FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended December 31,			Years Ended December 31		
	2012	2011	% change	**2012**	2011	% change
Financials highlights						
Oil and NGL sales	**44,017**	**36,954**	19%	**176,474**	**111,705**	58%
Natural gas sales	**5,410**	**5,741**	(6%)	**16,129**	**19,548**	(17%)
Other revenue	**3**	**117**	(97%)	**57**	**239**	(76%)
Total oil, natural gas, and NGL revenue	**49,430**	42,812	15%	**192,660**	131,492	47%
Funds from Operations[1]	**24,061**	**22,088**	9%	**92,232**	**57,789**	60%
Per share basic ($)	**0.34**	0.36	(6%)	**1.30**	1.00	30%
Per share diluted ($)	**0.34**	0.35	(3%)	**1.30**	0.98	33%
Net income (loss)	**(68,187)**	(5,531)	nm[4]	**(53,243)**	2,095	nm
Per share basic ($)	**(0.96)**	(0.09)	nm	**(0.75)**	0.04	nm
Per share diluted ($)	**(0.96)**	(0.09)	nm	**(0.75)**	0.04	nm
Capital expenditures - petroleum & gas properties[2]	**44,975**	50,065	(10%)	**180,714**	150,097	20%
Capital expenditures - acquisitions & dispositions[2]	**(2,662)**	(3,323)	(20%)	**109,729**	15,061	629%
Total capital expenditures[2]	**42,313**	46,742	(9%)	**290,443**	165,158	76%
Net debt at end of period[3]	**220,578**	97,204	127%	**220,578**	97,204	127%
Operating highlights						
Production:						
Oil and NGL (bbls per day)	**6,398**	4,534	41%	**6,181**	3,604	72%
Natural gas (mcf per day)	**15,129**	17,885	(15%)	**16,151**	14,133	14%
Total (boe per day) (6:1)	**8,919**	7,514	19%	**8,873**	5,960	49%
Average realized price (excluding hedges):						
Oil and NGL ($per bbl)	**74.78**	88.60	(16%)	**78.01**	84.91	(8%)
Natural gas ($ per mcf)	**3.89**	3.49	11%	**2.73**	3.79	(28%)
Realized loss on financial contracts ($ per boe)	**1.72**	(1.62)	nm	**0.11**	(1.62)	nm
Net back (excluding hedges) ($ per boe)						
Oil, natural gas and NGL sales	**60.24**	61.93	(3%)	**59.33**	60.45	(2%)
Royalties	**(11.36)**	(7.05)	61%	**(10.81)**	(8.06)	34%
Operating expenses	**(12.68)**	(14.92)	(15%)	**(11.61)**	(15.58)	(25%)
Transportation expenses	**(2.56)**	(1.41)	82%	**(2.26)**	(2.23)	1%
Operating netback	**33.64**	38.55	(13%)	**34.65**	34.58	0%
G&A expenses	**(3.08)**	(3.00)	3%	**(3.34)**	(4.37)	(24%)
Interest expense	**(2.56)**	(1.22)	110%	**(2.10)**	(1.46)	44%
Corporate netback	**28.00**	34.33	(18%)	**29.21**	28.75	2%
Common shares (000s)						
Common shares outstanding, end of period	**71,217**	**63,040**	13%	**71,217**	**63,040**	13%
Weighted average basic shares outstanding	**71,196**	**62,125**	15%	**70,962**	**57,622**	23%
Stock option dilution (treasury method)	**-**	**1,190**	nm	**-**	**1,136**	nm
Weighted average diluted shares outstanding	**71,196**	**63,314**	12%	**70,962**	**58,758**	21%

1 Management uses funds from operations (before changes in non-cash working) 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 Corporation defines net debt as outstanding bank debt plus or minus working capital excluding the fair value of financial contracts.
4 The Corporation views this change calculation as not meaningful, or "nm".

OVERVIEW, HIGHLIGHTS AND FORECAST

Surge achieved significant growth in 2012. Funds from operations increased 60 percent to $92.2 million in 2012 as compared to 2011. Production grew 49 percent in 2012 as compared to 2011. Management continues to execute a strong risk management program which supports the protection of Surge's balance sheet. Surge remains well positioned with three core areas with an expanded oil drilling inventory of 585 gross (450 net) locations, internally estimated gross DPIIP[1] of 685 million barrels of oil and multiple waterflood opportunities and exploration initiatives.

Surge has achieved operational efficiencies in each of its core areas, resulting in reductions in both operating costs per boe and general and administrative costs per boe in 2012 as compared to 2011. Surge continues to strive to become one of the lowest cost oil producers among its oil weighted peer group.

- **Achieved a 99 percent success rate** during 2012 drilling 62 gross (50.05 net) wells.
- **Increased funds from operations per fully diluted share by 33 percent** to $1.30 in 2012.
- **Increased production per basic share by 21 percent** in 2012.
- **Reduced operating costs per boe by 25 percent** in 2012**.**
- **Reduced G&A per boe by 24 percent** in 2012 and a **45 percent reduction** since 2010.
- **Increased its bank line to $290 million** from $150 million during 2012.
- **Strong risk management** program supports the protection of the Corporation's balance sheet. More than half of the Corporation's forecast 2013 production is hedged with approximately one third of the Edmonton to WTI differential hedged for the last nine months of 2013.
- **Approximately 92 percent of Surge's revenue resulted from oil and natural gas liquids production** in 2012.
- **Increased its oil and natural gas liquids production weighting by 17 percent to 70 percent** in 2012 from 60 percent in 2011.
- **Oil and NGLs made up 69 percent** of the Corporation's total Proved plus Probable reserves.
- **Completed the accretive acquisition of a private company that added approximately 1,200 barrels per day** (100 percent light oil) of focused, high quality, high netback and high working interest Slave Point/Gilwood light oil assets in January 2012.

[1] Discovered Petroleum Initially In Place (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.

