

FINANCIAL AND OPERATING SUMMARY

(\$000s except per share amounts)

	Three Months Ended			Years Ended December 31,		
	Dec 31, 2015	Sep 30, 2015	% Change	2015	2014	% Change
Financial highlights						
Oil sales	36,509	42,560	(14)%	218,761	447,794	(51)%
NGL sales	1,250	650	92 %	4,600	9,173	(50)%
Natural gas sales	3,183	2,569	24 %	14,542	28,719	(49)%
Total oil, natural gas, and NGL revenue	40,942	45,779	(11)%	237,903	485,686	(51)%
Funds from operations ¹	15,302	17,009	(10)%	118,873	245,264	(52)%
Per share basic (\$)	0.07	0.08	(13)%	0.54	1.22	(56)%
Per share diluted (\$)	0.07	0.08	(13)%	0.54	1.22	(56)%
Capital expenditures - petroleum & gas properties ²	18,309	17,653	4 %	76,731	149,551	(49)%
Capital expenditures - acquisitions & dispositions ²	1,117	(3,735)	nm	(463,568)	575,713	nm
Total capital expenditures ²	19,426	13,918	nm	(386,837)	725,264	nm
Net debt at end of period ³	160,375	143,200	12 %	160,375	590,168	(73)%
Operating highlights						
Production:						
Oil (bbls per day)	10,297	10,635	(3)%	12,871	14,801	(13)%
NGLs (bbls per day)	795	599	33 %	697	552	26 %
Natural gas (mcf per day)	18,570	13,731	35 %	17,362	16,297	7 %
Total (boe per day) (6:1)	14,187	13,523	5 %	16,462	18,069	(9)%
Average realized price (excluding hedges):						
Oil (\$ per bbl)	38.54	43.49	(11)%	46.57	82.89	(44)%
NGL (\$ per bbl)	17.08	11.80	45 %	18.09	45.53	(60)%
Natural gas (\$ per mcf)	1.86	2.03	(8)%	2.29	4.83	(53)%
Netback (\$ per boe)						
Oil, natural gas and NGL sales	31.37	36.80	(15)%	39.60	73.64	(46)%
Realized gain (loss) on commodity contracts	3.49	1.70	nm	7.18	(1.45)	nm
Royalties	(5.89)	(6.47)	(9)%	(6.34)	(13.18)	(52)%
Operating expenses	(12.57)	(13.35)	(6)%	(15.03)	(15.52)	(3)%
Transportation expenses	(1.75)	(1.90)	(8)%	(1.60)	(1.72)	(7)%
Operating netback	14.65	16.78	(13)%	23.81	41.77	(43)%
G&A expense	(1.69)	(1.76)	(4)%	(1.83)	(1.96)	(7)%
Interest expense	(1.19)	(1.35)	(12)%	(2.20)	(2.56)	(14)%
Corporate netback	11.77	13.67	(14)%	19.78	37.25	(47)%
Common shares outstanding, end of period	221,033	220,851	— %	221,033	220,060	— %
Weighted average basic shares outstanding	221,001	221,259	— %	220,661	200,317	10 %
Stock option dilution	—	—	nm	—	—	nm
Weighted average diluted shares outstanding	221,001	221,259	— %	220,661	200,317	10 %

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

2 Please see capital expenditures note.

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

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

FOURTH QUARTER 2015 HIGHLIGHTS

- Achieved a fourth quarter average production rate of 14,187 boe per day, a 5 percent increase from the previous quarter.
- Surge's production mix for the quarter was 78 percent liquids, trending towards 2016 guidance of 76 percent.
- Capital expenditures excluding A&D totaled \$18.3 million for the fourth quarter. This includes \$8.7 million to drill 5 gross (5 net) wells. Total capital also includes \$7.7 million in facilities expenditures, including completion of the pipeline to connect Valhalla associated gas production to a sweet gas processing plant located north of the field.
- Subsequent to the quarter, Surge signed a definitive agreement to divest its non-core Sunset property in Northern Alberta for proceeds of \$28 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) of the consolidated financial position and results of operations of Surge Energy Inc. ("Surge" or the "Company"), which includes its subsidiaries and partnership arrangements, is for the three months and years ended December 31, 2015 and 2014. For a full understanding of the financial position and results of operations of the Company, the MD&A should be read in conjunction with the documents filed on SEDAR, including historical financial statements, MD&A and the Annual Information Form (AIF). These documents are available at www.sedar.com.

Surge's year-end financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

DESCRIPTION OF BUSINESS

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

NON-IFRS MEASURES

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

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

Funds from Operations

(\$000s)	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014
Cash flow from operating activities	\$ 17,346	\$ 9,512	\$ 26,760	\$ 53,823	\$ 36,099
Change in non-cash working capital	(2,978)	5,015	(178)	(5,228)	18,099
Decommissioning expenditures	319	712	382	2,171	183
Transaction costs	141	265	7,468	306	289
Cash settled stock-based compensation	474	1,505	1,058	—	—
Funds from operations	\$ 15,302	\$ 17,009	\$ 35,490	\$ 51,072	\$ 54,670

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

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

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

Surge's Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A. This MD&A is dated March 16, 2016.

OPERATIONS

Drilling

	Drilling		Success rate (%) net	Working interest (%)
	Gross	Net		
Q1 2015	7.0	4.6	100%	66%
Q2 2015	1.0	1.0	100%	100%
Q3 2015	5.0	5.0	100%	100%
Q4 2015	5.0	5.0	100%	100%
Total	18.0	15.6	100%	87%

Surge achieved a 100 percent success rate during the year ended December 31, 2015, drilling 18 gross (15.6 net) wells. During the fourth quarter of 2015, Surge drilled 5 gross (5.0 net) wells, including two wells at Eyehill and three at Shaunavon.

