Condensed Consolidated Interim Statements of Financial Position

Stated in thousand of dollars

(Unaudited)

As at		March 31, 2018		December 31, 2017
Assets				
Current Assets				
Accounts receivable	**$**	**34,494**	$	36,291
Fair value of financial contracts (note 5)		**171**		1,350
Prepaid expenses and deposits		**6,733**		2,889
Assets held for sale		**—**		8,680
		41,398		49,210
Fair value of financial contracts (note 5)		**—**		237
Petroleum and natural gas properties (note 4)		**1,161,997**		1,148,928
Deferred income taxes		**33,975**		33,715
	$	**1,237,370**	$	1,232,090
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**32,767**	$	31,107
Dividends payable		**1,832**		1,845
Fair value of financial contracts (note 5)		**5,815**		4,191
Current portion of other long term obligations		**1,761**		1,591
Liabilities associated with assets held for sale		**—**		1,966
		42,175		40,700
Fair value of financial contracts (note 5)		**1,009**		336
Bank debt (note 6)		**222,353**		209,231
Convertible debentures (note 7)		**37,017**		36,715
Decommissioning obligations (note 8)		**161,224**		162,308
Other long term obligations		**6,462**		6,647
Shareholders' equity				
Share capital		**1,286,103**		1,295,961
Equity component of convertible debentures (note 7)		**3,551**		3,551
Contributed surplus		**47,662**		40,198
Warrants		**3,522**		3,522
Deficit		**(573,708)**		(567,079)
		767,130		776,153
Commitments (note 11)				
	$	**1,237,370**	$	1,232,090

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss)

Stated in thousands of dollars, except per share amounts

(Unaudited)

	Three Months Ended March 31, 2018	2017
Revenues		
Petroleum and natural gas	**$ 68,290**	$ 54,450
Processing and other	**881**	360
Royalties	**(8,940)**	(7,037)
Realized loss on financial contracts	**(1,582)**	(1,990)
Unrealized gain (loss) on financial contracts (note 5)	**(3,713)**	10,989
	54,936	56,772
Expenses		
Operating	**21,940**	17,765
Transportation	**1,815**	1,958
General and administrative	**3,201**	2,409
Transaction and other costs	**708**	558
Stock-based compensation (note 9)	**878**	50
Depletion and depreciation (note 4)	**22,932**	20,725
Finance expense	**4,831**	2,795
	56,305	46,260
Income (loss) before income taxes	**(1,369)**	10,512
Deferred income tax expense (recovery)	**(260)**	2,845
Net income (loss) and comprehensive income (loss) for the period	**$ (1,109)**	$ 7,667
Income (loss) per share (note 9)		
Basic	**$ (0.01)**	$ 0.03
Diluted	**$ (0.01)**	$ 0.03

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Consolidated Consolidated Interim Statements of Changes in Shareholders' Equity

Stated in thousands of dollars, except share amounts

(Unaudited)

	Number of common shares	Share capital	Convertible debentures - equity portion	Contributed surplus	Warrants	Deficit	Total equity
Balance at December 31, 2016	225,754,665	$ 1,274,195	—	$ 41,110	$ 3,522	$ (539,650)	$ 779,177
Net income for the period	—	—	—	—	—	7,667	7,667
Share issue costs, net of tax	—	(41)	—	—	—	—	(41)
Transfer on exercise of RSAs and PSAs [1]	11,728	54	—	(54)	—	—	—
Stock-based compensation	—	—	—	2,579	—	—	2,579
Dividends	—	—	—	—	—	(4,608)	(4,608)
Balance at March 31, 2017	225,766,393	$ 1,274,208	$ —	$ 43,635	$ 3,522	$ (536,591)	$ 784,774
Balance at December 31, 2017	232,989,499	$ 1,295,961	$ 3,551	$ 40,198	$ 3,522	$ (567,079)	$ 776,153
Net income for the period	—	—	—	—	—	(1,109)	(1,109)
Repurchase of common shares for cancellation	(1,862,637)	(10,304)	—	6,631	—	—	(3,673)
Transfer on exercise of RSAs and PSAs [1]	230,000	446	—	(446)	—	—	—
Stock-based compensation	—	—	—	1,279	—	—	1,279
Dividends	—	—	—	—	—	(5,520)	(5,520)
Balance at March 31, 2018	**231,356,862**	**$ 1,286,103**	**$ 3,551**	**$ 47,662**	**$ 3,522**	**$ (573,708)**	**$ 767,130**

