MANAGEMENT'S LETTER

Management is responsible for the integrity and objectivity of the information contained in these financial statements. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected with all information available up to March 19, 2014. The financial statements have been prepared using policies and procedures established by management in accordance with Canadian generally accepted accounting principles and reflect fairly Surge's financial position, results of operations and cash flow.

KPMG LLP, independent auditors appointed by the shareholders, has examined the consolidated financial statements, and Sproule Associates Limited and McDaniel & Associates Consultants Ltd. have reviewed the corporate reserves. Their examinations provide independent views as to the amounts and disclosures in the financial statements.

The Audit Committee, consisting exclusively of independent directors, has reviewed in detail the financial statements with management and the external auditors and has recommended their approval to the Board of Directors.

The Board of Directors has approved the financial statements.

(Signed)	*(Signed)*
Paul Colborne	Maxwell A. W. Lof
President and Chief Executive Officer	Chief Financial Officer

March 19, 2014

To the Shareholders of Surge Energy Inc.

We have audited the accompanying consolidated financial statements of Surge Energy Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Surge Energy Inc. as at December 31, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed)

KPMG LLP

Chartered Accountants
Calgary, Canada

March 19, 2014

Consolidated Statements of Financial Position
Stated in thousand of dollars

As at	December 31, 2013	December 31, 2012
Assets		
Current Assets		
Accounts receivable	$ 36,036	$ 25,260
Fair value of financial contracts (note 10)	—	2,384
Prepaid expenses and deposits	3,258	2,508
	39,294	30,152
Exploration and evaluation assets (note 7)	25,149	70,726
Petroleum and natural gas properties (note 8)	1,312,282	575,483
Deferred income taxes (note 16)	—	5,083
	$ 1,376,725	$ 681,444
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 57,808	$ 53,823
Dividends payable	7,216	—
Fair value of financial contracts (note 10)	12,604	957
Current portion of other long term obligations (note 5)	1,915	—
	79,543	54,780
Fair value of financial contracts (note 10)	982	1,137
Bank debt (note 11)	279,619	194,523
Decommissioning obligations (note 12)	85,172	39,339
Other long term obligations (note 5)	4,303	—
Deferred income taxes (note 16)	72,912	40,666
Shareholders' equity		
Share capital	884,676	351,957
Contributed surplus	27,123	20,495
Warrants	7,284	7,059
Accumulated other comprehensive loss	—	(43)
Deficit	(64,889)	(28,469)
	854,194	350,999
Contingency (note 20)		
Subsequent events (note 21)		
	$ 1,376,725	$ 681,444

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

Approved on behalf of the Board:

(Signed)
Keith MacDonald, Director

(Signed)
Paul Colborne, Director

Consolidated Statements of Loss and Comprehensive Loss

Stated in thousands of dollars, except per share amounts

	Years Ended December 31, 2013	2012
Revenues		
Petroleum and natural gas (note 14)	**$ 271,932**	$ 192,660
Royalties (note 14)	**(49,674)**	(35,114)
Realized gain (loss) on financial contracts (note 10)	**(8,377)**	355
Unrealized gain (loss) on financial contracts (note 10)	**(13,876)**	5,192
	200,005	163,093
Expenses		
Operating	**49,405**	37,692
Transportation	**8,511**	7,330
General and administrative	**12,186**	10,838
Legal settlement (note 20)	**3,550**	—
Bad debt provision	**444**	—
Transaction costs (note 5)	**8,891**	740
Stock-based compensation (note 13)	**9,926**	3,431
Depletion and depreciation (note 8)	**82,410**	69,262
Impairment (note 9)	**51,189**	98,775
Finance expense (note 15)	**11,645**	7,849
Gain on disposal of petroleum and natural gas properties (note 6)	**(1,531)**	(1,329)
Gain on acquisition of petroleum and natural gas properties (note 5)	**(22,682)**	—
	213,944	234,588
Loss before income taxes	**(13,939)**	(71,495)
Current tax expense on disposal	**1,492**	—
Deferred income tax recovery (note 16)	**(5,545)**	(18,252)
Total tax recovery (note 16)	**(4,053)**	(18,252)
Net loss for the year	**$ (9,886)**	$ (53,243)
Other comprehensive income:		
Currency translation adjustment	**1,359**	(1,048)
Transfer of cumulative translation adjustment to earnings	**(1,316)**	—
Other comprehensive income (loss) for the year	**43**	(1,048)
Total comprehensive loss for the year	**$ (9,843)**	$ (54,291)
Loss per share (note 13)		
Basic	**$ (0.10)**	$ (0.75)
Diluted	**$ (0.10)**	$ (0.75)

