FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2014	2013	% Change	**2014**	2013	% Change
Financial highlights						
Oil and NGL sales	**122,193**	52,624	132 %	**221,954**	100,840	120 %
Natural gas sales	**5,931**	5,342	11 %	**13,716**	10,698	28 %
Other revenue	**24**	38	(37)%	**45**	48	(6)%
Total oil, natural gas, and NGL revenue	**128,148**	58,004	121 %	**235,715**	111,586	111 %
Funds from operations[1]	**65,525**	26,812	144 %	**119,295**	52,049	129 %
Per share basic ($)	**0.34**	0.38	(11)%	**0.66**	0.73	(10)%
Per share diluted ($)	**0.34**	0.38	(11)%	**0.65**	0.73	(11)%
Net income (loss)	**37,927**	(15,004)	nm[4]	**41,349**	(16,358)	nm
Per share basic ($)	**0.20**	(0.21)	nm	**0.23**	(0.23)	nm
Per share diluted ($)	**0.20**	(0.21)	nm	**0.23**	(0.23)	nm
Capital expenditures - petroleum & gas properties[2]	**18,975**	25,166	(25)%	**77,326**	65,231	19 %
Capital expenditures - acquisitions & dispositions[2]	**473,111**	(39,377)	nm	**581,823**	(40,184)	nm
Total capital expenditures[2]	**492,085**	(14,212)	nm	**659,148**	25,046	nm
Net debt at end of period[3]	**557,969**	193,597	188 %	**557,969**	193,597	188 %
Operating highlights						
Production:						
Oil and NGL (bbls per day)	**14,246**	6,966	105 %	**13,475**	6,910	95 %
Natural gas (mcf per day)	**12,893**	14,442	(11)%	**13,434**	15,559	(14)%
Total (boe per day) (6:1)	**16,395**	9,373	75 %	**15,714**	9,504	65 %
Average realized price (excluding hedges):						
Oil and NGL ($ per bbl)	**94.25**	83.01	14 %	**91.01**	80.62	13 %
Natural gas ($ per mcf)	**5.06**	4.06	25 %	**5.64**	3.80	48 %
Realized loss on financial contracts ($ per boe)	**(5.52)**	(2.12)	160 %	**(5.30)**	(1.28)	314 %
Net back (excluding hedges) ($ per boe)						
Oil, natural gas and NGL sales	**85.89**	68.00	26 %	**82.88**	64.87	28 %
Royalties	**(14.40)**	(12.56)	15 %	**(14.25)**	(11.74)	21 %
Operating expenses	**(15.71)**	(11.97)	31 %	**(15.07)**	(12.28)	23 %
Transportation expenses	**(1.71)**	(2.46)	(30)%	**(1.81)**	(2.35)	(23)%
Operating netback	**54.07**	41.01	32 %	**51.75**	38.50	34 %
G&A expense	**(2.06)**	(4.88)	(58)%	**(2.10)**	(4.03)	(48)%
Interest expense	**(2.30)**	(2.62)	(12)%	**(2.27)**	(2.67)	(15)%
Corporate netback	**49.71**	33.51	48 %	**47.38**	31.80	49 %
Common shares outstanding, end of period	**217,619**	71,918	203 %	**217,619**	71,918	203 %
Weighted average basic shares outstanding	**189,969**	71,358	166 %	**181,566**	71,288	155 %
Stock option dilution (treasury method)	**1,383**	—	100 %	**1,122**	—	100 %
Weighted average diluted shares outstanding	**191,352**	71,358	168 %	**182,688**	71,288	156 %

1 Management uses funds from operations (cash flow from operating activities before changes in non-cash working capital, legal settlement expenses, decommissioning expenditures, transaction costs and current tax on disposition) 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”.

RECORD PRODUCTION, FUNDS FLOW, NETBACKS AND CLOSING OF STRATEGIC BUSINESS COMBINATION IN THE SECOND QUARTER OF 2014

Surge is pleased to report record funds from operations of $65.5 million in the second quarter, along with record operating netbacks of over $54 per boe, and record production of approximately 16,400 boe per day, which quarterly results include only 25 days of contribution from the Longview business combination, as well as the impact of a planned facility turn-around at Valhalla.

HIGHLIGHTS

- **Achieved a second quarter average production rate of 16,395 boe per day, an increase of 75 percent** from 9,373 boe per day in the same period of 2013.
- **Funds from operations increased 144 percent to a record $65.5 million** in the second quarter of 2014 as compared to the same period of 2013.
- **A second quarter capital program** (not including acquisitions and divestitures) **of $19.0 million, which represents only 29 percent of funds from operations** for the quarter.
- **Achieved records for both operating and corporate netback in the second quarter of 2014. Surge's operating netback increased to $54.07 per boe and its corporate netback increased 48 percent to $49.71 per boe** in the second quarter of 2014 from $33.51 per boe in the second quarter of 2013.
- **Increased Surge's oil and natural gas liquids production weighting by 19 percent to 87 percent** in the second quarter of 2014 from 74 percent in the second quarter of 2013.
- **Approximately 95 percent of Surge's revenue resulted from oil and natural gas liquids production** in the second quarter of 2014.
- **Reduced G&A per boe by 58 percent** in the second quarter of 2014 as compared to the same period in 2013. Surge has had excellent results with respect to managing and reducing costs. The Company's G&A costs have dropped from $4.88 per boe in the second quarter of 2013 to $2.06 per boe in the second quarter of 2014.
- **Announced the completion of strategic business combination with Longview**. The transaction is accretive to Surge on all metrics, and adds high quality concentrated reserves, production, land, and operations that are contiguous with Surge's three existing core areas.
- **Increased the Company's dividend** by 11 percent from $0.54 per share per year ($0.045 per share per month), to $0.60 per share per year ($0.05 per share per month, first payment for June production on July 15, 2014) as a result of the accretive Longview transaction.
- **Increased the Company's bank line to $725 million** during the quarter. With one of the lowest all-in payout ratios in Canada (<90 percent), the Company will maintain its excellent balance sheet giving Surge more than $240 million of capacity on its bank line at year end 2014.
- Subsequent to June 30, the Company has **executed definitive agreements to sell approximately $52 million of certain miscellaneous assets, the proceeds of which will be used to reduce debt.** These miscellaneous dispositions are expected to close before the end of the third quarter of 2014. Based upon continued excellent development drilling results across the Company's asset base, Surge's 2014 production exit rate is being maintained, in spite of these anticipated dispositions, with only a modest increase in capital spending of $6 million in 2014.

