards Board, 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 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, 2023, which can be found on www.sedarplus.ca. 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: the estimated recoverable amount of the Company's property, plant and equipment; the life of the Company's proved and probable reserves; Surge's belief that the majority of cash flow's associated with its proved and probable reserves will be realized prior to the elimination of carbon based energy; the Company's belief in the uncertainty regarding the ultimate period in which global energy markets can transition from carbon based sources to alternative energy; Surge's assets and the characteristics thereof; management's expectations as to the cause of fluctuation in corporate royalty rates; management's beliefs regarding the estimates of the future values for certain of the Company's assets and liabilities; the COVID-19 pandemic and the Russian invasion of Ukraine and the potential impacts on the Company and the oil and gas industry generally; 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; estimated tax pools; the anticipated timing of production from the Company's Q4 2023 drilling program being completed and brought on stream; expectations with respect to its underlying decommissioning liabilities; the Company's plans for funding its future capital requirements; Surge's belief that in the current pricing environment there is an increased risk that lenders may decrease the amount available under the Company's credit facilities; the Company's strategy for managing commodity price, interest rate and foreign exchange volatility; and the ongoing assessment of management and the Board of market conditions.

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 heading 'Risk Factors' herein and in Surge's AIF dated March 6, 2024 which has been filed on SEDAR+ and can be accessed at www.sedarplus.ca.

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			Years Ended Dec 31,	
($000s except per share)	**Dec 31, 2023**	Sep 30, 2023	Dec 31, 2022	**2023**	2022
Cash flow from operating activities	**79,712**	71,315	78,975	**266,141**	276,125
Change in non-cash working capital	**(11,261)**	12,644	(14,152)	**9,350**	4,271
Decommissioning expenditures	**8,255**	2,695	2,367	**15,560**	7,895
Cash settled transaction and other costs	**295**	220	4,617	**795**	5,264
Adjusted funds flow	**$ 77,001**	$ 86,874	$ 71,807	**$ 291,846**	$ 293,555
Per share - basic	**$ 0.77**	$ 0.87	$ 0.82	**$ 2.95**	$ 3.47

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 or minus working capital, however, excluding the fair value of financial contracts, decommissioning obligations and lease and other obligations. This metric is used by management to analyze the level of debt in the Company including the impact of working capital, which varies with timing of settlement of these balances.

	As at		
($000s)	**Dec 31, 2023**	Sep 30, 2023	Dec 31, 2022
Accounts receivable	**53,354**	74,624	60,623
Prepaid expenses and deposits	**5,355**	3,050	3,032
Accounts payable and accrued liabilities	**(85,390)**	(83,978)	(93,373)
Dividends payable	**(4,013)**	(4,013)	(3,375)
Bank debt	**(42,797)**	(11,900)	(30,597)
Term debt	**(178,731)**	(230,624)	(256,032)
Convertible debentures	**(37,848)**	(33,454)	(32,491)
Total	**(290,070)**	(286,295)	(352,213)

Operating Netback & 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 calculated as operating netback divided by total barrels of oil equivalent produced during a specific period of time. This metric is used by management to evaluate the Company's ability to generate cash margin on a unit of production basis.

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

Operating Netback & Adjusted Funds Flow per boe

	Three Months Ended			Years Ended Dec 31,	
($000s)	**Dec 31, 2023**	Sep 30, 2023	Dec 31, 2022	**2023**	2022
Petroleum and natural gas revenue	**168,453**	184,475	165,808	**670,375**	727,228
Processing income	**1,734**	1,812	1,926	**7,780**	7,242
Royalties	**(31,235)**	(33,384)	(27,449)	**(119,513)**	(127,548)
Realized gain (loss) on commodity and FX contracts	**2,351**	(1,535)	(9,580)	**(3,164)**	(98,145)
Operating expenses	**(47,602)**	(47,988)	(44,570)	**(196,256)**	(160,133)
Transportation expenses	**(3,411)**	(2,902)	(2,846)	**(13,755)**	(11,272)
Operating netback	**90,290**	100,478	83,289	**345,467**	337,372
G&A expense	**(5,041)**	(4,716)	(4,190)	**(19,158)**	(16,626)
Interest expense	**(8,248)**	(8,888)	(7,292)	**(34,463)**	(27,191)
Adjusted funds flow	**77,001**	86,874	71,807	**291,846**	293,555
Barrels of oil equivalent (boe)	**2,304,615**	2,217,941	2,032,892	**8,920,018**	7,760,455
Operating netback ($ per boe)	**$ 39.18**	$ 45.30	$ 40.97	**$ 38.73**	$ 43.47
Adjusted funds flow ($ per boe)	**$ 33.41**	$ 39.16	$ 35.15	**$ 32.72**	$ 37.83

Net Operating Expenses

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.