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

Consolidated Statements of Changes in Shareholders' Equity

Stated in thousands of dollars, except share amounts

	Number of common shares	Share capital	Contributed surplus	Performance warrants	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total equity
Balance at December 31, 2011	63,040,987	$ 278,302	$ 12,879	$ 7,196	$ 1,005	$ 24,774	$ 324,156
Net loss for the year	—	—	—	—	—	(53,243)	(53,243)
Other comprehensive loss	—	—	—	—	(1,048)	—	(1,048)
Issued pursuant to acquisition	7,919,436	71,275	—	—	—	—	71,275
Share issue costs (net of tax of $30)	—	(92)	—	—	—	—	(92)
Stock-based compensation	—	—	8,423	—	—	—	8,423
Transfer on exercise of options & warrants	—	944	(807)	(137)	—	—	—
Options exercised	230,330	1,391	—	—	—	—	1,391
Warrants exercised	26,592	137	—	—	—	—	137
Balance at December 31, 2012	71,217,345	$ 351,957	$ 20,495	$ 7,059	$ (43)	$ (28,469)	$ 350,999
Net loss for the year	—	—	—	—	—	(9,886)	(9,886)
Other comprehensive income	—	—	—	—	1,359	—	1,359
Issued pursuant to acquisitions	34,343,769	222,548	—	—	—	—	222,548
Transfer of cumulative translation adjustment to earnings	—	—	—	—	(1,316)	—	(1,316)
Stock-based compensation	—	—	7,237	—	—	—	7,237
Transfer on exercise of options & warrants	—	3,906	(609)	(3,297)	—	—	—
Warrants exercised	955,439	4,940	—	—	—	—	4,940
Options exercised	166,476	640	—	—	—	—	640
Issued pursuant to private placement	700,280	2,500	—	3,522	—	—	6,022
Issued pursuant to short form prospectus	59,160,000	310,773	—	—	—	—	310,773
Share issue costs, net of tax of $4.2 million	—	(12,588)	—	—	—	—	(12,588)
Dividends	—	—	—	—	—	(26,534)	(26,534)
Balance at December 31, 2013	**166,543,309**	**$ 884,676**	**$ 27,123**	**$ 7,284**	**$ —**	**$ (64,889)**	**$ 854,194**

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

Consolidated Statements of Cash Flows

Stated in thousands of dollars

	Years Ended December 31,	
	2013	2012
Cash provided by (used in)		
Operating		
Net loss	**$ (9,886)**	$ (53,243)
Gain on disposal of petroleum and natural gas properties	**(1,531)**	(1,329)
Gain on acquisition of petroleum and natural gas properties	**(22,682)**	—
Unrealized (gain) loss on financial contracts	**13,876**	(5,192)
Finance expense	**11,645**	7,849
Interest expense	**(9,648)**	(6,808)
Depletion and depreciation	**82,410**	69,262
Impairment	**51,189**	98,775
Decommissioning expenditures	**(966)**	(2,261)
Bad debt provision	**444**	—
Stock-based compensation	**9,926**	3,431
Deferred income tax recovery	**(5,545)**	(18,252)
Change in non-cash working capital (note 18)	**(6,205)**	629
Cash flow from operating activities	**113,027**	92,861
Financing		
Bank debt	**60,577**	107,703
Dividends paid	**(19,318)**	—
Issue of common shares, net of issue costs	**302,070**	1,406
Cash flow from financing activities	**343,329**	109,109
Investing		
Petroleum and natural gas properties	**(117,495)**	(155,110)
Exploration and evaluation assets	**(8,051)**	(25,604)
Disposition of petroleum and natural gas properties	**44,603**	4,016
Acquisitions (note 5)	**(371,150)**	(27,847)
Change in non-cash working capital (note 18)	**(4,263)**	2,575
Cash flow used in investing activities	**(456,356)**	(201,970)
Change in cash	**—**	—
Cash, beginning of the year	**—**	—
Cash, end of the year	**$ —**	$ —