[1] RSA and PSA defined as restricted share and performance share awards

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Cash Flows

Stated in thousands of dollars

(Unaudited)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Cash provided by (used in)		
Operating		
Net income (loss)	**$ (1,109)**	$ 7,667
Unrealized loss (gain) on financial contracts	**3,713**	(10,989)
Finance expense	**4,831**	2,795
Interest expense	**(3,524)**	(2,011)
Depletion and depreciation	**22,932**	20,725
Decommissioning expenditures	**(2,748)**	(576)
Stock-based compensation	**878**	(419)
Deferred income tax expense (recovery)	**(260)**	2,845
Change in non-cash working capital	**(498)**	(4,212)
Cash flow from operating activities	**24,215**	15,825
Financing		
Bank debt	**13,122**	20,965
Dividends paid	**(5,534)**	(4,420)
Purchase of common shares for cancellation	**(3,673)**	—
Share issue costs	**—**	(41)
Cash flow from financing activities	**3,915**	16,504
Investing		
Petroleum and natural gas properties	**(34,909)**	(34,041)
Disposition of petroleum and natural gas properties	**6,659**	269
Acquisitions	**(174)**	—
Change in non-cash working capital	**294**	1,443
Cash flow used in investing activities	**(28,130)**	(32,329)
Change in cash	**—**	—
Cash, beginning of the period	**—**	—
Cash, end of the period	**$ —**	$ —

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Tabular amounts are in thousands of dollars, except share and per share data

(Unaudited)

1. REPORTING ENTITY

Surge Energy Inc.'s (the "Corporation" or "Surge") business consists of the exploration, development and production of oil and gas from properties in western Canada. The Corporation is a dividend paying entity. The address of Surge's registered office is 2100, 635-8th Avenue SW, Calgary, Alberta, Canada, T2P 3M3. The consolidated financial statements include the accounts of the Corporation, its wholly-owned subsidiaries and partnerships.

2. BASIS OF PREPARATION

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" and using the accounting policies outlined by the Corporation in its annual consolidated financial statements for the year ended December 31, 2017, except as noted below. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. These condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2017.

The consolidated financial statements were authorized for issuance by the Board of Directors on May 8, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

Except as outlined below, these condensed consolidated interim financial statements at March 31, 2018 have been prepared following the same accounting policies as the consolidated financial statements as at December 31, 2017.

Changes in Accounting Policies

As of January 1, 2018, the Corporation adopted the following International Financial Reporting Standards ("IFRS"):

- IFRS 15 "Revenue From Contracts with Customers" - IFRS 15 was issued in May 2014 and replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The Corporation used the cumulative effect method to adopt the new standard. Under this method, prior period financial statements have not been restated and the cumulative effect on net earnings of the application of IFRS 15 to revenue contracts in progress at January 1, 2018 is nil. Surge reviewed its sales contracts with customers using the IFRS 15 five step model and determined that there are no material changes to the consolidated financial statements other than enhanced disclosures (note 10).
- IFRS 9 "Financial Instruments"- IFRS 9 was amended in July 2014 to include guidance to assess and recognize impairment losses on financial assets based on an expected loss model. Surge completed its review of financial instruments and the expected credit loss impairment model and determined there are no material changes to the consolidated financial statements.

Revenue from contracts with customers

Revenue from the sale of crude oil, natural gas and natural gas liquids is measured based on the consideration specified in contracts with customers. The Corporation recognizes revenue when it transfers control of the product to the buyer. This is generally at the time the customer obtains legal title to the product and when it is physically transferred to the delivery mechanism agreed with the customer, often pipelines or other transportation methods.