Production

	Three months ended			Years ended	
	Dec 31, 2015	Sep 30, 2015	Dec 31, 2014	Dec 31, 2015	Dec 31, 2014
Oil (bbls per day)	10,297	10,635	16,537	12,871	14,801
NGL (bbls per day)	795	599	686	697	552
Oil and NGL (bbls per day)	11,092	11,234	17,223	13,568	15,353
Natural gas (mcf per day)	18,570	13,731	19,349	17,362	16,297
Total (boe per day) (6:1)	14,187	13,523	20,448	16,462	18,069
% Oil and NGL	78%	83%	84%	82%	85%

Surge achieved production of 14,187 boe per day in the fourth quarter of 2015 (78 percent oil and NGLs), a five percent increase from the average production rate in the third quarter of 2015 and a 31 percent decrease from the average production rate in the same period of 2014.

The increase in production volumes as compared to the third quarter of 2015 is primarily due to the conclusion of production curtailment in the fourth quarter of 2015 at Surge's Valhalla area as a result of two downstream industry pipeline outages which limited production by approximately 1,600 boe per day during the third quarter of 2015 (primarily natural gas production). Additionally, Surge's successful drilling of three wells in the Shaunavon operating area and two wells in the Eyehill area during the fourth quarter of 2015, contributed production to offset Surge's corporate annual decline rate of approximately 20%.

The decrease in production volumes as compared to the same period in 2014 is primarily due to the disposition of Surge's southeast Saskatchewan and southwest Manitoba assets on June 15, 2015, representing approximately 4,750 boe per day.

During the year ended December 31, 2015, Surge achieved production of 16,462 boe per day (82 percent oil and NGLs), a nine percent decrease when compared to the year ended December 31, 2014. The decrease in average production is primarily due to a curtailment of production in its Valhalla operating area as a result of two downstream industry pipeline outages during the second and third quarters of 2015 of over 1,600 boe per day.

Additionally, production for the three months and year ended December 31, 2015 decreased as compared to the same periods of 2014 due to Surge's adoption of a conservative capital spending program for 2015 designed to protect its financial position in the depressed commodity price environment for the year (see pricing section of this MD&A for further discussion).

Revenue, Realized Prices and Benchmark Pricing

(\$000s except per amount)	Three Months Ended			Years Ended	
	Dec 31, 2015	Sep 30, 2015	Dec 31, 2014	Dec 31, 2015	Dec 31, 2014
Revenue					
Oil	36,509	42,560	97,390	218,761	447,794
NGL	1,250	650	2,041	4,600	9,173
Oil and NGL	37,759	43,210	99,431	223,361	456,967
Natural gas	3,183	2,569	6,831	14,542	28,719
Total oil, natural gas and NGL revenue	40,942	45,779	106,262	237,903	485,686
Realized Prices					
Oil (\$ per bbl)	38.54	43.61	64.01	46.57	82.89
NGL (\$ per bbl)	17.08	11.67	33.12	18.09	45.49
Oil and NGL (\$ per bbl)	37.00	41.90	62.75	45.29	81.54
Natural gas (\$ per mcf)	1.86	2.03	3.84	2.29	4.83
Total oil, natural gas, and NGL revenue before realized commodity contracts (\$ per boe)	31.37	36.87	56.49	39.60	73.64
Benchmark Prices					
WTI (US\$ per bbl)	42.18	46.43	73.15	48.80	93.00
WTI (C\$ per bbl)	56.52	60.82	83.39	62.46	103.23
Edmonton Light Sweet (C\$ per bbl)	52.85	56.16	75.55	57.11	94.44
WCS (C\$ per bbl)	36.86	43.28	66.79	44.81	81.12
AECO Daily Index (C\$ per mcf)	2.47	2.90	3.60	2.69	4.49

Total oil, natural gas and NGL revenue for the fourth quarter of 2015 decreased 11 percent when compared to the third quarter of 2015. The decrease is primarily due to a decline in realized oil pricing in addition to a decrease in oil production, partially offset by an increase in NGL and natural gas production. Surge realized average revenue of \$38.54 per barrel of oil during the fourth quarter of 2015. The 11 percent decrease compared to the third quarter of 2015 correlates to the decrease in Edmonton light sweet crude oil of six percent and the decrease in WCS crude oil of 15 percent.

Total oil, natural gas and NGL revenue for the fourth quarter of 2015 decreased 61 percent when compared to the same period of 2014. The decrease is primarily due to a significant decline in realized oil pricing, directly correlated with a decline in benchmark pricing, in addition to a decrease in production as discussed above in this MD&A. Surge's realized average revenue per barrel of oil during the fourth quarter of 2015 decreased 40 percent compared to the same period of 2014. This compares to a 30 percent decrease in Edmonton light sweet and 45 percent decrease in WCS during the same periods.

Total oil, natural gas and NGL revenue for the year ended December 31, 2015 decreased 51 percent compared to the same period of 2014. The decrease is primarily due to a significant decline in realized oil pricing of 44 percent, which compares to a decline in Edmonton light sweet benchmark pricing of 40 percent and WCS benchmark pricing of 45 percent, in addition to a decrease in production as discussed above in this MD&A.

ROYALTIES

(\$000s except per boe)	Three Months Ended			Years Ended	
	Dec 31, 2015	Sep 30, 2015	Dec 31, 2014	Dec 31, 2015	Dec 31, 2014
Royalties	7,689	8,045	20,949	38,091	86,929
% of Revenue	19%	18%	20%	16%	18%
\$ per boe	5.89	6.47	11.14	6.34	13.18

As royalties are sensitive to both commodity prices and production levels, the corporate royalty rates will fluctuate with commodity prices, well production rates, production decline of existing wells, and performance and location of new wells drilled.