- **Expanded its oil drilling inventory to 585 gross (450 net) locations** from 490 gross (350 net) locations and significantly **increased its internally estimated DPIIP to greater than 685 gross million barrels** from greater than 440 gross million barrels of oil:
  - Valhalla (Doig): Increased the gross DPIIP at Valhalla by 15 percent from 115 mmbbls to 140 mmbbls (internally estimated).
  - Wembley (Doig): Added 18 mmbbls of gross DPIIP (internally estimated) and potential for an additional six gross (six net) horizontal multi-frac well locations.
  - Nipisi (Slave Point): Increased the gross DPIIP (internally estimated) from 65 to 85 mmbbls and significantly increased its drilling inventory in from 16 gross (15.7 net) to 44 gross (43.5 net) horizontal multi-frac wells.
  - Nipisi South and Utikuma Lake (Slave Point): Added 30 mmbbls of gross DPIIP (internally estimated) at Nipisi South and the option to earn 14 mmbbls of DPIIP at Utikuma Lake.
  - Silver Lake Area (Cretaceous Sands): Added 80 mmbbls of gross DPIIP (internally estimated) and 78 new horizontal well locations.
- **Waterflood progress:**
  - Silver Lake (Cretaceous Sands): Completed a waterflood expansion which included drilling and completing two water injection wells and increasing the facility capacity to handle an additional 12,000 barrels of water per day. Field production is up by approximately 20 percent post expansion from approximately 1,100 bbls per day to 1,300 bbls per day.
  - Windfall (Bluesky): Commenced a waterflood pilot with a positive response from the two offsetting horizontal multi-frac wells expected in the second quarter of 2013.
  - Waskada (Spearfish): Pilot waterflood commenced during the first quarter of 2013.
  - Nipisi (Slave Point): Waterflood expected to commence during the second quarter of 2013.
- **Increased Proved plus Probable reserves by 43 percent to 46.1 million boe over December 31, 2011 reserves of 32.2 million boe.**
- **Increased Proved plus Probable Reserves per share by 29 percent** (fully diluted).
- Achieved Proved plus Probable finding, development and acquisition costs **(FD&A) of $23.32 per boe**, including the change in future development capital ("FDC").
- **Achieved a corporate recycle ratio of 1.5** with F&D costs of $23.70 per boe, including the change in FDC and based on Surge's estimated 2012 netback of $34.67 per boe[2].
- **Surge achieved Proved plus Probable recycle ratios of 2.8, 2.6 and 2.2 at Valhalla, Silver Area and Nipisi, respectively[3].** These three areas represent approximately 82 percent of the reserves value.
- **Increased Proved plus Probable Oil and NGLs reserves by 66 percent** to 31.9 million barrels over December 31, 2011 reserves of 19.2 million barrels.

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[2] Operating netback is calculated as forecast revenue per boe less forecast royalties, operating and transportation expenses on a per boe basis.

[3] Excluding G&A, corporate and exploration capital.

- **Increased Net Present Value discounted at 10 percent Before Tax** ("NPV10 BT") of Proved plus Probable reserves **by 25 percent to $732 million** compared to $588 million as at December 31, 2011[4].
- **Surge's Net Asset Value (NAV) is estimated at $8.18 per basic share** based on NPV10 BT Proved plus Probable (2P) reserves at December 31, 2012.

OUTLOOK & FORECAST

Surge's board of directors approved a capital budget of $140 million for 2013 with a balanced approach of production growth (approximately 16 percent growth in average daily production per share) and unlocking additional value in its high quality, large DPIIP light oil assets. Surge has allocated approximately $124 million to its 2013 drilling program, $9 million to waterflood implementation and optimization, $17 million to a combination of land, acquisitions, corporate and capitalized G&A expenditures and is planning $10 million of non-core dispositions late in the year. Surge is also pleased to announce that the Corporation's bank line was increased from $250 million to $290 million late in the fourth quarter of 2012, providing flexibility to execute the Corporation's 2013 capital program.

In 2013, management's primary goals for Surge include improving operational performance, improving capital efficiencies, maintaining balance sheet flexibility with an effective risk management program and confirming the commercial viability of the Corporation's waterflood program. In addition to Surge's Windfall waterflood pilot, which commenced injection during the third quarter of 2012, early in 2013 Surge implemented a horizontal well waterflood pilot at Waskada and will implement a waterflood program at Nipisi in the second quarter of 2013. In South East Alberta, two existing waterflood schemes will be optimized in 2013 and Surge will build new facilities and submit applications to commence two new schemes. The implementation of the waterflood pilots are an integral piece of Surge's strategy of increasing oil recovery factors throughout the Corporation's oil portfolio, lowering corporate decline rates and maximizing shareholder value.

With this 2013 budget, Surge expects to achieve greater than 15 percent growth in average production per share and funds from operations per share while maintaining its balance sheet. Based on Surge's 2013 guidance, the Corporation is forecasting growth in funds from operation per basic share of more than 235 percent since the Corporation was recapitalized in 2010 with a compound annual growth rate of 50 percent over that time. Surge is forecasting growth in production per basic share of more than 70 percent since 2010 with a compound annual growth rate of 20 percent over that time.

Surge is an oil focused oil and gas company with operations throughout Alberta, Manitoba and North Dakota. Surge's common shares trade on the Toronto Stock Exchange under the symbol SGY. At year end, the Corporation had 71.2 million basic and 70.9 million fully diluted common shares outstanding.

[4] It should not be assumed that the estimates of future net revenues presented in the tables below represent the fair market value of the reserves. There is no assurance that the forecast prices and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of our crude oil, natural gas liquids and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered.

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 "Corporation"), which includes its subsidiaries and partnership arrangements, is for the three months and years ended December 31, 2012 and 2011. For a full understanding of the financial position and results of operations of the Corporation, the MD&A should be read in conjunction with the documents filed on SEDAR, including historical financial statements, MD&A and the Annual Information Form (AIF). These documents are available at www.sedar.com.

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

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements.

More particularly, this MD&A contains statements concerning anticipated: (1) capital expenditures for 2013, (2) exploration, development, and acquisition activities, (3) average and exit oil, NGLs and natural gas production during 2013, (4) production weighting for 2013 (5) construction of new facilities, (6) funds from operations, (7) debt and bank facilities, (8) operating and transportation costs and (9) the availability and successful completion of acquisitions. 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, prevailing weather conditions, exchange rates, licensing requirements, the impact of completed facilities on operating costs and the availability and costs of capital, labour and services.

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 uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures. Certain of these risks are set out in more detail in Surge's Annual Information Form 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 Corporation'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 as follows:

Funds from Operations

($000s)	**Q4 2012**	Q3 2012	Q2 2012	Q1 2012	Q4 2011
Cash flow from operating activities	**$ 23,116**	$ 24,483	$ 23,391	$ 21,871	$ 19,073
Change in non-cash working capital	**945**	(4,634)	924	2,134	3,015
Funds from operations	**$ 24,061**	$ 19,849	$ 24,315	$ 24,005	$ 22,088

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

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 Corporation defines net debt as outstanding bank debt plus or minus working capital excluding the fair value of financial contracts.