Surge evaluates its arrangements with third parties and partners to determine if the Corporation acts as the principal or as an agent. In making this evaluation, management considers if the Corporation obtains control of the product delivered, which is indicated by Surge having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If Surge acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Corporation from the transaction.

Tariffs, tolls and fees charged to other entities for use of pipelines and facilities owned by the Corporation are evaluated by management to determine if these originate from contracts with customers or from incidental or collaborative arrangements. Tariffs, tolls and fees charged to other entities that are from contracts with customers are recognized in revenue when the related services are provided.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

Financial instruments

Trade receivables or debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Corporation becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Upon initial recognition, a financial asset is measured at: amortized cost, fair value through other comprehensive income ("FVOCI") - classified as a debt or equity investment, or fair value through profit or loss ("FVTPL").

Financial liabilities are measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative, or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in income (loss). Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

Surge has made the following classifications:

- Cash and cash equivalents and accounts receivable are measured at amortized cost. Subsequently, they are recorded at amortized cost using the effective interest method.
- Derivative financial instruments that do not qualify as hedges, or are not designated as hedges on the statement of financial position, including risk management commodity and interest rate contracts, are classified as FVTPL and are recorded and carried at fair value. The Corporation may use derivative financial instruments to manage economic exposure to market risks relating to commodity prices and interest rates. The Corporation does not utilize derivative financial instruments for speculative purposes.
- Bank debt, the liability portion of the convertible debentures, accounts payable, accrued liabilities and dividends payable are classified as other financial liabilities and are initially measured at fair value less directly attributable transaction costs. Subsequently, they are recorded at amortized cost using the effective interest method.

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when the Corporation has a legally enforceable right to off set the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Loss allowances for trade receivables are measured at an amount equal to lifetime expected credit losses ("ECLs"). ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Corporation in accordance with the contract and the cash flows that the Corporation expects to receive). Loss allowances for financial assets measured at amortized cost, if any, are deducted from the gross carrying amount of the assets.

4. PETROLEUM AND NATURAL GAS PROPERTIES

Petroleum and Natural Gas Properties

		Total
Balance at December 31, 2016	$	1,914,104
Acquisitions		88,703
Dispositions		(1,897)
Additions		98,466
Change in decommissioning obligations		27,873
Capitalized stock-based compensation		7,387
Transfer to Assets held for sale		(112,798)
Balance at December 31, 2017	$	2,021,838
Acquisitions		174
Additions		34,909
Change in decommissioning obligations		681
Capitalized stock-based compensation		237
Balance at March 31, 2018	**$**	**2,057,839**

		Total
Accumulated depletion and depreciation		
Balance at December 31, 2016	$	(872,953)
Depletion and depreciation expense		(88,556)
Impairment		(10,276)
Dispositions		777
Transfer to Assets held for sale		98,098
Balance at December 31, 2017	$	(872,910)
Depletion and depreciation expense		(22,932)
Balance at March 31, 2018	**$**	**(895,842)**

		Total
Carrying amounts		
At December 31, 2017	$	1,148,928
At March 31, 2018	**$**	**1,161,997**

The calculation of depletion and depreciation expense for the period ended March 31, 2018 included an estimated $452.1 million (December 31, 2017 - $485.5 million) for future development costs associated with proved plus probable reserves and deducted $123.1 million (December 31, 2017 - $125.3 million) for the estimated salvage value of production equipment and facilities.

During the period ended March 31, 2018 the Corporation disposed of certain non-core assets in Central Alberta for cash proceeds of $6.7 million after adjustments. The assets had a carrying value of $8.6 million at the time of disposition and an associated decommissioning liability of $2.0 million, resulting in no gain or loss on disposal. These assets were classified as held for sale at December 31, 2017.

5. RISK MANAGEMENT

As a means of managing commodity price volatility, the Corporation 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 and considering counter-party credit risk). 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 in the fair value hierarchy.