LONGVIEW CLOSING

On June 5, 2014, the Company announced that it had closed the previously announced business combination with Longview whereby Surge acquired all of the remaining issued and outstanding common shares of Longview by way of a plan of arrangement transaction.

The Longview acquisition fits squarely within Surge's defined operating strategy of investing growth capital to acquire high quality, operated, light and medium gravity crude oil reservoirs, with large original oil in place ("OOIP")[5] and low recovery factors. Surge now has over 1.9 billion barrels of light and medium gravity OOIP under the Company's ownership and management, with more than 1,000 lower risk development drilling locations, giving Surge a drilling inventory of more than 15 years, proved plus probable reserves of more than 117 million boe (88 percent oil & ngls) resulting in a reserve life index of over 15 years, a forecast decline rate of only 22 percent, and a portfolio of high quality waterflood projects.

Netback Comparison

	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Average production (boe per day)	**16,395**	15,024	12,014	12,008	9,373
Revenue	**$ 85.89**	$ 79.55	$ 66.52	$ 78.60	$ 68.00
Royalties	**(14.40)**	(14.08)	(12.13)	(14.55)	(12.56)
Operating costs	**(15.71)**	(14.35)	(12.66)	(12.94)	(11.97)
Transportation costs	**(1.71)**	(1.92)	(2.03)	(2.01)	(2.46)
Operating netback	**$ 54.07**	$ 49.20	$ 39.70	$ 49.10	$ 41.01
G&A expenses	**(2.06)**	(2.15)	(2.19)	(2.56)	(4.88)
Interest expense	**(2.30)**	(2.23)	(2.53)	(2.04)	(2.62)
Corporate netback	**$ 49.71**	$ 44.82	$ 34.98	$ 44.50	$ 33.51

OUTLOOK & FORECAST

Surge will continue to focus capital towards elite, large OOIP crude oil reservoirs. Management's primary goals for Surge include achieving three to five percent organic annual per share growth in reserves, production and cash flow, a sustainable and growing dividend, continued debt reduction, together with the pursuit of high quality, accretive acquisitions. Management will continue maintaining balance sheet flexibility with an effective risk management program and confirming the commercial viability of the Company's waterflood program. By the end of 2014 Surge anticipates that over 75 percent of the Company's producing assets will be under waterflood. The implementation of the waterflood pilots are an integral piece of Surge's strategy of increasing oil recovery factors throughout the Company's deep crude oil portfolio, lowering corporate decline rates, continuing to improve sustainability and maximizing shareholder value. The Company will also pursue continued, year over year increases in recovery factors from these high quality assets through low risk development activities, including in-fill and step out development drilling, up-to-date completion techniques, including horizontal frac technology and optimizations.

Surge is well positioned to offer solid annual per share growth, plus a competitive increasing dividend, through its organic development drilling program, and the Company's high quality waterflood projects - for the foreseeable future

[5] Original Oil in Place (OOIP) is the equivalent to Discovered Petroleum Initially In Place (DPIIP) for the purposes of this press release. DPIIP is defined as quantity of hydrocarbons that are estimated to be in place within a known accumulation, plus those estimated quantities in accumulations yet to be discovered. There is no certainty that it will be commercially viable to produce any portion of the resources. A recovery project cannot be defined for this volume of DPIIP at this time, and as such it cannot be further sub-categorized.

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 and six months ended June 30, 2014 and 2013. 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 interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements.

More particularly, this MD&A contains statements concerning: (i) management's expectations with respect to the disposition of certain non-core oil and gas assets, the timing thereof, the proceeds to be received therefrom and the use of such proceeds, (ii) expectations with respect to the Company's waterflood program, results therefrom and quantity of producing assets that will be placed under waterflood, (iii) management's plans to pursue in-fill and step out development drilling and to utilize up-to-date completion techniques, (iv) expectations on corporate royalty rates applicable to the Company, (v) the Company's combined transportation and operating expenses per boe for the remainder of 2014, (vi) expected forfeiture rates of RSAs and PSAs granted under the Company's Stock Incentive Plan, (vii) the anticipated increases in the Company's monthly dividend, (viii) anticipated increases in the Company's bank line subsequent to the year-end reserves review, (ix) planned drilling, development and waterflood activities, (x) expected cost reductions in 2014, including under the company-wide service cost reduction initiatives, (xi) the expected sources of funding of future capital expenditures; and (xii) expectations with respect to environmental legislation.

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, 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 successful negotiation and completion of the proposed disposition transaction, prevailing weather conditions, exchange rates, licensing requirements, the impact of completed facilities on operating costs and the availability, costs of capital, labour and services, the creditworthiness of industry partners and the receipt of approval of the lenders under Surge's bank line to increases thereto.

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 required approvals from the lenders under Surge's bank line to increases thereto. 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 19, 2014 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.

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.