Surge’s Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A. This MD&A is dated March 19, 2013.

OPERATIONS

Drilling

	Drilling		Success rate	Working
	Gross	Net	(%) gross	interest (%)
Q1 2012	18.00	13.89	100%	77%
Q2 2012	6.00	5.37	100%	90%
Q3 2012	18.00	15.29	94%	85%
Q4 2012	20.00	15.50	100%	78%
Total	**62.00**	**50.05**	**99%**	**81%**

Surge achieved a 99 percent success rate during the year ended December 31, 2012, drilling 62 gross (50.05 net) wells. The 62 gross wells drilled year to date include seven wells at Valhalla South, 20 wells in the Southeast (SE) Alberta area, 11 wells in Nipisi, 20 wells in the North Dakota area, and four wells at Waskada. The 20 gross wells drilled in Q4 include three wells at Valhalla South, seven wells in the SE Alberta area, one well in Nipisi, and nine wells in the North Dakota area. Fifteen of the 20 wells drilled in the fourth quarter were producing at quarter end with the rest to be completed and brought on production during the first quarter of 2013.

Production

	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011
Oil and NGL (bbls per day)	**6,398**	5,651	6,568	6,110	4,534
Natural gas (mcf per day)	**15,129**	15,846	16,246	17,398	17,885
Total (boe per day) (6:1)	**8,919**	8,292	9,275	9,009	7,514
% Oil and NGL	**72%**	68%	71%	68%	60%

Surge achieved an average production rate of 8,919 boe per day in the fourth quarter of 2012, a 19 percent increase from the fourth quarter of 2011 average production rate of 7,514 boe per day. Surge achieved an average production rate of 8,873 boe per day in 2012, a 49 percent increase as compared to the average 2011 production rate of 5,960 boe per day. The increase in the production volumes for both the fourth quarter and full year of 2012 compared to the same period in 2011 was primarily due to the results of the 2012 drilling program as well as the corporate acquisition in early 2012.

Surge realized a 72 percent oil and natural gas liquids production weighting in the fourth quarter of 2012. Surge realized average oil and natural gas liquids production of 6,398 bbls per day for the fourth quarter of 2012.

Oil, Natural Gas and NGL, Financial Contracts and Other Revenues

A three percent decrease in revenue per boe, combined with a 19 percent increase in production, resulted in revenues of $49.4 million in the fourth quarter of 2012, up 15 percent from $42.8 million in the same period of 2011. During 2012, a two percent decrease in revenue per boe, combined with a 49 percent increase in production, resulted in revenues of $192.7 million, up 47 percent from $131.5 million during the same period in 2011.

Surge had certain financial contracts in place as of December 31, 2012. Surge recognized an unrealized gain of $0.1 million and a realized gain of $1.4 million on its financial contracts in the fourth quarter of 2012. This compares to an unrealized loss of $6.5 million and a realized loss of $1.1 million on its financial contracts in the fourth quarter of 2011. In 2012, Surge recognized an unrealized gain of $5.2 million and a realized gain of $0.4 million on its financial contracts.

The realized financial contract gain resulted in an increase of $1.72 per boe to average revenue, including financial contracts, during the fourth quarter and an increase of $0.11 per boe for the year ended 2012. The unrealized financial contract gain resulted in an increase of $1.60 per boe to average revenue, including financial contracts, during 2012.

Please refer to the "Financial Instruments" section of this MD&A for further details on these oil and natural gas commodity contracts, and interest rate swaps.

Prices

The Corporation realized average revenue of $60.24 per boe in the fourth quarter of 2012, before realized financial contract gains, a decrease of three percent from the $61.93 per boe recorded in the same period of 2011. During 2012, Surge realized average revenue of $59.33 per boe, before realized financial contract gains, a decrease of two percent from the $60.45 per boe during the same period of 2011.

The Corporation realized an average of $74.78 per bbl of oil and natural gas liquids in the fourth quarter of 2012, a decrease of 16 percent from the $88.60 per bbl realized in the same period of 2011. This compares to an average Edmonton Light Sweet price of $83.99 per bbl during the fourth quarter of 2012, which decreased 14 percent per barrel from the $97.35 per bbl during the same period of 2011. The decrease in oil and natural gas liquids prices realized is relatively consistent with the decrease in benchmark prices, after adjusting for oil and NGL price differentials.

The Corporation realized an average of $78.01 per bbl of oil and natural gas liquids during 2012, a decrease of eight percent from the $84.91 per bbl realized during the same period of 2011. This compares to an average Edmonton Light Sweet price of $86.12 per bbl during 2012, which decreased nine percent per barrel from the $94.83 per bbl during the same period of 2011. The decrease in oil and natural gas liquids prices realized is consistent with the decrease in benchmark prices.

The Corporation realized an average natural gas price of $3.89 per mcf in the fourth quarter of 2012, an 11 percent increase from the $3.49 per mcf averaged in the same period of 2011. This compares to an average AECO reference price of $3.05 per mcf in the fourth quarter of 2012, which increased by one percent from the $3.01 per mcf in the same period of 2011. The increase in realized natural gas prices as compared to the increase in reference pricing is due to higher than average heat content associated with the natural gas produced in the Valhalla and Windfall areas.

The Corporation realized an average natural gas price of $2.73 per mcf during 2012, a 28 percent decrease from the $3.79 per mcf averaged during the same period of 2011. This compares to an average AECO reference price of $2.26 per mcf during 2012, which decreased 34 percent from the $3.43 per mcf in the same period of 2011. The decrease in natural gas prices is less than the decrease in benchmark prices, due to the higher than average heat content associated with the natural gas produced in the Valhalla and Windfall areas.

In the fourth quarter of 2012, approximately 89 percent of Surge’s revenue resulted from oil and natural gas liquids production, with approximately 11 percent derived from natural gas.

For the year ended December 31, 2012, approximately 92 percent of Surge’s revenue resulted from oil and natural gas liquids production, with approximately eight percent derived from natural gas.

Realized financial contract gains resulted in an increase of $1.72 per boe to the average revenue including financial contracts in the fourth quarter of 2012.

Realized financial contract gains resulted in an increase of $0.11 per boe to the average revenue including financial contracts during 2012.