At March 31, 2018, the following risk management contracts were outstanding with an asset fair market value of $0.2 million and a liability fair market value of $6.8 million (December 31, 2017 – asset of $1.6 million and liability of $4.5 million):

WTI Oil Hedges

Type	Term	bbl/d	Currency	Put Sold (per bbl)	Put Acquired (per bbl)	Call Sold (per bbl)	Call Acquired (per bbl)	Swap Price (per bbl)
WTI	Mar-Jun 2018	1,000	USD	—	—	—	—	$60.00
WTI	1H 2018	1,000	USD	—	$47.50	—	—	—
WTI	1H 2018	600	USD	—	—	$63.19	—	—
WTI	1H 2018	1,500	USD	—	$50.00	$60.87	—	—
WTI	2H 2018	1,500	USD	—	$50.00	—	—	—
WTI	2H 2018	1,000	USD	$55.00	$60.00	—	—	—
WTI	2018	750	USD	—	$45.00	$58.00	—	—
WTI	2018	500	CAD	—	$60.00	$68.91	—	—
WTI	2018	500	USD	—	—	—	$57.45	—
WTI	1H 2019	500	CAD	$50.00	$60.00	$73.34	—	—
WTI	Q3 2018 - Q1 2019	1,000	USD	$50.00	$58.75	$74.80	—	—

Oil Differential Hedges

Type	Term	bbl/d	Currency	Floor (per bbl)	Ceiling (per bbl)
WCS Collar	1H 2018	1,500	USD	US$WTI less $13.00	US$WTI less $18.00

Natural Gas Hedges

Type	Term	GJ/d	Currency	Swap Price (per GJ)
AECO Swap	Nov 2017-Oct 2018	2,000	CAD	$2.30

CAD/USD FX Hedges

Type	Term	Monthly Notional Amount (US$)	Total Notional Amount (US$)	Swap Rate (CAD$ per USD$)
Avg Rate Forward	2018	$4,000,000	$48,000,000	$1.2879
Avg Rate Forward	2019	$1,000,000	$12,000,000	$1.2726

Interest Rate Hedges

Type	Term	Notional Amount (CAD$)	Surge Receives	Surge Pays	Fixed Rate SGY Receives
Fixed-to-Floating Rate Swap	Feb 2018-Feb 2023	$100,000,000	Floating Rate	Fixed Rate	Semi-Annual Step Up • Beginning at 1.786% • Ending at 2.714% • Averaging 2.479%

The following table summarizes the sensitivity of the fair value of the Corporation's market risk management positions to fluctuations in natural gas prices, crude oil prices, foreign exchange, and interest rates. All such fluctuations were evaluated independently, with all other variables held constant. In assessing the potential impact of these fluctuations, the Corporation believes that the volatilities presented below are reasonable measures. Fluctuations in crude oil and natural gas prices would have had the following impact on the net income (loss):

Net earnings impact for the period ended March 31, 2018	Price Increase	Price Decrease
Crude Oil - Change of +/- $1.00	(1,362)	1,362
Natural Gas - Change of +/- $0.10	(32)	32
Interest rate - Change of +/- 100 points	(750)	750
Foreign Exchange - Change of +/- $0.01	(38)	38

6. BANK DEBT

As at March 31, 2018, the Corporation had an extendible, revolving term credit facility at $305 million with a syndicate of Canadian banks. The facility is available on a revolving basis until May 28, 2018. On May 28, 2018, at the Corporation'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 Corporation 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 Corporation'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 1.90 percent as at March 31, 2018 (December 31, 2017 – prime plus 1.90 percent).

The facility is secured by a general assignment of book debts, debentures of $1.5 billion with a floating charge over all assets of the Corporation 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. Under the terms of the agreement, the Corporation is required to meet certain financial and engineering reporting requirements.

7. CONVERTIBLE DEBENTURES

Convertible Debentures

	Number of convertible debentures	Liability Component ($000s)	Equity Component ($000s)
Balance at December 31, 2016	—	—	—
Issuance of convertible debentures	44,500	39,273	5,227
Issue costs	—	(2,713)	(362)
Deferred income tax liability	—	—	(1,314)
Accretion of discount	—	155	—
Balance at December 31, 2017	44,500	36,715	3,551
Accretion of discount	—	302	—
Balance at March 31, 2018	**44,500**	**37,017**	**3,551**

The fair value of the convertible debentures at March 31, 2018 was $44.5 million using quoted market prices on the TSX (level 1 fair value).