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, legal settlement expenses, decommissioning expenditures, transaction costs and current tax on disposition as follows:

Funds from Operations

($000s)	**Q2 2014**	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Cash flow from operating activities	**$ 42,879**	$ 55,614	$ 46,230	$ 17,107	$ 24,703
Change in non-cash working capital	**15,271**	(2,789)	(13,623)	22,597	(3,019)
Legal settlement expenses	**—**	—	—	—	3,550
Decommissioning expenditures	**1,214**	512	607	(68)	(36)
Transaction costs	**6,161**	433	4,001	4,751	139
Current tax on disposition	**—**	—	53	—	1,439
Funds from operations	**$ 65,525**	$ 53,770	$ 37,268	$ 44,387	$ 26,776

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 excluding hedging activity represent Surge's revenue, excluding realized and unrealized gains or losses on financial contracts, less royalties and operating and transportation expenses. Operating netbacks including hedging activity represent Surge's operating netback adjusted for realized gains or losses on financial contracts. 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.

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 July 30, 2014.

OPERATIONS

Drilling

	Drilling		Success rate (%) net	Working interest (%)
	Gross	Net		
Q1 2014	20.00	13.96	100%	70%
Q2 2014	7.00	4.60	96%	66%
Total	**27.00**	**18.56**	**99%**	**69%**

Surge achieved a 96 percent success rate during the three months ended June 30, 2014, drilling 7 gross (4.6 net) wells. The 7 gross wells drilled during the second quarter include one well at Valhalla, one well at Provost, two wells at Shaunavon, and three Viking farmout wells. The one unsuccessful well was a partner-drilled farmout well drilled at no cost to Surge.

Production

	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Oil and NGL (bbls per day)	**14,246**	12,694	10,354	9,725	6,966
Natural gas (mcf per day)	**12,893**	13,980	9,958	13,696	14,442
Total (boe per day) (6:1)	**16,395**	15,024	12,014	12,008	9,373
% Oil and NGL	**87%**	84%	86%	81%	74%

Surge achieved an average production rate of 16,395 boe per day in the second quarter of 2014, a 75 percent increase from an average production rate of 9,373 boe per day in the same period of 2013, and a 9 percent increase over an average production rate of 15,024 for the first quarter of 2014. The increase in production volumes as compared to the same period in 2013 is primarily due to the results of the 2014 drilling program, the Shaunavon Acquisition in the third quarter of 2013, the acquisitions of the Wainwright, Manson and Macoun properties in the fourth quarter of 2013 and the Southeast Saskatchewan asset acquisition completed midway through the first quarter of 2014. The average production rate in the second quarter of 2014 also includes twenty-five days of production acquired from Longview, which added approximately 5,600 boe per day.

Surge realized an 87 percent oil and natural gas liquids production weighting in the second quarter of 2014, compared to 74 percent in the second quarter of 2013. Surge realized average oil and natural gas liquids production of 14,246 bbls per day for the second quarter of 2014, a 105 percent increase compared to the same period of 2013.

OIL, NATURAL GAS AND NGL, FINANCIAL CONTRACTS AND OTHER REVENUES

In the second quarter of 2014, 95 percent of Surge's revenue resulted from oil and natural gas liquids production, with 5 percent derived from natural gas.

A 26 percent increase in revenue per boe, combined with a 75 percent increase in production, resulted in revenues of $128.1 million in the second quarter of 2014, up 121 percent from $58.0 million in the same period of 2013.

Surge had certain financial contracts in place as of June 30, 2014. Surge recognized an unrealized gain of $1.6 million and a realized loss of $8.2 million on its financial contracts for the three months ended June 30, 2014, primarily due to an increase in forward strip prices on oil during the period. This compares to an unrealized gain of $1.6 million and a realized loss of $1.8 million on its financial contracts for the three months ended June 30, 2013.

The realized losses on financial contracts resulted in a decrease of $5.52 per boe to average revenue per boe during the three months ended June 30, 2014.

During the first half of 2014, approximately 94 percent of Surge's revenue resulted from oil and natural gas liquids production, with approximately 6 percent derived from natural gas.

A 28 percent increase in revenue per boe, combined with a 65 percent increase in production, resulted in revenues of $235.7 million in the first half of 2014, up 111 percent from $111.6 million in the same period of 2013.

Surge recognized an unrealized loss of $10.9 million and a realized loss of $15.1 million on its financial contracts in the first half of 2014. This compares to an unrealized loss of $7.8 million and a realized loss of $2.2 million on its financial contracts in the first half of 2013.

For the period ended June 30, 2014, Surge sold 36 percent of its gross revenue to a third party marketer that an Officer/Director of the Company has a significant ownership interest in.

Please refer to the "Financial Instruments" section of this MD&A and the financial statements for further details on these commodity contracts, interest rate, and foreign exchange swaps.

PRICES

The Company realized average revenue of $85.89 per boe in the second quarter of 2014, before realized financial contract losses, an increase of 26 percent from the $68.00 per boe recorded in the same period of 2013, partially due to the increase in Surge's oil weighting as well as an increase in commodity prices.

The Company realized an average price of $94.25 per bbl of oil and natural gas liquids in the second quarter of 2014, an increase of 14 percent from the $83.01 per bbl realized in the same period of 2013. This compares to an average Edmonton Light Sweet price of $105.49 per bbl for the quarter, which increased 14 percent per barrel from the $92.48 per bbl during the same period of 2013.

The Company realized an average natural gas price of $5.06 per mcf in the second quarter of 2014, a 25 percent increase from the $4.06 per mcf averaged in the same period of 2013. This compares to an average AECO Daily Index reference price of $4.68 per mcf in the quarter, which increased by 33 percent from the $3.53 per mcf in the same period of 2013. The increase in realized natural gas prices is relatively consistent with the increase in benchmark prices. Surge's realized gas price is slightly higher than the benchmark due to the high heat content of the Company's gas production.