Revenue and Realized Prices

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per amount)	**2012**	2011	% Change	**2012**	2011	% Change
Oil and NGL	**44,017**	36,954	19%	**176,474**	111,705	58%
Natural gas	**5,410**	5,741	(6%)	**16,129**	19,548	(17%)
Processing and other	**3**	117	(97%)	**57**	239	(76%)
Total oil, natural gas and NGL revenue	**49,430**	42,812	15%	**192,660**	131,492	47%
Oil and NGL ($ per bbl)	**74.78**	88.60	(16%)	**78.01**	84.91	(8%)
Natural gas ($ per mcf)	**3.89**	3.49	11%	**2.73**	3.79	(28%)
Total oil, natural gas and NGL revenue ($ per boe)	**60.24**	61.93	(3%)	**59.33**	60.45	(2%)
Realized gain (loss) on commodity contracts ($ per boe)	**1.72**	(1.62)	nm	**0.11**	(1.62)	nm
Total oil, natural gas, and NGL revenue after realized commodity contracts ($ per boe)	**61.96**	60.31	3%	**59.44**	58.83	1%
Reference Prices						
Edmonton Light Sweet ($ per bbl)	**83.99**	97.35	(14%)	**86.12**	94.83	(9%)
AECO Daily Index ($ per mcf)	**3.05**	3.01	1%	**2.26**	3.43	(34%)

Benchmark prices

	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011
($ per bbl)					
Benchmark - WTI (US$)	**88.18**	92.22	93.49	102.93	94.06
Difference - WTI realized to Edmonton Light Sweet (C$)	**(4.19)**	(7.89)	(9.55)	(10.84)	3.29
% Difference	**(5%)**	(9%)	(10%)	(11%)	3%
Benchmark - Edmonton Light Sweet (C$)	**83.99**	84.33	83.94	92.09	97.35
Difference - Surge realized to Edmonton Light Sweet (C$)	**(9.21)**	(8.39)	(7.63)	(6.90)	(8.75)
% Difference	**(11%)**	(10%)	(9%)	(7%)	(9%)
Surge realized prices (C$)	**74.78**	75.94	76.31	85.19	88.60
(C$ per mcf)					
Benchmark - AECO Daily Index	**3.05**	2.29	1.95	2.03	3.18
Surge realized prices	**3.89**	2.56	2.24	2.32	3.49
Difference	**0.84**	0.27	0.29	0.29	0.31
% Difference	**28%**	12%	15%	14%	10%

ROYALTIES

For the year ended December 31, 2012, Surge realized royalty expenses of $35.1 million or 18 percent of revenue, as compared to $17.5 million or 13 percent of revenue in the same period of 2011. Surge realized royalty expenses of $9.3 million or 19 percent of revenue in the fourth quarter of 2012, compared to $4.9 million or 11 percent of revenue in the same period of 2011. This increase in royalties as a percentage of revenue for the three months and year ended December 31, 2012 is the result of oil production that has produced beyond the volumes provided within the Alberta government's royalty incentive program, which reduced royalties on newly drilled horizontal wells, as well as mineral extraction and production taxes in North Dakota.

As royalties under the Alberta Royalty Framework (ARF) are sensitive to both commodity prices and production levels, the estimated ARF and 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 December 31,			Years Ended December 31,		
($000s except per boe)	**2012**	2011	% Change	**2012**	2011	% Change
Royalties	**9,319**	4,875	91%	**35,114**	17,537	100%
% of Revenue	**19%**	11%	73%	**18%**	13%	38%
$ per boe	**11.36**	7.05	61%	**10.81**	8.06	34%

OPERATING EXPENSES

For the year ended December 31, 2012, operating expenses per boe decreased by 25 percent to $11.61 per boe as compared to $15.58 per boe in the same period of 2011. Operating expenses per boe in the fourth quarter of 2012 decreased by 15 percent, to $12.68 per boe as compared to $14.92 per boe in the same period of 2011.

Operating expenses per boe for the three months and year ended December 31, 2012 decreased mainly due to production increases, as well as operational and processing efficiencies in Surge's core areas.

The management team continues to focus on finding efficiencies within existing operations and expects combined operating and transportation expenses per boe to remain relatively consistent in 2013 as compared with 2012.

Operating Expenses

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per boe)	**2012**	2011	% Change	**2012**	2011	% Change
Operating expenses	**10,402**	10,319	1%	**37,692**	33,885	11%
$ per boe	**12.68**	14.92	(15%)	**11.61**	15.58	(25%)

TRANSPORTATION EXPENSES

For the year ended December 31, 2012, transportation expenses per boe increased by one percent to $2.26 per boe, as compared to $2.23 per boe in the same period of 2011. This increase is primarily due to additional volumes produced during 2012 that were trucked in from areas that are not pipeline connected.

Transportation expenses per boe increased by 82 percent in the fourth quarter of 2012, to $2.56 per boe, as compared to $1.41 per boe in the fourth quarter of 2011. This increase is primarily due to additional volumes produced in the fourth quarter of 2012 that were trucked in from areas that are not pipeline connected.

The management team continues to focus on finding efficiencies within existing operations and expects combined operating and transportation expenses per boe to remain relatively consistent in 2013 as compared with 2012.

Transportation Expenses

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per boe)	**2012**	2011	% Change	**2012**	2011	% Change
Transportation expenses	**2,102**	976	115%	**7,330**	4,860	51%
$ per boe	**2.56**	1.41	82%	**2.26**	2.23	1%

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

Net G&A expenses per boe for the year ended December 31, 2012 decreased 24 percent to $3.34 per boe as compared to $4.37 per boe in the same period of 2011. G&A expenses for the year, net of recoveries and capitalized amounts of $6.3 million, were $10.8 million, compared to $9.5 million in the same period of 2011, after recoveries and capitalized amounts of $7.2 million. This increase in gross G&A expenses is primarily due to additional staff in 2012 versus 2011.

The decrease in net G&A per boe for the year ended December 31, 2012 is primarily due to the increased production levels as compared to the same periods in 2011.

Net G&A expenses per boe for the fourth quarter of 2012 increased 3 percent to $3.08 per boe as compared to $3.00 per boe in the same period of 2011. G&A expenses for the fourth quarter of 2012, net of recoveries and capitalized amounts of $0.6 million, were $2.5 million, compared to $2.1 million in the same period of 2011, after recoveries and capitalized amounts of $2.1 million.