Royalties as a percentage of revenue and per boe for the fourth quarter of 2015 are comparable to the third quarter of 2015, with the 1% increase being attributable to previously drilled wells coming off royalty holiday.

The decrease in royalties as a percentage of revenue and per boe for the three months and year ended December 31, 2015 is primarily due to the significant decrease in commodity prices when compared to the same periods of 2014.

OPERATING EXPENSES

(\$000s except per boe)	Three Months Ended			Years Ended	
	Dec 31, 2015	Sep 30, 2015	Dec 31, 2014	Dec 31, 2015	Dec 31, 2014
Operating expenses	16,411	16,610	29,571	90,277	102,374
\$ per boe	12.57	13.35	15.72	15.03	15.52

Operating expenses per boe for the fourth quarter of 2015 decreased six percent when compared to the immediately preceding quarter and 20 percent when compared to the same period of the prior year.

The decrease in operating expenses per boe during the fourth quarter is mainly due to Surge's focus on allocating capital and increasing production in low cost operating areas throughout 2015 and a favourable 13-month adjustment in the fourth quarter of 2015 of \$1.2 million or \$0.92 per boe. Excluding the 13-month adjustment, operating expenses per boe would have been comparable to the third quarter of 2015 and 14 percent lower than the fourth quarter of 2014, at \$13.49 per boe.

Operating expenses per boe for the year ended December 31, 2015 were three percent lower than the same period in 2014. The decrease is primarily due to Surge's focus on allocating capital and increasing production in low cost operating areas throughout 2015.

TRANSPORTATION EXPENSES

(\$000s except per boe)	Three Months Ended			Years Ended	
	Dec 31, 2015	Sep 30, 2015	Dec 31, 2014	Dec 31, 2015	Dec 31, 2014
Transportation expenses	2,289	2,361	2,812	9,595	11,375
\$ per boe	1.75	1.90	1.49	1.60	1.72

Transportation expenses per boe for the fourth quarter of 2015 decreased eight percent compared to the third quarter of 2015 but increased 17 percent compared to the fourth quarter of 2014.

The increase in transportation expense during the fourth quarter of 2015 compared to the same period of 2014 is primarily due to additional costs associated with the use of an alternative processing facility to help minimize curtailment of production from Surge's Valhalla operating area, equal to \$0.29 per boe during the current period. Surge also incurred additional costs associated with the curtailment during the third quarter of 2015. As the curtailment of production continued in the fourth quarter of 2015 and the use of an alternative processing facility was reduced, these additional costs were also reduced and resulted in a decreased in transportation expense in the fourth quarter of 2015 as compared to the immediate prior quarter. Excluding the additional curtailment expense, transportation expenses for the fourth quarter of 2015 were \$1.46 per boe, comparable to the same period of the prior year.

Transportation expenses per boe decreased by seven percent in the year ended December 31, 2015, as compared to the same period of 2014. The decrease in transportation expense is primarily due to production volumes recently acquired that are located in low-cost pipeline connected areas, specifically southeast Saskatchewan acquired from Longview on June 5, 2014, leading to further cost savings on a per boe basis as Surge leveraged the additional pipeline infrastructure for pre-acquisition production transportation. A further decrease in transportation expense for the year ended December 31, 2015 is due to an increase in waterflood projects undertaken by Surge, whereby produced water is held in the field for reinjection as opposed to transported for disposal as wet emulsion. During the year ended December 31, 2015, Surge retained an additional 1,000 bbl per day of water for reinjection in its core operating areas which resulted in cost savings compared to prior periods.

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

(\$000s except per boe)	Three Months Ended			Years Ended	
	Dec 31, 2015	Sep 30, 2015	Dec 31, 2014	Dec 31, 2015	Dec 31, 2014
G&A expenses	3,196	3,326	5,025	16,735	19,306
Recoveries and capitalized amounts	(990)	(1,135)	(1,798)	(5,737)	(6,391)
Net G&A expenses	2,206	2,191	3,227	10,998	12,915
Net G&A expenses \$ per boe	1.69	1.76	1.72	1.83	1.96

Net G&A expenses per boe for the fourth quarter of 2015 decreased four percent to \$1.69 per boe as compared to \$1.76 in the third quarter of 2015. The decrease is due primarily to the five percent increase in production during the fourth quarter of 2015 as compared to the immediate prior quarter. Total net G&A expenses for the fourth quarter of 2015 are comparable to the third quarter of 2015.

Net G&A expenses per boe for the fourth quarter of 2015 decreased two percent compared to the same period in 2014 and net G&A expenses per boe for the year ended December 31, 2015 decreased seven percent to \$1.83 per boe as compared to \$1.96 in the same period of 2014. The 36 percent decrease in gross G&A expenses achieved in the fourth quarter of 2015 as compared to the same period in 2014 is due to the implementation of a company wide G&A cost reduction initiatives; the results of which were continually realized throughout 2015.

TRANSACTION COSTS

(\$000s except per boe)	Three Months Ended			Years Ended	
	Dec 31, 2015	Sep 30, 2015	Dec 31, 2014	Dec 31, 2015	Dec 31, 2014
Transaction costs	141	265	289	8,180	7,337
\$ per boe	0.11	0.21	0.15	1.36	1.11

For the year ended December 31, 2015, the Company incurred transaction costs of \$8.2 million or \$1.36 per boe, primarily related to the disposal of its petroleum and natural gas properties in southeast Saskatchewan and southwest Manitoba. This is compared to \$7.3 million or \$1.11 per boe during the same period of 2014, primarily related to the Longview acquisition that was completed in the second quarter of 2014, in addition to the Southeast Saskatchewan asset acquisition that was completed in the first quarter of 2014.