Cash is defined as cash and cash equivalents.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 transitioned in the third quarter of 2013 to 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. Surge's wholly-owned subsidiaries and partnerships are as follows:

- Surge General Partnership - Formed in Alberta, Canada
- 1413942 Alberta Limited - Incorporated in Alberta, Canada

During the year ended December 31, 2013, the Corporation sold one of its subsidiaries, Surge Energy USA Inc., as described in note 6.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

The consolidated financial statements were authorized for issuance by the Board of Directors on March 19, 2014.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments which are measured at fair value.

The methods used to measure fair values are discussed in note 4.

(c) Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the Corporation's and its subsidiaries' functional currency. Surge Energy USA Inc. had a U.S. dollar functional currency prior to its disposal.

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially from these estimates.

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and for any future years affected.

Critical Judgments in Applying Accounting Policies

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

The Corporation's assets are aggregated into cash-generating units for the purpose of calculating impairment. Cash generating units ("CGU" or "CGUs") are based on an assessment of the unit's ability to generate independent cash inflows. The determination of these CGUs was based on management's judgment in regards to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality.

Judgments are required to assess when impairment indicators exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

The application of the Corporation's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found in assessing if technical feasibility and commercial reserves have been achieved.

Key Sources of Estimation Uncertainty

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in these consolidated financial statements.

Estimation of recoverable quantities of proven and probable reserves include estimates and assumptions regarding future commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows as well as the interpretation of complex geological and geophysical models and data. Changes in reported reserves can affect the impairment of assets, the decommissioning obligations, the economic feasibility of exploration and evaluation assets and the amounts reported for depletion, depreciation and amortization of property, plant and equipment. These reserve estimates are verified by third party professional engineers, who work with information provided by the Corporation to establish reserve determinations in accordance with National Instrument 51-101.

The Corporation estimates the decommissioning obligations for oil and natural gas wells and their associated production facilities and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning obligations and related accretion expense require assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, inflation estimates, future removal technologies in determining the removal cost, and the estimate of the liability specific discount rates to determine the present value of these cash flows.

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proven and probable reserves being acquired.

The Corporation's estimate of stock-based compensation is dependent upon estimates of historic volatility and forfeiture rates.

The Corporation's estimate of the fair value of derivative financial instruments is dependent on estimated forward prices and volatility in those prices.

3. Significant accounting policies

(a) Basis of consolidation

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, and have been applied consistently to the Corporation and its subsidiaries.

For presentation purposes operating expenses in the consolidated statement of income are presented as a combination of the function and nature in conformity with industry practice. Depletion and Depreciation are presented on separate basis by their nature, while general and administrative expenses are presented on a functional basis. Significant expenses such as salaries are presented by the nature in the notes to the consolidated financial statements.

Subsidiaries

Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, substantive potential voting rights are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the statement of income.

Jointly controlled operations and jointly controlled assets

Many of the Corporation's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Corporation's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

Transactions in foreign currencies are translated to the functional currencies of each entity at exchange rates prevailing on the date of each transaction. Monetary assets and liabilities denominated in foreign currencies are translated to each entity's functional currency at the period-end exchange rate. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Foreign currency differences arising on translation are recognized in profit or loss. Foreign currency gains and losses are reported on a net basis.

The assets and liabilities of foreign operations are translated to Canadian dollars, the reporting currency, at the reporting date. The income and expense transactions of foreign operations are translated to Canadian dollars at exchange rates at the date of each transaction. Foreign currency differences on translation to the reporting currency are recognized directly in other comprehensive income.