G&A Expenses

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per boe)	**2012**	2011	% Change	**2012**	2011	% Change
G&A expenses	**3,114**	4,127	(25%)	**17,180**	16,762	2%
Recoveries and capitalized amounts	**(583)**	(2,051)	(72%)	**(6,342)**	(7,247)	(12%)
Net G&A expenses	**2,531**	2,076	22%	**10,838**	9,515	14%
Net G&A expenses $ per boe	**3.08**	3.00	3%	**3.34**	4.37	(24%)

TRANSACTION COSTS

Transaction costs of $0.7 million or $0.23 per boe during 2012 were related to evaluation and review of business and property acquisitions. This is compared to $0.2 million or $0.11 per boe during the same period of 2011.

Transaction Costs

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per boe)	**2012**	2011	% Change	**2012**	2011	% Change
Transaction costs	**82**	151	(47%)	**740**	246	201%
$ per boe	**0.10**	0.22	(55%)	**0.23**	0.11	109%

FINANCE EXPENSES

During the year ended December 31, 2012, Surge incurred interest expense of $6.8 million or $2.10 per boe as compared to $3.2 million or $1.46 per boe in the same period of 2011. Surge incurred interest expense of $2.1 million or $2.56 per boe in the fourth quarter of 2012 as compared to $0.8 million or $1.22 per boe in the same period of 2011. Average debt for the three months and year ended December 31, 2012 was $181.6 million and $133.4 million, respectively. The increased interest expense per boe during the three months and year ended December 31, 2012 is primarily due to higher debt levels as compared to the same period of 2011.

Accretion represents the change in the time value of the decommissioning liability. Accretion expense per boe decreased for the three months and year ended December 31, 2012 compared to the same periods of 2011 due to property dispositions during the last nine months of 2011 and increased production. 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. Similarly, this future obligation can be reduced as a result of abandonment work undertaken.

Finance Expenses

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per boe)	**2012**	2011	% Change	**2012**	2011	% Change
Interest expense	**2,100**	843	149%	**6,808**	3,176	114%
$ per boe	**2.56**	1.22	110%	**2.10**	1.46	44%
Accretion expense	**266**	241	10%	**1,041**	1,017	2%
$ per boe	**0.32**	0.35	(9%)	**0.32**	0.47	(32%)
Finance expenses	**2,366**	1,084	118%	**7,849**	4,193	87%
$ per boe	**2.88**	1.57	83%	**2.42**	1.93	25%

NETBACKS

In the year ended December 31, 2012, 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 per boe) was $34.65, an increase from the $34.58 recorded during the same period of 2011. The increased operating netback was attributable to a 25 percent decrease in the operating costs per boe, offset by a 34 percent increase in royalties per boe, and a two percent decrease in revenue per boe, and a one percent increase in the transportation costs per boe. The increase in Surge's corporate netback was due to a 24 percent decrease in G&A expense per boe during the year and offset by a 44 percent increase in interest expense per boe, as compared to the same period of 2011.

During the fourth quarter of 2012, Surge's operating netback was $33.64, a 13 percent decrease from the $38.55 recorded during the same period of 2011. The decrease in operating netback was attributable to a 82 percent increase in transportation costs per boe, a 61 percent increase in royalties per boe, and a three percent decrease in revenue per boe, partially offset by a 15 percent decrease in the operating costs per boe. The decrease in corporate netback for the quarter was impacted by a three percent increase in G&A expense per boe and a 110 percent increase in interest expense per boe, as compared to the same period of 2011.

Corporate Average Netbacks, Excluding Hedging Activity

	Three Months Ended December 31,			Years Ended December 31,		
($ per boe, except production)	**2012**	2011	% Change	**2012**	2011	% Change
Average production (boe per day)	**8,919**	7,514	19%	**8,873**	5,960	49%
Revenue	**60.24**	61.93	(3%)	**59.33**	60.45	(2%)
Royalties	**(11.36)**	(7.05)	61%	**(10.81)**	(8.06)	34%
Operating costs	**(12.68)**	(14.92)	(15%)	**(11.61)**	(15.58)	(25%)
Transportation costs	**(2.56)**	(1.41)	82%	**(2.26)**	(2.23)	1%
Operating netback	**33.64**	38.55	(13%)	**34.65**	34.58	0%
G&A expense	**(3.08)**	(3.00)	3%	**(3.34)**	(4.37)	(24%)
Interest expense	**(2.56)**	(1.22)	110%	**(2.10)**	(1.46)	44%
Corporate netback	**28.00**	34.33	(18%)	**29.21**	28.75	2%

Corporate Average Netbacks, Including Hedging Activity

	Three Months Ended December 31,			Years Ended December 31,		
($ per boe)	**2012**	2011	% Change	**2012**	2011	% Change
Operating netback	**33.65**	38.55	(13%)	**34.65**	34.58	0%
Realized gain (loss) on commodity contracts	**1.72**	(1.62)	nm	**0.11**	(1.62)	nm
Operating netback, net of hedging activity	**35.37**	36.93	(4%)	**34.76**	32.96	5%
G&A expense	**(3.08)**	(3.00)	3%	**(3.34)**	(4.37)	(24%)
Interest expense	**(2.56)**	(1.22)	110%	**(2.10)**	(1.46)	44%
Corporate netback	**29.73**	32.71	(9%)	**29.32**	27.13	8%

FUNDS FROM OPERATIONS AND CASH FLOW FROM OPERATING ACTIVITIES

During the three months ended December 31, 2012, funds from operations increased nine percent to $24.1 million compared to $22.1 million in the same period of 2011. On a per share basis, funds from operations decreased six percent to $0.34 per basic share in the fourth quarter of 2012 from $0.36 per basic share in the fourth quarter of 2011.

During 2012, funds from operations increased by 60 percent to $92.2 million compared to $57.8 million in the same period of 2011. On a per share basis, funds from operations increased by 30 percent to $1.30 per basic share during 2012 from $1.00 per basic share in the same period of 2011.

Funds from operations per share increased by 21 percent to $0.34 in the fourth quarter from $0.28 in the third quarter of 2012. Funds from operations increased by 22 percent to $24.1 million in the fourth quarter from $19.8 million in the third quarter of 2012.

Cash flow from operating activities differs from funds from operations due to the inclusion of changes in non-cash working capital. Cash flow from operations for the three months ended December 31, 2012, was $23.1 million as compared to $19.0 million in the same period of 2011.

Included in cash flow from operating activities is an increase in non-cash working capital of $0.9 million in the fourth quarter of 2012 and an increase of $3.1 million from the same period in 2011.

Cash flow from operations for 2012 was $92.9 million as compared to $56.6 million in the same period of 2011.