FINANCE EXPENSES

(\$000s except per boe)	Three Months Ended			Years Ended	
	Dec 31, 2015	Sep 30, 2015	Dec 31, 2014	Dec 31, 2015	Dec 31, 2014
Interest expense	1,557	1,678	5,192	13,197	16,895
\$ per boe	1.19	1.35	2.76	2.20	2.56
Accretion expense	823	934	1,317	4,018	5,235
\$ per boe	0.63	0.75	0.70	0.67	0.80
Finance expenses	2,380	2,612	6,509	17,215	22,130
\$ per boe	1.82	2.10	3.46	2.87	3.36

Interest expense during the fourth quarter of 2015 decreased seven percent as compared to the third quarter of 2015 and 70 percent as compared to the same period of 2014.

Interest expense for the year ended December 31, 2015 decreased 22 percent as compared to the year ended December 31, 2014.

The decrease in interest expense during the three months and year ended December 31, 2015 is primarily due to lower debt levels as compared to the same periods of 2014. Surge decreased debt levels with the successful closing of the Southeast Saskatchewan and Southwest Manitoba asset sale, and certain non-core properties in Alberta and Saskatchewan, for combined cash proceeds of \$469 million in 2015. The proceeds were used to pay down bank indebtedness.

Accretion represents the change in the time value of the decommissioning liability as well as a firm transportation agreement. Accretion expense per boe decreased for the three months and year ended December 31, 2015 as compared to the same period of 2014 and immediate prior quarter primarily due to a change in discount rate and less liabilities due to dispositions throughout 2015. The underlying liability may increase over a period of time, based on new obligations incurred from drilling wells, constructing facilities, acquiring operations or adjusting future estimates of timing or amounts. This future obligation can be reduced as a result of abandonment work undertaken.

NETBACKS

(\$ per boe, except production)	Three Months Ended			Years Ended	
	Dec 31, 2015	Sep 30, 2015	Dec 31, 2014	Dec 31, 2015	Dec 31, 2014
Average production (boe per day)	14,187	13,523	20,448	16,462	18,069
Revenue	31.37	36.80	56.49	39.60	73.64
Realized gain (loss) on commodity contracts	3.49	1.70	5.40	7.18	(1.45)
Royalties	(5.89)	(6.47)	(11.14)	(6.34)	(13.18)
Operating costs	(12.57)	(13.35)	(15.72)	(15.03)	(15.52)
Transportation costs	(1.75)	(1.90)	(1.49)	(1.60)	(1.72)
Operating netback	14.65	16.78	33.54	23.81	41.77
G&A expense	(1.69)	(1.76)	(1.72)	(1.83)	(1.96)
Interest expense	(1.19)	(1.35)	(2.76)	(2.20)	(2.56)
Corporate netback	11.77	13.67	29.06	19.78	37.25

Surge's operating netback for the fourth quarter of 2015 decreased 13 percent compared to the third quarter of 2015 and 56 percent as compared to the same period of 2014.

The decrease in Surge's operating netback as compared to the third quarter of 2015 is primarily attributable to a 15 percent decrease in revenue per boe as a result of lower oil prices during the period. This decrease is partially offset by a nine percent decrease in royalties per boe, a six percent decrease in operating costs per boe and a \$3.49 per boe realized gain on commodity contracts as compared to a \$1.70 per boe realized gain on commodity contracts in the third quarter of 2015. The decrease in corporate netback was further impacted by a four percent decrease in G&A expense per boe and a 12 percent decrease in interest expense per boe as compared to the third quarter of 2015.

The 56 percent decrease in Surge's operating netback for the fourth quarter 2015 as compared to the same period of 2014 is primarily attributable to a 44 percent decrease in revenue per boe as a result of lower oil prices during the period and a lower per boe realized gain on commodity contracts as compared to the same period of 2014. This decrease is partially offset by a 47 percent decrease in royalties per boe and a 20 percent decrease in operating costs per boe. The decrease in corporate netback was further impacted by a 57 percent decrease in interest expense per boe as compared to the same period of 2014.

Surge's operating netback for the year ended December 31, 2015 decreased 43 percent as compared to the same period of 2014. The decrease in operating netback is primarily attributable to a 46 percent decrease in revenue per boe as a result of lower oil prices during the period. This decrease is partially offset by a 52 percent decrease in royalties per boe and a \$7.18 per boe realized gain on commodity contracts as compared to a \$1.45 per boe realized loss on commodity contracts in the year ended December 31, 2014. The decrease in corporate netback was further impacted by a seven percent decrease in G&A expense per boe and a 14 percent decrease in interest expense per boe as compared to the same period of 2014.

FUNDS FROM OPERATIONS AND CASH FLOW FROM OPERATIONS

(\$000s except per share and per boe)	Three Months Ended			Years Ended	
	Dec 31, 2015	Sep 30, 2015	Dec 31, 2014	Dec 31, 2015	Dec 31, 2014
Funds from operations	15,302	17,009	54,670	118,873	245,264
Per share - basic (\$)	0.07	0.08	0.25	0.54	1.22
Per share - diluted (\$)	0.07	0.08	0.25	0.54	1.22
\$ per boe	11.72	13.67	29.06	19.79	37.19
Cash flow from operating activities	17,346	9,512	36,099	107,441	207,480

Funds from operations decreased 10 percent in the fourth quarter of 2015 compared to the third quarter of 2015 and decreased 72 percent compared to the same period of 2014. On a per share basis, funds from operations decreased 13 percent in the fourth quarter of 2015 compared to the third quarter of 2015 and decreased 72 percent compared to the same period of 2014.