The Corporation realized average revenue of $82.88 per boe in the first half of 2014, before realized financial contract losses, an increase of 28 percent from the $64.87 per boe recorded in the same period of 2013.

The Corporation realized an average of $91.01 per bbl of oil and natural gas liquids in the first half of 2014, an increase of 13 percent from the $80.62 per bbl realized in the same period of 2013. This compares to an average Edmonton Light Sweet price of $102.62 per bbl during the first half of 2014, which increased 14 percent per barrel from the $90.35 per bbl during the same period of 2013.

The Corporation realized an average natural gas price of $5.64 per mcf in the first half of 2014, a 48 percent increase from the $3.80 per mcf averaged in the same period of 2013. This compares to an average Alberta Plant Gate reference price of $5.20 per mcf in the first half of 2014, which increased by 54 percent from the $3.37 per mcf in the same period of 2014. The increase in realized natural gas prices is relatively consistent when compared to the increase in average Alberta Plant Gate reference pricing.

Realized losses on financial contracts resulted in a decrease of $5.30 per boe to the average revenue per boe in the first half of 2014.

Revenue and Realized Prices

	Three Months Ended June 30,			Six Months Ended June 30,		
($000s except per amount)	**2014**	2013	% Change	**2014**	2013	% Change
Oil and NGL	**122,193**	52,624	132 %	**221,954**	100,840	120 %
Natural gas	**5,931**	5,342	11 %	**13,716**	10,698	28 %
Processing and other	**24**	38	(37)%	**45**	48	(4)%
Total oil, natural gas and NGL revenue	**128,148**	58,004	121 %	**235,715**	111,586	111 %
Oil and NGL ($ per bbl)	**94.25**	83.01	14 %	**91.01**	80.62	13 %
Natural gas ($ per mcf)	**5.06**	4.06	25 %	**5.64**	3.80	48 %
Total oil, natural gas and NGL revenue ($ per boe)	**85.89**	68.00	26 %	**82.88**	64.87	28 %
Realized loss on commodity contracts ($ per boe)	**(5.52)**	(2.12)	160 %	**(5.30)**	(1.28)	314 %
Total oil, natural gas, and NGL revenue after realized commodity contracts ($ per boe)	**80.37**	65.88	22 %	**77.58**	63.59	22 %
Reference Prices						
Edmonton Light Sweet ($ per bbl)	**105.49**	92.48	14 %	**102.62**	90.35	14 %
AECO Daily Index ($ per mcf)	**4.68**	3.53	33 %	**5.20**	3.37	54 %

Benchmark prices

	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
($ per bbl)					
Benchmark - WTI (US$)	**102.99**	98.68	97.46	105.82	94.22
Difference - WTI realized to Edmonton Light Sweet (C$)	**2.50**	1.06	(11.08)	(1.06)	(1.74)
% Difference	**2%**	1%	(13)%	(1)%	(2)%
Benchmark - Edmonton Light Sweet (C$)	**105.49**	99.74	86.38	104.76	92.48
Difference - Edmonton Light Sweet to Surge realized (C$)	**(11.24)**	(12.42)	(13.21)	(11.83)	(9.47)
% Difference	**(11)%**	(12)%	(15)%	(11)%	(10)%
Surge realized prices (C$)	**94.25**	87.32	73.17	92.93	83.01
(C$ per mcf)					
Benchmark - AECO Daily Index	**4.68**	5.72	3.53	2.44	3.53
Surge realized prices	**5.06**	6.19	4.12	2.92	4.06
Difference	**0.38**	0.47	0.59	0.48	0.53
% Difference	**8%**	8%	17%	20%	15%

ROYALTIES

Surge realized royalty expenses of $21.5 million or 17 percent of revenue in the second quarter of 2014, as compared to $10.7 million or 18 percent of revenue in the same period of 2013. During the first half of 2014, Surge realized royalty expenses of $40.5 million or 17 percent of revenue, as compared to $20.2 million or 18 percent of revenue in the same period of 2012.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
($000s except per boe)	**2014**	2013	% Change	**2014**	2013	% Change
Royalties	**21,489**	10,709	101%	**40,522**	20,192	101%
% of Revenue	**17%**	18%	(6)	**17%**	18%	(6)
$ per boe	**14.40**	12.56	15%	**14.25**	11.74	21%

OPERATING EXPENSES

Operating expenses per boe for the second quarter of 2014 were 31 percent higher than the same period in 2013, at $15.71 per boe as compared to $11.97 per boe in the same period of 2013 and 9 percent higher compared to $14.35 per boe in the first quarter of 2014.

Operating expenses per boe in the first half of 2014 were 23 percent higher than the same period in 2013, at $15.07 per boe as compared to $12.28 per boe in the same period of 2013.

Operating expenses per boe for the three and six months ended June 30, 2014 increased mainly due to higher operating costs associated with recent acquisitions as compared to the prior period, as well as the record cold weather experienced in the Company's operating areas in January and February of 2014, leading to increased utility costs combined with site repairs and maintenance costs.

Operating Expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
($000s except per boe)	**2014**	2013	% Change	**2014**	2013	% Change
Operating expenses	**23,443**	10,214	130%	**42,853**	21,125	103%
$ per boe	**15.71**	11.97	31%	**15.07**	12.28	23%

TRANSPORTATION EXPENSES

Transportation expenses per boe decreased by 30 percent to $1.71 per boe in the second quarter of 2014, as compared to $2.46 per boe in the same period of 2013.

Transportation expenses per boe decreased by 23 percent in the first half of 2014, to $1.81 per boe, as compared to $2.35 per boe in the first half of 2013.

The decrease for the three and six months ended June 30, 2014 is primarily due to additional production volumes from pipeline connected production areas. The management team continues to focus on finding efficiencies within existing operations and expects combined transportation and operating expenses per boe to remain relatively consistent for the remainder of 2014.