Funds from Operations

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per share and per boe)	**2012**	2011	% Change	**2012**	2011	% Change
Funds from operations	**24,061**	22,088	9%	**92,232**	57,789	60%
Per share - basic ($)	**0.34**	0.36	(6%)	**1.30**	1.00	30%
Per share - diluted ($)	**0.34**	0.35	(3%)	**1.30**	0.98	33%
$ per boe	**29.32**	31.95	(8%)	**28.40**	26.57	7%
Cash flow from operating activities	**23,116**	19,022	22%	**92,861**	56,639	64%

STOCK-BASED COMPENSATION

Surge recorded net stock-based compensation expense of $3.4 million during the year ended December 31, 2012, compared to $3.5 million for the same period of 2011. The fair value of the options was calculated using the Black-Scholes option-pricing model.

Surge recorded net stock-based compensation expense of $0.9 million during the three months ended December 31, 2012, compared to $1.1 million for the same period of 2011. The fair value of the options was calculated using the Black-Scholes option-pricing model.

During the year ended 2012, 2,433,450 options were issued at a weighted average exercise price of $7.49 per option, 230,330 options were exercised at a weighted average exercise price of $6.04 and 571,418 options were forfeited at a weighted average price of $8.11 per option.

The following assumptions were used to calculate stock-based compensation during 2012: zero dividend yield; expected volatility of 69 percent; risk free rate of two percent; and expected life of five years.

Stock-based compensation

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per boe)	**2012**	2011	% Change	**2012**	2011	% Change
Stock-based compensation	**2,273**	2,635	(14%)	**8,423**	8,315	1%
Capitalized stock-based compensation	**(1,381)**	(1,575)	(12%)	**(4,992)**	(4,853)	3%
Net stock-based compensation	**892**	1,060	(16%)	**3,431**	3,462	(1%)
Net stock-based compensation $ per boe	**1.09**	1.53	(29%)	**1.06**	1.59	(33%)

DEPLETION AND DEPRECIATION

Depletion and depreciation are calculated based upon capital expenditures, production rates and proved plus probable reserves. Deducted from the Corporation's depletion and depreciation calculation are costs associated with salvage values of $31.3 million. Future development costs for proved and probable reserves of $256.9 million have been included in the depletion calculation.

Surge recorded $69.3 million or $21.33 per boe in depletion and depreciation expense during the year ended December 31, 2012, as compared to $39.5 million or $18.15 per boe in depletion and depreciation expense in the same period of 2011. This increase is due primarily to the Pradera acquisition, which was booked at fair value, as well as 2012 capital spending.

Surge recorded $17.0 million or $20.72 per boe in depletion and depreciation expense during the three months ended December 31, 2012 as compared to $12.6 million or $18.23 per boe in depletion and depreciation expense in the same period of 2011. This increase is due primarily to the Pradera acquisition, which was booked at fair value, as well as fourth quarter 2012 capital spending.

The depletion and depreciation calculation is based on daily production volumes of 8,873 boed for the year ended December 31, 2012 and 8,919 boed for the quarter.

Depletion and Depreciation Expense

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per boe)	**2012**	2011	% Change	**2012**	2011	% Change
Depletion and depreciation expense	**17,000**	12,604	35%	**69,262**	39,491	75%
$ per boe	**20.72**	18.23	14%	**21.33**	18.15	18%

IMPAIRMENT

During the year ended December 31, 2012 Surge wrote down certain assets, which resulted in an impairment expense of $98.8 million for the year. Approximately 10 percent of the impairment is due to the reduced forward price curves used by Sproule, which reduced the NPV of the Company's reserves as compared to their carrying values. Included in the $98.8 million impairment was $5.9 million of goodwill impairment. The majority of the impairment is due to poorer reservoir performance in Windfall and Waskada as compared to the prior year. PUD locations were removed and the production performance experienced in the producing horizontal wells resulted in a decrease in estimated ultimate reserves. Assuming successful water-flood projects at both Waskada and Windfall in 2013, the Corporation expects to be able to increase the reserves at both properties in the future.

Impairment

($000s except per boe)	Three Months Ended December 31, 2012	2011	% Change	Years Ended December 31, 2012	2011	% Change
Impairment	**98,775**	9,000	998%	**98,775**	9,000	998%
$ per boe	**120.37**	13.02	825%	**30.42**	4.14	635%

NET INCOME (LOSS)

The Corporation recorded a net loss for the year ended December 31, 2012 of $53.2 million or $0.75 per basic share, compared to a net income of $2.1 million or $0.04 per basic share for the same period of 2011. The cause for the change in net income is primarily due to the impairment expense recorded in 2012, offset by increased production.

The Corporation recorded a net loss for the three months ended December 31, 2012 of $68.2 million or $0.96 per basic share, compared to a net loss of $5.5 million or $0.09 per basic share for the same period of 2011. The cause for the change in net income is primarily due to the impairment expense recorded in the three months ended December 31, 2012.

Net Income (Loss)

($000s except per share)	Three Months Ended December 31, 2012	2011	% Change	Years Ended December 31, 2012	2011	% Change
Net Income (Loss)	**(68,187)**	(5,531)	nm	**(53,243)**	2,095	nm
Per share - basic ($)	**(0.96)**	(0.09)	nm	**(0.75)**	0.04	nm
Per share - diluted ($)	**(0.96)**	(0.09)	nm	**(0.75)**	0.04	nm

CAPITAL EXPENDITURES

During the year ended December 31, 2012, Surge invested a total of $290.4 million, net of dispositions of $4.0 million. Surge invested $124.2 million to drill 62 gross (50.05 net) wells.

In addition, Surge invested $34.7 million in facilities, equipment, and pipelines, $14.7 million in land and seismic acquisitions, and $7.2 million on other capital items.

During the fourth quarter of 2012, Surge invested a total of $42.3 million, net of dispositions of $2.7 million. Surge invested $33.3 million to drill 20 gross (15.50 net) wells.

In addition, Surge invested $9.6 million in facilities, equipment, and pipelines, $0.9 million in land and seismic acquisitions, and $1.2 million on other capital items.