Funds from operations decreased 52 percent for the year ended December 31, 2015 compared to the same period of 2014. On a per share basis, funds from operations decreased 56 percent compared to the same period of 2014.

Cash flow from operating activities differs from funds from operations principally due to the inclusion of changes in non-cash working capital. Included in cash flow from operations is a decrease in non-cash working capital of \$3.0 million in the fourth quarter of 2015 and a decrease of \$3.4 million for the year ended December 31, 2015.

STOCK-BASED COMPENSATION

(\$000s except per boe)	Three Months Ended			Years Ended December 31,	
	Dec 31, 2015	Sep 30, 2015	Dec 31, 2014	Dec 31, 2015	Dec 31, 2014
Stock-based compensation	1,896	3,161	(1,447)	11,554	7,635
Capitalized stock-based compensation	(1,305)	(2,511)	(1,417)	(6,938)	(3,181)
Net stock-based compensation	591	650	(2,864)	4,616	4,454
Net stock-based compensation \$ per boe	0.45	0.52	(1.52)	0.77	0.68

Net stock-based compensation expense for the fourth quarter of 2015 is comparable to the immediate prior quarter and significantly greater compared to the same period of 2014, primarily a result of a decrease in stock-based compensation related to SARs in the fourth quarter of 2014.

Net stock-based compensation expense for the year ended December 31, 2015 is comparable to the same period of 2014.

The stock-based compensation recorded in the three months and year ended December 31, 2015 primarily relates to the stock appreciation rights ("SARs"), restricted share awards ("RSAs") and performance share awards ("PSAs") grants. Subject to terms and conditions of the plan, each RSA entitles the holder to an award value not limited to, but typically paid as to one-third on each of the first, second and third anniversaries of the date of grant. Each PSA entitles the holder to an award value to be typically paid on the third anniversary of the date of grant. For the purpose of calculating share-based compensation, the fair value of each award is determined at the grant date using the closing price of the common shares. An estimated forfeiture rate of 15% was used to value all awards granted for the period ended December 31, 2015. The weighted average fair value of awards granted for the year ended December 31, 2015 is \$2.54 per PSA and RSA. In the case of PSAs, the award value is adjusted for a payout multiplier which can range from 0.0 to 2.0 and is dependent on the performance of the Company relative to pre-defined corporate performance measures for a particular period.

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

	Number of restricted share awards	Number of performance share awards
Balance at January 1, 2015	1,921,355	1,707,974
Granted	1,850,912	1,922,337
Reinvested ⁽¹⁾	236,572	231,095
Exercised	(1,011,028)	(61,566)
Forfeited	(257,448)	(392,737)
Balance at December 31, 2015	2,740,363	3,407,103

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

DEPLETION AND DEPRECIATION

	Three Months Ended			Years Ended	
(\$000s except per boe)	Dec 31, 2015	Sep 30, 2015	Dec 31, 2014	Dec 31, 2015	Dec 31, 2014
Depletion and depreciation expense	\$ 23,326	\$ 24,207	\$ 45,625	122,879	161,702
\$ per boe	17.87	19.46	24.25	20.46	24.53

Depletion and depreciation are calculated based upon capital expenditures, production rates and proved plus probable reserves. Deducted from the Company's fourth quarter of 2015 depletion and depreciation calculation are costs associated with salvage values of \$107.7 million. Future development costs for proved and probable reserves of \$486.2 million have been included in the depletion calculation.

Depletion and depreciation expense decreased during the three months and year ended December 31, 2015 as compared to the third quarter of 2015 and the same periods of 2014 primarily due to the disposition of Surge's Southeast Saskatchewan properties that was completed in the second quarter of 2015 and impairment expenses realized during the year ended December 31, 2015.

The depletion and depreciation calculation is based on daily production volumes of 14,187 boe per day for the fourth quarter of 2015.

IMPAIRMENT

	Three Months Ended			Years Ended	
(\$000s except per boe)	Dec 31, 2015	Sep 30, 2015	Dec 31, 2014	Dec 31, 2015	Dec 31, 2014
Impairment	\$ 65,707	\$ 42,486	\$ 211,480	218,029	211,480
\$ per boe	50.34	34.15	112.42	36.29	32.07

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

The following table outlines forecast commodity prices and exchange rates used in the Company's CGU impairment tests at December 31, 2015. The forecast commodity prices are consistent with those used by the Company's external reserve evaluators and are a key assumption in assessing the recoverable amount. The reserve evaluators also include financial assumptions regarding royalty rates, operating costs, and future development capital that can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities by Management.

December 31, 2015 Commodity Price and Exchange Rate Forecast

Year	Medium and Light Crude Oil		Natural Gas	NGL			Inflation rates (%/Yr)	Exchange rate (\$US/\$Cdn)
	Canadian Light Sweet Crude 40° API (\$/bbl)	Western Canadian Select 20.5° API (\$/bbl)	AECO Gas Price (\$/ MMBtu)	Edmonton Pentanes Plus (\$/bbl)	Edmonton Butane (\$/bbl)	Edmonton Propane (\$/ bbl)		
2016	55.20	45.26	2.25	59.10	39.09	9.09	—	0.75
2017	69.00	57.96	2.95	73.88	51.43	13.64	—	0.80
2018	78.43	65.88	3.42	83.98	58.46	25.84	1.5	0.83
2019	89.41	75.11	3.91	95.73	66.64	35.35	1.5	0.85
2020	91.71	77.03	4.20	98.19	68.35	42.30	1.5	0.85
2021	93.08	78.19	4.28	99.66	69.38	42.94	1.5	0.85
2022	94.48	79.36	4.35	101.16	70.42	43.58	1.5	0.85
2023	95.90	80.55	4.43	102.68	71.48	44.24	1.5	0.85
2024	97.34	81.76	4.51	104.22	72.55	44.90	1.5	0.85
2025	98.80	82.99	4.59	105.78	73.64	45.57	1.5	0.85
2026	100.28	84.23	4.67	107.37	74.74	46.26	1.5	0.85