(c) Cash and cash equivalents

Cash and cash equivalents are comprised of cash and all investments that are highly liquid in nature and have a original maturity date of three months or less.

(d) Petroleum and natural gas properties

Exploration and evaluation expenditures

Pre-license costs are recognized in the statement of income as incurred.

Exploration and evaluation costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proven and/or probable reserves have been discovered. Upon determination of proven and/or probable reserves, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to petroleum and natural gas properties.

Development and production costs

Petroleum and natural gas properties, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. The cost of development and production assets includes; transfers from exploration and evaluation assets, which generally include the cost to drill the well and the cost of the associated land upon determination of technical feasibility and commercial viability; the cost to complete and tie-in the wells; facility costs; the cost of recognizing provisions for future restoration and decommissioning; geological and geophysical costs; and directly attributable overheads.

When significant parts of an item of petroleum and natural gas properties have different useful lives, then they are accounted for as separate components.

Gains and losses on disposal of petroleum and natural gas properties, property swaps and farm-outs are determined by comparing the proceeds from disposal, or fair value of the asset received or given up, with the carrying amount of petroleum and natural gas properties and are recognized net in profit or loss.

Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of petroleum and natural gas properties are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of petroleum and natural gas properties are recognized in profit or loss as incurred.

Depletion and Depreciation

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives.

Proved plus probable reserves are estimated annually by independent qualified reserve evaluators and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. For financial statements, internal estimates of changes in reserves and future development costs are used for determining depletion for the period. For purposes of this calculation, petroleum and gas reserves are converted to a common unit of measure on the basis of their relative energy content, where six thousand cubic feet of gas equals one barrel of oil or liquids.

Surge has deemed the estimated useful lives for gas processing plants, pipeline facilities, and compression facilities to be consistent with the reserve lives of the areas for which they serve. As a result, Surge includes the cost of these assets within their associated major component (area or group of areas) for the purpose of depletion using the unit of production method.

Office equipment is depreciated using a declining balance method using rates from 20% to 100% dependent on the type of equipment.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(e) Goodwill

The Corporation records goodwill relating to a business combination when the purchase price exceeds the fair value of the net identifiable assets and liabilities of the acquired business. Goodwill is reported at cost less any impairment.

(f) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the statement of income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the statement of income.

Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than exploration and evaluations (E&E) assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are tested at the operating segment level.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGU's are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

In respect of petroleum and natural gas properties and exploration and evaluation assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

The goodwill balance is assessed for impairment annually or as events occur that could result in impairment. Goodwill is tested for impairment at an operating segment level by combining the carrying amounts of petroleum and natural gas properties, exploration and evaluation assets and goodwill and comparing this to the recoverable amount. The recoverable amount is the greater of fair value less cost to sell or value-in-use, as noted above.

Impairment charges are recognized in net income. Impairments of goodwill are not reversed.

(g) Provisions

Decommissioning obligations

The Corporation's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of abandonment and site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation as at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as accretion (within finance expense) whereas increases/ decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

(h) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(i) Stock-based compensation and warrant valuation

The Corporation uses the fair value method for valuing stock options, restricted and performance share awards, performance warrants and warrants. Under the fair value method, compensation costs attributable to all stock options, restricted and performance share awards, performance warrants and warrants granted are measured at fair value at the date of grant and expensed over the vesting period with a corresponding increase to contributed surplus or warrants. A forfeiture rate is estimated on the date of grant and is adjusted to reflect the actual number of awards that vest. Performance share awards are also subject to a performance multiplier that is adjusted to reflect the final number of awards. The fair value of each option, performance warrant or warrant granted is estimated using the Black-Scholes option pricing model that takes into account the grant date, the exercise price and expected life of the option, performance warrant or warrant, the price of the underlying security, the expected volatility, the risk-free interest rate and dividends, if any, on the underlying security. The fair value of each restricted and performance share award is determined with reference to the trading price of the Company's common shares on the date of grant. Upon the exercise of the stock options, restricted and performance share awards, performance warrants and warrants, consideration received together with the amount previously recognized in contributed surplus or warrants is recorded as an increase to share capital and the contributed surplus or warrants balance is reduced.