Capital Expenditure Summary

($000s)	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012 YTD	2011 YTD	Change
Land	4,303	4,732	2,680	807	**12,522**	23,384	(46%)
Seismic	991	1,049	42	90	**2,172**	1,611	35%
Drilling and completions	38,537	13,461	38,927	33,290	**124,215**	89,684	39%
Facilities, equipment and pipelines	9,102	5,995	9,980	9,577	**34,654**	29,243	19%
Other	1,968	2,468	1,504	1,211	**7,151**	6,175	16%
Total exploration and development	54,901	27,705	53,133	44,975	**180,714**	150,097	20%
Acquisitions - cash consideration	18,500	9,347	-	-	**27,847**	24,909	12%
Acquisitions - debt acquired	14,623	-	-	-	**14,623**	-	nm
Acquisitions - share based consideration	71,275	-	-	-	**71,275**	-	nm
Property dispositions	-	-	(1,354)	(2,662)	**(4,016)**	(9,848)	(59%)
Total acquisitions & dispositions	104,398	9,347	(1,354)	(2,662)	**109,729**	15,061	629%
Total capital expenditures	159,299	37,052	51,779	42,313	**290,443**	165,158	76%

Quarterly & Annual Financial Information

	Year end 2012	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Year end 2011	Q4 2011
Oil, Natural gas & NGL sales	**192,660**	49,430	43,243	48,927	51,060	131,492	42,812
Net earnings (loss)	**(53,243)**	(68,187)	(986)	13,273	2,657	2,095	(5,531)
Net earnings (loss) per share ($):							
Basic	**(0.75)**	(0.96)	(0.01)	0.19	0.04	0.04	(0.09)
Diluted	**(0.75)**	(0.96)	(0.01)	0.18	0.04	0.04	(0.09)
Total assets	**681,444**					516,062	
Total long-term financial liabilities	**194,523**					72,197	
Average daily sales							
Oil & NGL (bbls/d)	**6,181**	6,398	5,651	6,568	6,110	3,604	4,534
Natural gas (mcf/d)	**16,151**	15,129	15,846	16,246	17,398	14,133	17,885
Barrels of oil equivalent (boe per day) (6:1)	**8,873**	8,919	8,292	9,275	9,009	5,960	7,514
Average sales price							
Natural gas ($/mcf)	**2.73**	3.89	2.56	2.24	2.32	3.79	3.49
Oil & NGL ($/bbl)	**78.01**	74.78	75.94	76.31	85.19	84.91	88.60
Barrels of oil equivalent ($/boe)	**59.33**	60.24	56.70	57.97	62.28	60.45	61.93

Quarterly & Annual Financial Information

	Q3 2011	Q2 2011	Q1 2011	Year end 2010	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Oil, Natural gas & NGL sales	33,012	29,796	25,872	57,927	18,544	14,264	11,141	13,978
Net earnings (loss)	4,811	3,317	(502)	(7,695)	(3,999)	664	(7,109)	2,749
Net earnings (loss) per share ($):								
Basic	0.09	0.06	(0.01)	(0.21)	(0.08)	0.02	(0.26)	0.15
Diluted	0.08	0.06	(0.01)	(0.21)	(0.08)	0.02	(0.26)	0.14
Total assets				378,544				
Total long-term financial liabilities				30,000				
Average daily sales								
Oil & NGL (bbls/d)	3,781	2,995	3,090	1,871	2,308	1,841	1,621	1,707
Natural gas (mcf/d)	14,313	12,334	11,915	6,930	10,182	7,783	3,823	5,874
Barrels of oil equivalent (boe per day) (6:1)	6,166	5,051	5,076	3,026	4,050	3,138	2,258	2,686
Average sales price								
Natural gas ($/mcf)	3.81	4.13	3.88	3.96	3.55	3.71	3.74	5.20
Oil & NGL ($/bbl)	80.29	92.36	77.86	69.83	70.70	69.33	66.57	72.35
Barrels of oil equivalent ($/boe)	58.19	64.83	56.64	52.45	50.33	49.41	54.22	57.83

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 fourth quarter of 2010 through the current quarter are due to Surge's successful drilling program, as well as corporate and asset acquisitions over that period.

Net earnings were impacted in the fourth quarters of 2011 and 2012 by impairment charges against certain cash generating units. Please refer to the Financial and Operating Results section and other sections of this MD&A for detailed discussions on variations during the comparative quarters and to Surge's previously issued interim and annual MD&A for changes in prior quarters.

Share Capital and Option Activity

	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Weighted Common Shares	**71,196,143**	71,117,390	71,057,943	70,474,105	62,124,542	56,118,838	56,098,181	56,094,747
Stock option dilution (treasury method)[1]	**-**	-	1,080,348	1,711,244	1,189,529	1,348,828	1,187,618	-
Weighted average dilution shares oustanding[1]	**71,196,143**	71,117,390	72,138,291	72,185,349	63,314,071	57,467,666	57,285,799	56,094,747

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

On March 19, 2013 Surge had 71,217,346 common shares, 2,047,272 performance warrants and 6,535,533 options outstanding.

LIQUIDITY AND CAPITAL RESOURCES

On December 31, 2012, Surge had net debt of $220.6 million. Surge has approximately $69.4 million of borrowing capacity in relation to the $290 million, giving Surge considerable financial flexibility through 2013.

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 Corporation to meet its capital requirements.

The Corporation defines net debt as outstanding bank debt plus or minus cash-based working capital excluding the fair value of financial contracts as follows:

Net Debt

($000s)		
Bank debt	$	(194,523)
Accounts receivable		25,260
Prepaid expenses and deposits		2,508
Accounts payable and accrued liabilities		(53,823)
Total	**$**	**(220,578)**

As at December 31, 2012, the Corporation had a $290 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 5, 2013. On May 5, 2013, 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 2.00 percent as at December 31, 2012 (December 31, 2011 – prime plus 1.75 percent). Average debt for the three months and year ended December 31, 2012 was $181.6 million and $133.4 million, respectively.

Surge's facility is secured by a general assignment of book debts, debentures of $500.0 million 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.

RELATED-PARTY AND OFF-BALANCE-SHEET TRANSACTIONS

Surge was not involved in any off-balance-sheet transactions or related party transactions during the three months and year ended December 31, 2012.

CONTRACTUAL OBLIGATIONS

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

Surge has future minimum payments relating to its operating leases and firm transportation agreements totalling $10.1 million, as summarized below:

Commitments

($000s)	
2013	$ 2,511
2014	2,212
2015	1,993
2016	1,514
2017	1,250
2018+	615
Total	**$ 10,095**

CONTINGENCIES

The Corporation is defending a legal action brought forth by a third party rights owner alleging that Surge is producing their gas from the Halfway formation as a result of cross-flow from the Halfway formation into the Corporation's Doig formation at Valhalla. If the defense against the action were to be unsuccessful, management does not expect the outcome of the action to have a material effect on the Corporation's financial position. The amount of potential damages and legal costs have not been determined due to the complex nature of the claim and calculations required to determine what amount would be owing due to the cross-flow.