NET LOSS

(\$000s except per share)	Three Months Ended			Years Ended	
	Dec 31, 2015	Sep 30, 2015	Dec 31, 2014	Dec 31, 2015	Dec 31, 2014
Net Loss	(64,597)	(34,820)	(109,181)	(213,891)	(33,177)
Per share - basic (\$)	(0.29)	(0.16)	(0.50)	(0.97)	(0.17)
Per share - diluted (\$)	(0.29)	(0.16)	(0.50)	(0.97)	(0.17)

Net loss and net loss per basic share for the fourth quarter of 2015 increased as compared to the third quarter of 2015 but decreased as compared to the fourth quarter of 2014. The cause for the variance is primarily due to the extent of impairment recognition in each of the quarters along with decreased revenue as a result of lower crude oil prices in the fourth quarter compared to the third quarter of 2015 and the same period of 2014.

Net loss and net loss per basic share for the year ended December 31, 2015 increased as compared to the same period of 2014. The increase in net loss is primarily due to impairment recognition along with decreased revenue as a result of lower crude oil prices throughout the year ended December 31, 2015.

CAPITAL EXPENDITURES

Capital Expenditure Summary

(\$000s)	Q1 2015	Q2 2015	Q3 2015	Q4 2015	2015 YTD	2014 YTD	% Change
Land	474	673	1,659	208	3,014	2,870	5 %
Seismic	106	120	86	137	449	784	(43)%
Drilling and completions	15,176	5,868	11,588	8,670	41,302	98,243	(58)%
Facilities, equipment and pipelines	7,742	6,331	3,111	7,723	24,907	40,301	(38)%
Other	2,314	1,965	1,209	1,571	7,059	7,353	(4)%
Total exploration and development	25,812	14,957	17,653	18,309	76,731	149,551	(49)%
Acquisitions - cash consideration	4,574	—	557	86	5,217	242,202	nm
Acquisitions - debt acquired	—	—	—	—	—	155,486	nm
Acquisitions - share based consideration	—	—	—	—	—	233,169	nm
Property dispositions	(35,729)	(429,795)	(4,292)	1,031	(468,785)	(55,144)	nm
Total acquisitions & dispositions	(31,155)	(429,795)	(3,735)	1,117	(463,568)	575,713	nm
Total capital expenditures	(5,343)	(414,838)	13,918	19,426	(386,837)	725,264	nm

During the three months and year ended December 31, 2015, Surge invested a total of \$18.3 million and \$76.7 million, respectively, excluding acquisitions and dispositions.

During the three months ended December 31, 2015, Surge invested \$8.7 million to drill 5 gross (5 net) wells. For the year ended December 31, 2015, the Company invested \$41.3 million to drill 18 gross (15.6 net) wells.

In addition, for the year ended December 31, 2015, the Company invested \$24.9 million in waterflood expansions and pilots, facilities and pipelines, and \$10.5 million in land and seismic acquisitions and other capital items.

During the year ended December 31, 2015, Surge disposed of its petroleum and natural gas properties in southeast Saskatchewan and southwest Manitoba for cash proceeds of \$429.8 million and certain non-core properties in Alberta and Saskatchewan for cash proceeds of \$39.0 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, and realized and unrealized gains or losses on derivative instruments. The change in production from the fourth quarter of 2013 through the current quarter are due to Surge's successful drilling program, as well as corporate and asset acquisitions over that period combined with a disposition in the second quarter of 2015. Please refer to the Financial and Operating Results section and other sections of this MD&A for detailed discussions on variations during the comparative quarters and to Surge's previously issued interim and annual MD&A for changes in prior quarters.

Share Capital and Option Activity

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

	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Weighted common shares	219,834,286	217,689,253	189,968,583	173,069,989
Dilutive instruments (treasury method)	—	1,718,354	1,383,899	828,174
Weighted average diluted shares outstanding	219,834,286	219,407,607	191,352,482	173,898,163

On March 16, 2016, Surge had 221,046,510 common shares, 1,400,560 warrants, 2,000,000 SAR's, 3,506,607 PSAs, 2,819,049 RSAs, and 129,200 stock options outstanding.

Quarterly Financial Information

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

Quarterly Financial Information

	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Oil, Natural gas & NGL sales	106,262	143,709	128,148	107,567
Net earnings (loss)	(109,181)	34,655	37,927	3,422
Net earnings (loss) per share (\$):				
Basic	(0.50)	0.16	0.20	0.02
Diluted	(0.50)	0.16	0.20	0.02
Funds from operations	54,670	71,298	65,525	53,770
Funds from operations per share (\$):				
Basic	0.25	0.33	0.34	0.31
Diluted	0.25	0.32	0.34	0.31
Average daily sales				
Oil (bbls/d)	16,537	16,401	13,840	12,363
NGL (bbls/d)	686	779	406	332
Natural gas (mcf/d)	19,349	18,879	12,893	13,980
Barrels of oil equivalent (boe per day) (6:1)	20,448	20,327	16,395	15,024
Average sales price				
Natural gas (\$/mcf)	3.84	4.70	5.06	6.19
Oil (\$/bbl)	64.01	87.61	95.38	88.15
NGL (\$/bbl)	33.12	46.80	55.78	56.35
Barrels of oil equivalent (\$/boe)	56.49	76.85	85.89	79.55