Transportation Expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
($000s except per boe)	**2014**	2013	% Change	**2014**	2013	% Change
Transportation expenses	**2,559**	2,100	22 %	**5,154**	4,050	27 %
$ per boe	**1.71**	2.46	(30)%	**1.81**	2.35	(23)%

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

Net G&A expenses per boe for the second quarter of 2014 decreased 58 percent to $2.06 per boe as compared to $4.88 per boe in the same period of 2013. G&A expenses for the second quarter of 2014, net of recoveries and capitalized amounts of $1.5 million, were $3.1 million, compared to $4.2 million in the same period of 2013, after recoveries and capitalized amounts of $1.7 million.

Net G&A expenses per boe for the first half of 2014 decreased 48 percent to $2.10 per boe as compared to $4.03 in the same period of 2013. G&A expenses for the first half of 2014, net of recoveries and capitalized amounts of $2.9 million, were $6.0 million, compared to $6.9 million in the same period of 2013, after recoveries and capitalized amounts of $4.0 million.

Surge has implemented a company wide G&A cost reduction initiative the results of which have been realized in the first half of 2014.

G&A Expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
($000s except per boe)	**2014**	2013	% Change	**2014**	2013	% Change
G&A expenses	**4,619**	5,820	(21)%	**8,883**	10,893	(18)%
Recoveries and capitalized amounts	**(1,546)**	(1,661)	(7)%	**(2,908)**	(3,959)	(27)%
Net G&A expenses	**3,073**	4,159	(26)%	**5,975**	6,934	(14)%
Net G&A expenses $ per boe	**2.06**	4.88	(58)%	**2.10**	4.03	(48)%

TRANSACTION COSTS

In the second quarter of 2014, the Company incurred transaction costs of $6.2 million or $4.13 per boe, primarily related to the Longview Acquisition that was completed in the second quarter of 2014. The Company incurred $0.1 million or $0.16 per boe related to evaluation and review of business and property acquisitions during the same period of 2013.

In the first half of 2014, the Corporation incurred transaction costs of $6.6 million or $2.32 per boe, 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. This is compared to $0.1 million or $0.08 per boe during the same period of 2013.

Transaction Costs

	Three Months Ended June 30,			Six Months Ended June 30,		
($000s except per boe)	**2014**	2013	% Change	**2014**	2013	% Change
Transaction costs	**6,161**	139	nm	**6,594**	139	nm
$ per boe	**4.13**	0.16	nm	**2.32**	0.08	nm

FINANCE EXPENSES

During the quarter ended June 30, 2014, Surge incurred interest expense of $3.4 million or $2.30 per boe as compared to $2.2 million or $2.62 per boe in the same period of 2013. Surge incurred interest expense of $6.4 million or $2.27 per boe in the first half of 2014 as compared to $4.6 million or $2.67 per boe in the same period of 2013. The increased interest expense during the three and six months ended June 30, 2014 is primarily due to higher debt levels as compared to the same periods of 2013.

Accretion represents the change in the time value of the decommissioning liability as well as a firm transportation agreement. Accretion expense per boe increased for the three and six months ended June 30, 2014 as compared to the same periods of 2013 primarily due to the change in estimate recorded and the acquisitions conducted in the period. 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.

Finance Expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
($000s except per boe)	**2014**	2013	% Change	**2014**	2013	% Change
Interest expense	**3,427**	2,238	53 %	**6,443**	4,600	40 %
$ per boe	**2.30**	2.62	(12)%	**2.27**	2.67	(15)%
Accretion expense	**1,451**	335	333 %	**2,470**	645	283 %
$ per boe	**0.97**	0.40	143 %	**0.86**	0.38	126 %
Finance expenses	**4,878**	2,573	90 %	**8,913**	5,245	70 %
$ per boe	**3.27**	3.02	8 %	**3.13**	3.05	3 %

NETBACKS

Surge's operating netback (defined as revenue excluding realized and unrealized gains or losses on financial contracts per boe less royalties, operating and transportation expenses on a per boe) was $54.07 for the second quarter of 2014, a 32 percent increase from the $41.01 recorded during the same period of 2013. The increase in operating netback was attributable to a 26 percent increase in revenue per boe and a 30 percent decrease in transportation costs per boe, partially offset by a 15 percent increase in royalties per boe and a 31 percent increase in operating expenses per boe. The increase in corporate netback was impacted by a 58 percent decrease in G&A expense per boe and an 12 percent decrease in interest expense per boe, as compared to the same period of 2013.

Surge's operating netback (defined as revenue excluding realized and unrealized gains or losses on financial contracts per boe less royalties, operating and transportation expenses on a per boe) was $51.75 for the first half of 2014, a 34 percent increase from the $38.50 recorded during the same period of 2013. The increase in operating netback was attributable to a 28 percent increase in revenue per boe and a 23 percent decrease in transportation costs per boe, partially offset by a 21 percent increase in royalties per boe and a 23 percent increase in operating costs per boe. The increase in corporate netback was impacted by a 48 percent decrease in G&A expense per boe and 15 percent decrease in interest expense per boe, as compared to the same period of 2013.