FINANCIAL INSTRUMENTS

As a means of managing commodity price and interest rate 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). The fair value of options is based on option models that use published information with respect to volatility, prices and interest rates.

The following table summarizes the Corporation's current hedging positions as at the date of this MD&A's release by period and by product. Further detail on the individual hedges can be found in the Financial Statements and Subsequent Event Note that follows.

WTI-to-Edm Oil Differential Hedges

Period	Volume Hedged (bbl/d)	Avg Discount to WTI (C$)
Mar 2013	1,000	$ (7.50)
Q2 2013	2,000	$ (7.68)
Q3 2013	2,000	$ (7.93)
Q4 2013	2,000	$ (7.93)

WTI Oil Hedges

Period	Volume Hedged (bbl/d)	Avg Floor Price (Surge receives) (C$ per bbl)
Q1 2013	3,500	$ 93.06
Q2 2013	3,500	$ 93.10
Q3 2013	2,850	$ 93.85
Q4 2013	2,850	$ 93.85
Q1 2014	1,000	$ 91.83
Q2 2014	1,000	$ 91.83
Q3 2014	1,000	$ 91.83
Q4 2014	1,000	$ 91.83

AECO Gas Hedges

Period	Volume Hedged (mcf/d)	Avg Swap Price (Surge receives) (C$ per mcf)
Q1 2013	8,441	$ 3.39
Q2 2013	8,441	$ 3.39
Q3 2013	8,441	$ 3.39
Q4 2013	8,441	$ 3.39
Q1 2014	4,220	$ 3.69
Q2 2014	4,220	$ 3.69
Q3 2014	4,220	$ 3.69
Q4 2014	4,220	$ 3.69

SUBSEQUENT EVENTS

Subsequent to the fourth quarter, Surge entered into the following financial natural gas commodity pricing contracts:

WTI Oil Contracts

	Term	Type	Volume	Price (C$) (Surge Receives)	Index (Surge pays)
1)	Jul 1, 2013 - Dec 31, 2013	Swap	350bbls/d	96.25	$USD WTI - NYMEX

EDM to WTI Oil Differential Contracts

	Term	Type	Volume	Differential (C$) (Surge Receives)	Index (Surge pays) (C$)
1)	Apr 1, 2013 - Dec 31, 2013	Swap	1,000bbls/d	8.35	TMX SW 1a (Edm-to-WTI)
2)	Apr 1, 2013 - Jun 30, 2013	Swap	1,000bbls/d	7.00	TMX SW 1a (Edm-to-WTI)
3)	Jul 1, 2013 - Dec 31, 2013	Swap	1,000bbls/d	7.50	TMX SW 1a (Edm-to-WTI)

AECO Gas Contracts

	Term	Type	Volume	Price (C$) (Surge Receives)	Index (Surge pays) (C$)
1)	Jan 1, 2014 - Dec 31, 2014	Swap	2,000 gj/d	3.40	AECO - Daily

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 Corporation'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 Corporation is made known to the Corporation'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 Corporation 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 Commision ("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 Corporation's ICFR during the year ended December 31, 2012 that materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

Disclosure Controls

Disclosure controls and procedures have been designed to ensure that information to be disclosed by the Corporation 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 Corporation's design of disclosure controls and procedures ("DC&P"). Based on that evaluation, the officers concluded that Surge's DC&P were effective as at December 31, 2012.

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 Corporation'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 Corporation's ICFR as at December 31, 2012 based on the COSO framework. Based on this evaluation, the officers concluded that as of December 31, 2012, 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 cashflows.

FUTURE ACCOUNTING POLICY CHANGES

The IASB issued four new standards and two amendments to existing standards. Five of these items relate to consolidation, while the remaining one addresses fair value measurement. All of the new standards are effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted.

IFRS 10 – Consolidated Financial Statements replaces IAS 27 – Consolidated Separate Financial Statements. It introduces a new principle-based definition of control, applicable to all investees to determine the scope of consolidation. The standard provides the framework for consolidated financial statements and their preparation based on the principle of control.

IFRS 11 – Joint Arrangements replaces IAS 31 – Interests in Joint Ventures. IFRS 11 divides joint arrangements into two types, each having its own accounting model. A “joint operation” continues to be accounted for using proportionate consolidation, where a “joint venture” must be accounted for using equity accounting. This differs from IAS 31, where there was the choice to use proportionate consolidation or equity accounting for joint ventures. A “joint operation” is defined as the joint operators having rights to the assets, and obligations for the liabilities, relating to the arrangement. In a “joint venture”, the joint ventures’ have rights to the net assets of the arrangement, typically through their investment in a separate joint venture entity.

IFRS 12 – Disclosure of Interests in Other Entities is a new standard, which combines all of the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities.

IFRS 13 – Fair Value Measurement is a new standard meant to clarify the definition of fair value, provide guidance on measuring fair value and improve disclosure requirements related to fair value measurement.

IAS 28 – Investments in Associates and Joint Ventures has been amended as a result of the issuance of IFRS 11 and the withdrawal of IAS 31. The amended standard sets out the requirements for the application of the equity method when accounting for interest in joint ventures, in addition to interests in associates.

IAS 27 – Separate Financial Statements has been amended to focus solely on accounting and disclosure requirements when an entity presents separate financial statements, due to the issuance of the new IFRS 10 which is specific to consolidated financial statements.

In November 2009, the IASB published IFRS 9 – Financial Instruments, which covers the classification and measurement of financial assets as part of its project to replace IAS 39 – Financial Instruments: Recognition and Measurement. In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to a company's own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective for the Corporation on January 1, 2015. Early adoption is permitted and the standard is required to be applied retrospectively.

The Corporation is currently evaluating the impact of adopting all of the newly issued and amended standards.

RISK FACTORS

Additional risk factors can be found under "Risk Factors" in the Corporation's 2012 Annual Information Form, which can be found on www.sedar.com. Many risks are discussed below and in the 2012 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 Corporation'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 Corporation'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 Corporation to meet its capital requirements. If any components of the Corporation's business plan are missing, the Corporation 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 Corporation'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 Corporation'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 Corporation 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 Corporation'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 Corporation'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 Corporation'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 Corporation will in part be determined by the Corporation'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 Corporation 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 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 required to shift to the NRF on January 1, 2014. All wells drilled prior to November 19, 2008 will move to the NRF on January 1, 2009.