Annual Financial Information

	Years Ended December 31,		
(\$000s except per share)	2015	2014	2013
Total sales	237,903	485,686	271,932
Net loss	(213,891)	(33,177)	(9,886)
Net loss per share (\$):			
Basic	(0.97)	(0.17)	(0.10)
Diluted	(0.97)	(0.17)	(0.10)
Total assets	1,145,289	1,985,359	1,376,725
Total long-term financial liabilities	149,028	564,258	279,619
Dividends declared	60,668	115,777	26,534
Dividends declared per share (\$):			
Basic	0.28	0.57	0.19
Diluted	0.28	0.57	0.19

LIQUIDITY AND CAPITAL RESOURCES

On December 31, 2015, Surge had drawn \$149.0 million on its credit facility with total net debt of \$160.4 million, a decrease in total net debt of 73 percent as compared to the same date in 2014. Surge decreased debt levels with the successful closing of the Southeast Saskatchewan and Southwest Manitoba asset sale, and certain non-core properties in Alberta and Saskatchewan, for combined cash proceeds of \$469 million in 2015. The proceeds were used to pay down bank indebtedness.

At December 31, 2015, Surge had approximately \$251 million of borrowing capacity in relation to the \$400 million credit facility, providing Surge financial flexibility through 2016.

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

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

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

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

Net Debt

(\$000s)	
Bank debt	(149,028)
Accounts receivable	25,202
Prepaid expenses and deposits	3,934
Accounts payable and accrued liabilities	(37,720)
Dividends payable	(2,763)
Total	(160,375)

As at December 31, 2015, the Company had a \$400 million extendible, revolving term credit facility with a syndicate of Canadian banks bearing interest at bank rates. The facility is available on a revolving basis until May 29, 2016. On May 29, 2016, at the Company's discretion, the facility is available on a non-revolving basis for a one-year period, at the end of which time the facility would be due and payable. Alternatively, the facilities may be extended for a further 364-day period at the request of the Company and subject to the approval of the syndicate. As the available lending limits of the facilities are based on the syndicate's interpretation of the Company's reserves and future commodity prices, there can be no assurance that the amount of the available facilities will not decrease at the next scheduled review. Interest rates vary depending on the ratio of net debt to cash flow. The facility had an effective interest rate of prime plus 1.50 percent as at December 31, 2015 (December 31, 2014 – prime plus 1.50 percent).

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

RELATED-PARTY AND OFF-BALANCE-SHEET TRANSACTIONS

Surge was not involved in any off-balance-sheet transactions or related party transactions during the three months or year ended December 31, 2015.

CONTRACTUAL OBLIGATIONS

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

Surge has future minimum payments relating to its operating lease and firm transport commitments totaling \$37.8 million, as summarized below:

Commitments (\$000s)		
2016	\$	11,161
2017		10,313
2018		5,350
2019		4,454
2020		4,001
2021+		2,471
Total	\$	37,750

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.

During the year ended December 31, 2015, the Company reconfigured its hedged position as a result of the dramatic change in forward curve crude oil pricing in recent months. Surge monetized fixed swap positions for proceeds of \$36.1 million and entered a costless collar commodity contract for approximately 45 percent of the Company's net crude oil production for calendar 2015 at that time.

The following table summarizes the Company's financial and physical derivatives as at December 31, 2015 by period and by product. Further detail on the individual hedges can be found in the Financial Statements.

Commodity Contracts

WTI Oil Hedges - C\$

Period	Volume Hedged (bbl/d)	Avg Floor Price (C\$ per bbl)	Avg Ceiling Price (C\$ per bbl)
Q1 2016	1,000	\$ 60.00	\$ 80.30
Q2 2016	1,000	\$ 60.00	\$ 80.30
Q3 2016	1,000	\$ 60.00	\$ 80.30
Q4 2016	1,000	\$ 60.00	\$ 80.30

WTI-to-Edm Oil Differential Hedges

Period	Volume Hedged (bbl/d)	Avg Price (Surge receives) (US\$ per bbl)
Q1 2016	2,000	\$ 3.55
Q2 2016	2,000	\$ 3.55
Q3 2016	2,000	\$ 3.55
Q4 2016	2,000	\$ 3.55

WCS Oil Differential Hedges

Period	Volume Hedged (bbl/d)	Avg Price (Surge receives) (US\$ per bbl)
Q1 2016	2,500	\$ 16.11
Q2 2016	2,500	\$ 16.11
Q3 2016	2,500	\$ 16.11
Q4 2016	2,500	\$ 16.11
Q1 2017	500	\$ 22.00
Q2 2017	500	\$ 22.00
Q3 2017	500	\$ 22.00
Q4 2017	500	\$ 22.00

Chicago Gas Hedges

Period	Volume Hedged (mcf/d)	Avg Swap Price (Surge receives) (C\$ per mcf)
Q1 2016	10,000	\$ 3.50
Q2 2016	10,000	\$ 3.50
Q3 2016	10,000	\$ 3.50
Q4 2016	10,000	\$ 3.50

NYMEX Gas Hedges

Period	Volume Hedged (mcf/d)	Avg Swap Price (Surge receives) (C\$ per mcf)
Q1 2017	5,000	\$ 3.70
Q2 2017	5,000	\$ 3.70
Q3 2017	5,000	\$ 3.70
Oct 2017	5,000	\$ 3.70