Netbacks, Excluding Hedging Activity

	Three Months Ended June 30,			Six Months Ended June 30,		
($ per boe, except production)	**2014**	2013	% Change	**2014**	2013	% Change
Average production (boe per day)	**16,395**	9,373	75 %	**15,714**	9,504	65 %
Revenue	**85.89**	68.00	26 %	**82.88**	64.87	28 %
Royalties	**(14.40)**	(12.56)	15 %	**(14.25)**	(11.74)	21 %
Operating costs	**(15.71)**	(11.97)	31 %	**(15.07)**	(12.28)	23 %
Transportation costs	**(1.71)**	(2.46)	(30)%	**(1.81)**	(2.35)	(23)%
Operating netback	**54.07**	41.01	32 %	**51.75**	38.50	34 %
G&A expense	**(2.06)**	(4.88)	(58)%	**(2.10)**	(4.03)	(48)%
Interest expense	**(2.30)**	(2.62)	(12)%	**(2.27)**	(2.67)	(15)%
Corporate netback	**49.71**	33.51	48 %	**47.38**	31.80	49 %

Netbacks, Including Hedging Activity

	Three Months Ended June 30,			Six Months Ended June 30,		
($ per boe)	**2014**	2013	% Change	**2014**	2013	% Change
Operating netback	**54.07**	41.01	32 %	**51.75**	38.50	34 %
Realized loss on commodity contracts	**(5.52)**	(2.12)	nm	**(5.30)**	(1.28)	nm
Operating netback, net of hedging activity	**48.55**	38.89	25 %	**46.45**	37.22	25 %
G&A expense	**(2.06)**	(4.88)	(58)%	**(2.10)**	(4.03)	(48)%
Interest expense	**(2.30)**	(2.62)	(12)%	**(2.27)**	(2.67)	(15)%
Corporate netback, net of hedging activity	**44.19**	31.39	41 %	**42.08**	30.52	38 %

FUNDS FROM OPERATIONS AND CASH FLOW FROM OPERATIONS

Funds from operations increased 144 percent to $65.5 million in the second quarter of 2014 compared to $26.8 million in the same period of 2013. On a per share basis, funds from operations decreased 11 percent, to $0.34 per basic share from $0.38 per basic share in the same period of 2013.

Funds from operations increased 129 percent to $119.3 million in the first half of 2014 compared to $52.0 million in the same period of 2013. On a per share basis, funds from operations decreased 10 percent, to $0.66 per basic share from $0.73 per basic share in the same period of 2013.

Cash flow from operating activities differs from funds from operations principally due to the inclusion of changes in non-cash working capital. Cash flow from operations was $42.9 million and $98.5 million million for the three and six months ended June 30, 2014, respectively, as compared to $24.7 million and $49.7 million in the same periods of 2013.

Included in cash flow from operations is a decrease in non-cash working capital of $15.3 million in the second quarter of 2014 and a decrease of $12.5 million for the six months ended June 30, 2014.

Funds from Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
($000s except per share and per boe)	**2014**	2013	% Change	**2014**	2013	% Change
Funds from operations	**65,525**	26,812	144 %	**119,295**	52,049	129 %
Per share - basic ($)	**0.34**	0.38	(11)%	**0.66**	0.73	(10)%
Per share - diluted ($)	**0.34**	0.38	(11)%	**0.65**	0.73	(11)%
$ per boe	**43.92**	31.78	38 %	**41.94**	30.43	38 %
Cash flow from operating activities	**42,879**	24,703	74 %	**98,493**	49,690	98 %

STOCK-BASED COMPENSATION

Surge recorded net stock-based compensation expense of $3.9 million during the second quarter of 2014, compared to $4.3 million for the same period of 2013. Surge recorded net stock-based compensation expense of $5.1 million during the first half of 2014, compared to $5.2 million for the same period of 2013. The stock based compensation recorded in the three and six months ended June 30, 2014 primarily relates to the stock appreciation rights ("SARs"), restricted share awards ("RSAs") and performance share awards ("PSAs") grants issued during 2013.

In the fourth quarter of 2013, the Company adopted a Stock Incentive Plan which authorizes the Board of Directors to grant RSAs and PSAs to directors, officers, employees and certain consultants of Surge.

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 June 30, 2014. The weighted average fair value of awards granted for the period ended June 30, 2014 is $6.23 per PSA and $6.23 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.

All share issuances under the plan were approved by the Toronto Stock Exchange and the Corporation's shareholders in May 2014.

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, 2013	854,425	908,625
Granted	48,975	9,375
Exercised	(9,100)	—
Forfeited	(89,900)	(41,000)
Balance at June 30, 2014	**804,400**	**877,000**

Stock-based compensation

	Three Months Ended June 30,			Six Months Ended June 30,		
($000s except per boe)	**2014**	2013	% Change	**2014**	2013	% Change
Stock-based compensation	**4,358**	4,392	(1)%	**6,112**	6,592	(7)%
Capitalized stock-based compensation	**(491)**	(93)	427 %	**(969)**	(1,401)	(31)%
Net stock-based compensation	**3,867**	4,299	(10)%	**5,143**	5,191	(1)%
Net stock-based compensation $ per boe	**2.59**	5.04	(49)%	**1.81**	3.02	(40)%

DEPLETION AND DEPRECIATION

Depletion and depreciation are calculated based upon capital expenditures, production rates and proved plus probable reserves. Deducted from the Company's depletion and depreciation calculation are costs associated with salvage values of $150.6 million. Future development costs for proved and probable reserves of $709.8 million have been included in the depletion calculation.

Surge recorded $37.2 million or $24.95 per boe in depletion and depreciation expense during the second quarter of 2014, as compared to $15.0 million or $17.57 per boe in depletion and depreciation expense in the same period of 2013. The increase in total depletion expense is due primarily to the acquisitions in the second half of 2013 and the first half of 2014.

The depletion and depreciation calculation is based on daily production volumes of 16,395 boe per day for the second quarter of 2014.

Depletion and Depreciation Expense

	Three Months Ended June 30,			Six Months Ended June 30,		
($000s except per boe)	**2014**	2013	% Change	**2014**	2013	% Change
Depletion and depreciation expense	**$ 37,232**	$ 14,986	148%	**$ 71,504**	$ 30,738	133%
$ per boe	**24.95**	17.57	42%	**25.15**	17.87	41%

NET INCOME (LOSS)

The Company recorded a net income of $37.9 million or $0.20 per basic share for the second quarter of 2014 compared to a net loss of $15.0 million or $0.21 per basic share for the same period of 2013. The cause for the change in net income is due to the record netback achieved in the three months ended June 30, 2014, the $23.6 million gain on investment (2013 - nil) and no impairment recognition (2013 - $24.0 million), as well as the $8.2 million realized loss on financial contracts as compared to the $1.8 million realized loss on financial contracts recognized in the second quarter of 2013.