8. DECOMMISSIONING OBLIGATIONS

The Corporation's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Corporation estimates the total inflated and undiscounted amount of cash flows required to settle its decommissioning obligations is approximately $385.4 million (December 31, 2017 – $391.1 million). These payments are expected to be made over the next 50 years with the majority of costs to be incurred between 2023 and 2066. A risk free rate of 2.23 percent (December 31, 2017 – 2.26 percent) and an inflation rate of 1.50 percent (December 31, 2017 – 1.50 percent) was used to calculate the fair value of the decommissioning obligations.

A reconciliation of the decommissioning obligations is provided below:

	March 31, 2018	December 31, 2017
Balance, beginning of period	**$ 162,308**	$ 120,025
Liabilities related to acquisitions	**—**	15,693
Reclassification to Assets held for sale	**—**	(1,966)
Liabilities related to dispositions	**—**	(542)
Change in estimate	**(39)**	26,070
Liabilities incurred	**720**	1,803
Accretion expense	**983**	3,682
Decommissioning expenditures	**(2,748)**	(2,457)
Balance, end of period	**$ 161,224**	$ 162,308

9. SHARE CAPITAL

(a) Authorized

Unlimited number of voting common shares.

Unlimited number of preferred shares, issuable in series.

(b) Flow-through Share Issuance

In September 2017, the Corporation issued 1.6 million flow-through shares related to Canadian exploration expenditures at a price of $2.24 per share for total gross proceeds of $3.6 million. The implied premium on the flow-through shares of $0.23 per share or $0.4 million was recorded as a flow-through share liability. As at March 31, 2018, the Corporation had incurred $1.9 million of qualifying exploration expenditures, with the remaining commitment to be spent in 2018. The implied premium related to expenditures made prior to March 31, 2018 had been released through the deferred tax recovery.

(c) Warrants

The Corporation has 1,400,560 warrants exercisable at a price of $4.46. The exercise price is downward adjusted for dividends paid. The warrants become exercisable based on certain time based and performance based conditions. Specifically with respect to time they are exercisable up to one third on each anniversary from the date of the grant, and with respect to performance up to one half when the market price of the Corporation reaches $6.30 and the other half when it reaches $8.40. The warrants expire in June 2018. As at March 31, 2018, 1,400,560 warrants were exercisable.

(d) Stock Appreciation Rights

The Corporation had 2.0 million stock appreciation rights ("SARs") outstanding at March 31, 2018. The SARs vest up to one third on each anniversary from the date of grant and expire in June 2018. The exercise price is downward adjusted for dividends paid. As such the exercise price at March 31, 2018 is $2.00 (December 31, 2017 - $2.02) and 2.0 million SARs were vested and exercisable. The SARs when exercised are to be cash settled based on the difference between the Corporation's common share price on the date of exercise and the adjusted exercise price. The Corporation has valued the SARs using a Black Scholes valuation model and will continue to revalue at each reporting period until ultimate cash settlement. During the period, the Corporation realized a decrease to the liability within accounts payable and an offsetting decrease to stock-based compensation of $0.2 million (2017 - $1.4 million decrease). There is $0.2 million included in accounts payable at March 31, 2018 (December 31, 2017 - $0.4 million).

(e) Restricted and Performance Share Award Incentive Plan

The Corporation has a Stock Incentive Plan which authorizes the Board of Directors to grant restricted share awards ("RSAs") and performance share awards ("PSAs") to directors, officers, employees and certain consultants of Surge.

Subject to the terms and conditions of the plan, each RSA entitles the holder to an award value to be typically paid as to one-third on each of the first, second and third anniversaries from 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% (2017 - 15%) was used to value all awards granted for the period ended March 31, 2018. The weighted average fair value of awards granted for the period ended March 31, 2018 is $1.81 (2017 - $3.37) per PSA granted and $1.85 (2017 - $3.37) 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 Corporation relative to pre-defined corporate performance measures for a particular period. On the vesting dates, the Corporation has the option of settling the award value in cash or common shares of the Corporation. For purposes of stock-based compensation a payout multiple of 1.0 was assumed for the PSAs granted during the period.