Stock appreciation rights which are cash settled are expensed over the vesting period and revalued at each reporting date until their settlement using a Black-Scholes option pricing model.

(j) Revenue recognition

Revenue from the sale of petroleum and natural gas is recorded on a gross basis when title passes to an external party and collection is reasonably assured based on volumes delivered to customers at contractual delivery points and rates and when collection is reasonably assured. The costs associated with the delivery, including production costs, transportation and production based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

(k) Finance income and expenses

Finance expense comprises interest expense on borrowings and accretion of the discount on provisions.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in profit or loss using the effective interest method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Corporation's outstanding borrowings during the period.

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

(l) Per share information

Per share amounts are calculated based on the weighted average number of common shares outstanding during the year. The diluted weighted average number of shares is adjusted for the dilutive effect of options, restricted and performance share awards, performance warrants and warrants. Under the treasury stock method, only "in the money" dilutive instruments are included in the weighted average diluted number of shares. It is also assumed that any proceeds obtained upon the exercise of options, performance warrants and warrants plus the unamortized portion of stock-based compensation would be used to purchase common shares at the average price during the period. The weighted average number of shares is then reduced by the number of shares acquired.

(m) Flow-through shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. On issuance the premium received on the flow-through shares, being the difference in price over a common share with no tax attributes, is recognized on the statement of financial position. As expenditures are incurred, the deferred tax liability associated with the renounced tax deductions are recognized through profit and loss along with a pro-rata portion of the deferred premium.

(n) Leased assets

Leases where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expenses and the reduction of the outstanding liability. The finance expenses are allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases, which are not recognized on the Corporation's statement of financial position.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(o) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognized on the statement of financial position at the time the Corporation becomes a party to the contractual provisions. Upon initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods is dependent on the classification of the financial instrument. The Corporation has made the following classifications:

- Cash and cash equivalents and accounts receivable are classified as loans and receivables and are initially measured at fair value plus directly attributable transaction costs. Subsequently, they are recorded at amortized cost using the effective interest method.
- Bank debt, accounts payable, accrued liabilities and dividends payable are classified as other 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.
- 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 fair value through profit or loss 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.

Transaction costs related to financial instruments classified as fair value through profit or loss are expensed as incurred. All other transaction costs related to financial instruments are recorded as part of the instrument and are amortized using the effective interest method.

Contracts that are entered into for the purpose of the receipt or delivery of a non-financial item in accordance with the Corporation's expected purchase, sale or usage requirements (such as physical delivery commodity contracts) do not qualify as financial instruments and thus, are accounted for as executory contracts. These contracts are not fair valued on the statement of financial position. Settlements are recognized in the statement of income as they occur.

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(p) Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

(q) Accounting Policy Changes

On January 1, 2013, the Corporation adopted new standards with respect to consolidations (IFRS 10), joint arrangements (IFRS 11), disclosure of interests in other entities (IFRS 12), fair value measurements (IFRS 13) and amendments to financial instrument disclosures (IFRS 7). The adoption of these standards had no impact on the amounts recorded in the consolidated financial statements as at January 1, 2013 or on the comparative periods.

The following pronouncements from the IASB will become effective for financial reporting periods beginning on or after January 1, 2014 and have not yet been adopted by the Corporation. All of these new or revised standards permit early adoption with transitional arrangements depending upon the date of initial application:

- IFRS 9 - Financial Instruments addresses the classification and measurement of financial assets, effective date of January 1, 2018.
- IAS 32 - Financial Instruments Presentation clarifies the requirements for offsetting financial assets and liabilities, effective date of January 1, 2014.

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

4. DETERMINATION OF FAIR VALUES

A number of the Corporation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Petroleum and natural gas properties

The fair value of petroleum and natural gas properties recognized on an acquisition is based on market values. The market value of petroleum and natural gas properties is the estimated amount for which petroleum and natural gas properties could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports.