Net Income (Loss)

	Three Months Ended June 30,			Six Months Ended June 30,		
($000s except per share)	**2014**	2013	% Change	**2014**	2013	% Change
Net Income (Loss)	**37,927**	(15,004)	nm	**41,349**	(16,358)	nm
Per share - basic ($)	**0.20**	(0.21)	nm	**0.23**	(0.23)	nm
Per share - diluted ($)	**0.20**	(0.21)	nm	**0.23**	(0.23)	nm

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 increases 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 increases in production from the second quarter of 2012 through the current quarter are due to Surge's successful drilling program, as well as corporate and asset acquisitions over that period. Please refer to the Financial and Operating Results section and other sections of this MD&A for detailed discussions on variations during the comparative quarters and to Surge's previously issued interim and annual MD&A for changes in prior quarters.

Share Capital and Option Activity

	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Weighted Common Shares	**189,968,583**	173,069,989	142,980,744	119,878,292	71,358,171
Stock option dilution (treasury method)[1]	**1,383,899**	828,174	—	248,162	—
Weighted average diluted shares oustanding[1]	**191,352,482**	173,898,163	142,980,744	120,126,454	71,358,171

	Q1 2013	Q4 2012	Q3 2012	Q2 2012
Weighted Common Shares	71,217,345	71,196,143	71,117,390	71,057,943
Stock option dilution (treasury method)[1]	—	—	—	1,080,348
Weighted average diluted shares oustanding[1]	71,217,345	71,196,143	71,117,390	72,138,291

[1] In computing the net income per diluted share in the current period, 1,383,899 shares were added to the weighted average number of shares outstanding.

On July 30, 2014 Surge had 217,681,853 common shares, 2,124,647 warrants, 2,000,000 SAR's, 877,000 PSAs and 804,400 RSAs, and 232,533 options outstanding.

CAPITAL EXPENDITURES

During the three months ended June 30, 2014, Surge invested a total of $19.0 million excluding acquisitions. Surge invested $9.9 million to drill 7 gross (4.6 net) wells.

The Company invested $1.4 million in land and seismic acquisitions, and $2.1 million on other capital items.

The Company invested a total of $474.7 million in the acquisition of Longview Oil Corp. This included $41.4 million to purchase the initial block of shares at $4.45 per share, $161.4 million in acquired debt and working capital and $271.9 million in equity to convert the outstanding Longview shares into 37,975,332 Surge shares valued at $7.16 per share.

Surge has implemented a company wide service cost reduction initiative the results of which began to be realized in 2013 and into the first half of 2014. Management expects to see continued reductions in costs in 2014.

Capital Expenditure Summary

($000s)	Q1 2014	Q2 2014	**2014 YTD**	2013 YTD	**Change**
Land	791	853	**1,644**	2,310	(29)%
Seismic	103	539	**642**	372	73 %
Drilling and completions	38,766	9,915	**48,681**	44,978	8 %
Facilities, equipment and pipelines	15,346	5,573	**20,919**	13,874	51 %
Other	3,345	2,094	**5,439**	3,696	47 %
Total exploration and development	58,351	18,974	**77,325**	65,231	19 %
Acquisitions - cash consideration	108,712	39,819	**148,531**	—	nm
Acquisitions - debt acquired	—	161,388	**161,388**	—	nm
Acquisitions - share based consideration	—	271,904	**271,904**	—	nm
Property dispositions	—	—	**—**	(40,184)	nm
Total acquisitions & dispositions	108,712	473,111	**581,823**	(40,184)	nm
Total capital expenditures	167,063	492,085	**659,148**	25,046	nm

Quarterly Financial Information

	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Oil, Natural gas & NGL sales	**128,148**	107,567	73,518	86,828	58,004
Net earnings (loss)	**37,927**	3,422	(2,847)	9,319	(15,004)
Net earnings (loss) per share ($):					
Basic	**0.20**	0.02	(0.02)	0.08	(0.21)
Diluted	**0.20**	0.02	(0.02)	0.08	(0.21)
Funds from operations	**65,525**	53,770	37,268	44,387	26,776
Funds from operations per share ($):					
Basic	**0.34**	0.31	0.26	0.37	0.38
Diluted	**0.34**	0.31	0.26	0.37	0.38
Average daily sales					
Oil & NGL (bbls/d)	**14,246**	12,694	10,354	9,725	6,966
Natural gas (mcf/d)	**12,893**	13,980	9,958	13,696	14,442
Barrels of oil equivalent (boe per day) (6:1)	**16,395**	15,024	12,014	12,008	9,373
Average sales price					
Natural gas ($/mcf)	**5.06**	6.19	4.12	2.92	4.06
Oil & NGL ($/bbl)	**94.25**	87.32	73.17	92.93	83.01
Barrels of oil equivalent ($/boe)	**85.89**	79.55	66.52	78.60	68.00