The total number of RSA and PSA units granted cannot exceed 4.5 percent of the issued and outstanding shares of the Corporation.

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

	Number of restricted share awards	Number of performance share awards
Balance at December 31, 2017	4,008,843	6,163,982
Granted	201,500	15,000
Reinvested [1]	48,581	70,828
Added by performance factor	—	—
Exercised	(230,000)	—
Forfeited	(201,634)	(907,147)
Balance at March 31, 2018	**3,827,290**	**5,342,663**

[1] Per the terms of the plan, cash dividends paid by the Corporation are reinvested to purchase incremental awards.

(f) Stock-based compensation

A reconciliation of the stock-based compensation expense is provided below:

	Three Months Ended March 31,	
	2018	2017
Stock-based compensation on SARs	**(220)**	(1,400)
Stock-based compensation on PSAs and RSAs [1]	**1,335**	3,048
Capitalized stock-based compensation	**(237)**	(1,598)
Total stock-based compensation expense	**$ 878**	$ 50

[1] Included in stock-based compensation for the period ended March 31, 2018 is cash expenditures of $nil paid to acquire shares offered to employees and service providers (2017 - $0.5 million).

(g) Per share amounts

The following table summarizes the shares used in calculating earnings (loss) per share:

	Three Months Ended March 31,	
	2018	2017
Weighted average number of shares - basic and diluted	**233,006,881**	225,763,917
Effect of dilutive instruments	**—**	3,427,489
Weighted average number of shares - diluted	**233,006,881**	229,191,406

In computing diluted per share amounts at March 31, 2018, 1,400,560 warrants (March 31, 2017 – 1,400,560) were excluded from the calculation as their effect was anti-dilutive. The common shares potentially issuable on the conversion of the convertible debentures, RSAs and PSAs were also excluded as they were determined to be anti-dilutive.

(h) Dividends

The Board of Directors declared for the months of January through March 2018 cumulative dividends of $0.023751 per share (January - March 2017 - $0.02041 per share). Dividends of $0.007917 per share declared and outstanding at March 31, 2018 and were paid in April 2018. The dividend for April 2018 has been declared at $0.007917 per share.

10. REVENUE

The Corporation sells its production pursuant to fixed or variable price contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under the contracts, Surge is required to deliver variable volumes of crude oil, natural gas liquids or natural gas to the contract counterparty. Revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue relates specifically to Surge's efforts to transfer production, and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of the variable revenue is considered constrained.

The contracts generally have a term of one year or less, whereby delivery takes place throughout the contract period. Revenues are typically collected on the 25th day of the month following production.

The impact to petroleum, natural gas and other revenue in the three months ended March 31, 2018 as a result of adopting IFRS 15 was an increase of $0.9 million (2017 - $0.4 million) and an offsetting increase in operating expense, resulting in no impact to net income (loss). The following table presents the Corporations petroleum and natural gas revenues disaggregated by revenue source:

	Three months ended March 31,	
	2018	2017
Oil	**$ 64,492**	$ 48,194
Natural gas liquids	**2,461**	2,240
Natural gas	**1,337**	4,016
Total petroleum and natural gas revenue	**$ 68,290**	$ 54,450
Processing and other revenue	**881**	360
Total petroleum, natural gas and other revenue	**$ 69,171**	$ 54,810

During the period ended March 31, 2018, the Corporation had two fixed price physical delivery contracts for combined volumes of approximately 10 MMcf per day of natural gas.

Surge's revenue was generated entirely in the provinces of Alberta and Saskatchewan. The majority of revenue resulted from sales whereby the transaction price was based on the index prices. Of total petroleum and natural gas revenue, three customers represented combined sales of $56.7 million for the period ended March 31, 2018 (2017 - $40.6 million).

11. COMMITMENTS

Future minimum payments relating to operating lease and firm transport commitments at March 31, 2018 are as follows:

($000s)	
2018	$ 9,625
2019	10,061
2020	9,721
2021	8,116
2022	5,397
2023+	13,970
Total	**$ 56,890**