Foreign Exchange Contracts

Average Rate Variable Collar

Period	Notional (US\$)	Avg Floor Price (C\$)	Avg Ceiling Price (C\$)	Avg Conditional Ceiling Price (C\$)
Q1 2016	4,000,000	\$ 1.3063	\$ 1.3800	\$ 1.3273
Q2 2016	4,000,000	\$ 1.3063	\$ 1.3800	\$ 1.3273
Q3 2016	4,000,000	\$ 1.3063	\$ 1.3800	\$ 1.3273
Q4 2016	4,000,000	\$ 1.3063	\$ 1.3800	\$ 1.3273

Average Rate Forward

Period	Notional (US\$)	Avg Swap Price (C\$)
Q1 2017	4,000,000	\$ 1.3229
Q2 2017	4,000,000	\$ 1.3229
Q3 2017	4,000,000	\$ 1.3229
Q4 2017	4,000,000	\$ 1.3229

SUBSEQUENT EVENT

Subsequent to December 31, 2015, Surge signed a definitive purchase and sale agreement to sell non-core petroleum and natural gas assets in North Central Alberta for a purchase price of \$28.0 million. The closing date for the sale of the petroleum and natural gas assets is expected to be no later than March 31, 2016.

CONTROLS AND PROCEDURES

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

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

There were no changes in the Company's ICFR during the period ended December 31, 2015 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Disclosure Controls

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

The President and Chief Executive Officer and the Chief Financial Officer of Surge evaluated the effectiveness and the design and operation of the Company's design of disclosure controls and procedures ("DC&P"). Based on that evaluation, the officers concluded that Surge's DC&P were effective as at December 31, 2015.

Internal Controls over Financial Reporting

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

Under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, Surge conducted an evaluation of the design and operating effectiveness of the Company's ICFR as at December 31, 2015 based on the COSO framework. Based on this evaluation, the officers concluded that as of December 31, 2015, Surge's ICFR was designed and operating effectively.

CRITICAL ACCOUNTING ESTIMATES

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

Reserves

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

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

Forecasted Commodity Prices

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

Business Combinations

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

Decommissioning Liability

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

Derivative Financial Instruments

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

Stock-based Compensation

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

Deferred Income Taxes

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

FUTURE ACCOUNTING POLICY CHANGES

The following pronouncements from the IASB will become effective for financial reporting periods beginning on or after January 1, 2016 and have not yet been adopted by the Corporation. All of these new or revised standards permit early adoption with transitional arrangements depending upon the date of initial application:

- IFRS 15 "Revenue From Contracts with Customers" replaces IAS 11 "Construction Contracts" and IAS 18 "Revenue" and establishes a single revenue recognition framework that applies to contracts with customers, effective date of January 1, 2018.
- IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement" and addresses the classification and measurement of financial assets, effective date of January 1, 2018.
- IFRS 16 "Leases" replaces IAS 17 "Leases" and requires entities to recognize lease assets and lease obligations on the balance sheet, essentially removing the classification of leases as either operating leases or finance leases and treating all leases as finance leases, effective January 1, 2019.

The Company has not completed its evaluation of the effect of adopting these standards on its financial statements.

RISK FACTORS

Additional risk factors can be found under "Risk Factors" in the Company's Annual Information Form for the year ended December 31, 2015, which can be found on www.sedar.com. Many risks are discussed below and in the Annual Information Form, but these risk factors should not be construed as exhaustive. There are numerous factors, both known and unknown, that could cause actual results or events to differ materially from forecast results.

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

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

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

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

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

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

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

On October 25, 2007, the Alberta Government announced the New Royalty Framework (NRF) which took effect after January 1, 2009. On March 3, 2009, the Alberta Government announced a drilling royalty credit and new well incentive program that will be in effect from April 1, 2009 to March 31, 2010. On November 29, 2008, the Alberta Government announced that in response to the global economic crisis and a slowdown in oil and natural gas drilling in Alberta, companies drilling certain new wells after November 19, 2008 have a one-time option of selecting a transitional rate or the NRF rate. All wells drilled between 2009 and 2013 that adopt the transitional rate will be required to shift to the NRF on January 1, 2014. All wells drilled prior to November 19, 2008 moved to the NRF on January 1, 2009.

BOE PRESENTATION

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

FORWARD-LOOKING STATEMENTS

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

More particularly, this MD&A contains statements concerning: (i) management's plans to identify and actively pursue strategic acquisitions; (ii) the expected accretion expense and Surge's ability to reduce this future obligation; (iii) Surge's proposed capital spending budget; (iv) forecast commodity prices, inflation rates and currency prices; (v) the availability of Surge's bank line to fund Surge's future capital requirements; (vi) Surge's financial flexibility; (vii) the expected sources of funding of future capital expenditures; (viii) expected forfeiture rates of RSAs and PSAs granted under the Company's Stock Incentive Plan; (ix) expectations as to the payout multiplier for PSAs granted under the Company's Stock Incentive Plan; (x) expectations with respect to its underlying decommissioning liabilities; (xi) expectations with respect to environmental legislation; (xii) expectations on corporate royalty rates applicable to the Company; (xiii) expectations with respect to transportation expense; and (xiv) expectations with respect to the Company's ability to operate and succeed in the current commodity price environment.

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

Although Surge believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Surge can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), commodity price and exchange rate fluctuations and constraint in the availability of services, adverse weather or break-up conditions, uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures or failure to obtain the continued support of the lenders under Surge's bank line. Certain of these risks are set out in more detail in this MD&A under the heading 'Risk Factors' and in Surge's Annual Information Form dated March 16, 2016 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.