Quarterly Financial Information

	Q1 2013	Q4 2012	Q3 2012	Q2 2012
Oil, Natural gas & NGL sales	53,582	49,430	43,243	48,927
Net earnings (loss)	(1,354)	(68,187)	(986)	13,273
Net earnings (loss) per share ($):				
Basic	(0.02)	(0.96)	(0.01)	0.19
Diluted	(0.02)	(0.96)	(0.01)	0.18
Funds from operations	25,700	24,390	21,178	24,811
Funds from operations per share ($):				
Basic	0.36	0.34	0.30	0.35
Diluted	0.36	0.34	0.30	0.34
Average daily sales				
Oil & NGL (bbls/d)	6,854	6,398	5,651	6,568
Natural gas (mcf/d)	16,689	15,129	15,846	16,246
Barrels of oil equivalent (boe per day) (6:1)	9,636	8,919	8,292	9,275
Average sales price				
Natural gas ($/mcf)	3.57	3.89	2.56	2.24
Oil & NGL ($/bbl)	78.18	74.78	75.94	76.31
Barrels of oil equivalent ($/boe)	61.78	60.24	56.70	57.97

LIQUIDITY AND CAPITAL RESOURCES

On June 30, 2014, Surge had drawn $519.8 million on its credit facility with total net debt of $558.0 million, an increase in total net debt of 188 percent as compared to the same date in 2013. Surge has approximately $205 million of borrowing capacity in relation to the $725 million credit facility, giving Surge considerable financial flexibility through 2015.

Surge anticipates that 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.

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	$ (519,750)
Accounts receivable	65,097
Prepaid expenses and deposits	5,873
Accounts payable and accrued liabilities	(98,308)
Dividends payable	(10,881)
Total	**$ (557,969)**

As at June 30, 2014, the Company had a $725 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 31, 2015. On May 31, 2015, 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 June 30, 2014 (December 31, 2013 – prime plus 1.25 percent).

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

RELATED-PARTY AND OFF-BALANCE-SHEET TRANSACTIONS

Surge was not involved in any off-balance-sheet transactions or related party transactions during the period ended June 30, 2014.

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 is based on option models that use published information with respect to volatility, prices and interest rates. The fair value of interest rate and foreign exchange contracts 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 notional values. Surge's financial derivative contracts are classified as level two.

The following table summarizes the Company's financial and physical derivatives as at the date of this MD&A by period and by product. Further detail on the individual hedges can be found in the Financial Statements.

Commodity Contracts

WTI-to-Edm Light Differential Hedges

Period	Volume Hedged (bbl/d)	Avg Price (Surge receives) (US$ per bbl)
Q3 2014	500	$ 8.70
Q4 2014	1,500	$ 8.57
Q1 2015	1,000	$ 8.50

WCS Oil Differential Hedges

Period	Volume Hedged (bbl/d)	Avg Price (Surge receives) (US$ per bbl)
Q3 2014	2,500	$ 21.47
Q4 2014	2,500	$ 21.47
Q1 2015	2,500	$ 22.17
Q2 2015	2,500	$ 22.17
Q3 2015	2,500	$ 22.17
Q4 2015	2,500	$ 22.17
Q1 2016	1,000	$ 21.75
Q2 2016	1,000	$ 21.75
Q3 2016	1,000	$ 21.75
Q4 2016	1,000	$ 21.75

WTI Oil Hedges

Period	Volume Hedged (bbl/d)	Avg Floor Price (Surge receives) (C$ per bbl)
Q3 2014	7,100	$ 99.54
Q4 2014	7,100	$ 99.54
Q1 2015	4,750	$ 100.76
Q2 2015	4,750	$ 100.76
Q3 2015	2,000	$ 93.27
Q4 2015	2,000	$ 93.27

AECO Gas Hedges

Period	Volume Hedged (mcf/d)	Avg Swap Price (Surge receives) (C$ per mcf)
Q3 2014	10,430	$ 3.86
Q4 2014	10,430	$ 3.86
Q1 2015	7,586	$ 4.14
Q2 2015	7,586	$ 4.14
Q3 2015	7,586	$ 4.14
Q4 2015	7,586	$ 4.14

Interest Contract

Product	Period	Notional (C$)	Company Fixed Interest Rate (%) (1)
Interest Rate Swap	Calendar 2013 - 2014	$50,000,000	3.465%

(1) The interest rate contract is comprised of a range, beginning at 1.439% and escalating quarterly to a maximum of 3.952%.

Foreign Exchange Contract

Product	Period	Notional (US$)	Swap Price (C$)
Foreign Exchange Swap	Calendar 2014	$16,817,600	$1.005

SUBSEQUENT EVENT

(a) Risk Management Contract

Term	Type	Volume	Differential Less WTI (USD$) (Surge Receives)	Index (Surge Pays) (C$)
Jan 1, 2016 - Dec 31, 2016	Swap	1,000 bbls/d	(21.75)	TMX SW 1a (WCS-to-WTI)

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

There were no changes in the Company's ICFR during the period ended June 30, 2014 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 June 30, 2014.

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 effectiveness of the Company's ICFR as at June 30, 2014 based on the COSO framework. Based on this evaluation, the officers concluded that as of June 30, 2014, Surge maintained effective ICFR.

CRITICAL ACCOUNTING ESTIMATES

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

Reserves

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

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

Forecasted Commodity Prices

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

Business Combinations

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

Decommissioning Liability

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

Derivative Financial Instruments

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.

CHANGES IN ACCOUNTING POLICIES

On January 1, 2014, the Corporation adopted IFRIC 21 which provides guidance with respect to recognition of liabilities resulting from government levies. The Company also adopted IAS 32 that clarifies the the requirements for offsetting financial assets and liabilities. The adoption of these standards had no impact on the amounts recorded in the consolidated financial statements as at June 30, 2014 or on the comparative periods.

FUTURE ACCOUNTING POLICY CHANGES

The following pronouncements from the IASB will become effective for financial reporting periods beginning on or after January 1, 2015 and have not yet been adopted by the Company. All of these new or revised standards permit early adoption with transitional arrangements depending upon the date of initial application:

- IFRS 9 - Financial Instruments addresses the classification and measurement of financial assets, effective date of January 1, 2018.

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, 2013, 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.