The market value of other items of petroleum and natural gas properties is based on the quoted market prices for similar items.

(b) Cash and cash equivalents, accounts receivable, bank debt and accounts and dividends payable

The fair value of cash and cash equivalents, accounts receivable, bank debt and accounts and dividends payable is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2013 and December 31, 2012, the fair value of accounts receivable, accounts payable, and dividends payable approximated their carrying value due to their short term to maturity. Bank debt bears a floating rate of interest and the margins charged by the lenders are indicative of current credit spreads and therefore carrying values approximate fair value.

(c) Derivatives

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 amounts and a risk-free interest rate (based on published government rates). The fair value of options and costless collars is based on option models that use published information with respect to volatility, prices and interest rates.

(d) Stock options, stock appreciation rights and performance warrants

The fair value of employee stock options, stock appreciation rights and performance warrants are measured using a Black Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

5. ACQUISITIONS

(a) Shaunavon

Effective July 3, 2013 the Corporation acquired certain working interests in developed petroleum and natural gas properties in Saskatchewan for cash of $242.4 million from a Canadian oil and gas producer. A deposit of $24.0 million was paid in the second quarter of 2013 and applied to the final price at the time of closing in July 2013. The purpose of the acquisition was to expand the Corporation's exposure to certain oil plays. The operations from the acquisition have been included in the results of Surge commencing July 3, 2013.

In conjunction with the acquisition the Corporation assumed a firm transportation agreement. This agreement had a fair value at the time of acquisition of a $6.3 million liability. The liability will be accreted over the approximate seven year term using the 7.75% credit adjusted risk free rate applied in the acquisition. In addition, the liability will be released to transportation expense over the life of the contract as the associated costs are incurred.

At December 31, 2013, the Corporation has released $0.2 million to transportation expense for costs incurred to date and recorded accretion expense of $0.2 million.

(b) Macoun

Effective November 13, 2013, the Corporation acquired all of the issued and outstanding common shares of a privately held junior oil and gas exploration company, in exchange for 20,177,102 common shares of Surge with an assigned value of $130.7 million and cash of $3.2 million. The purpose of the acquisition was to expand the Corporation's exposure to certain oil plays in Southeast and Southwest Saskatchewan. The common shares have been ascribed a fair value of $6.48 per common share issued, as determined based on the Corporation's closing share price at the date of closing, being November 13, 2013. The operations from the acquisition have been included in the results of Surge commencing November 13, 2013.

(c) Manson

Effective November 13, 2013, the Corporation acquired certain working interests in developed petroleum and natural gas properties in Southwest Manitoba, in exchange for 14,166,667 common shares of Surge with an assigned value of $91.8 million and cash of $47.6 million. The purpose of the acquisition was to expand the Corporation's exposure to certain oil plays. The common shares have been ascribed a fair value of $6.48 per common share issued, as determined based on the Corporation's closing share price at the date of closing, being November 13, 2013. The operations from the acquisition have been included in the results of Surge commencing November 13, 2013.

(d) Wainwright

Effective December 3, 2013 the Corporation acquired certain working interests in developed petroleum and natural gas properties in Alberta for cash of $77.9 million from a Canadian oil and gas producer. The purpose of the acquisition was to expand the Corporation's exposure to certain oil plays. The operations from the acquisition have been included in the results of Surge commencing December 3, 2013.

Surge incurred transaction costs of $8.9 million on the Shaunavon, Macoun, Manson and Wainwright acquisitions which were expensed through the statement of income.

The allocation of purchase prices for the above noted acquisitions is as follows:

Fair value of net assets acquired	Shaunavon	Macoun	Manson	Wainwright	Total
Petroleum and natural gas properties	$ 260,973	$ 199,808	$ 149,525	$ 119,413	**$ 729,719**
Working capital	—	2,142	—	—	**2,142**
Decommissioning obligations	(12,284)	(7,597)	(8,787)	(11,297)	**(39,965)**
Other long term liabilities	(6,250)	—	—	—	**(6,250)**
Bank debt	—	(24,519)	—	—	**(24,519)**
Deferred income tax liability	—	(35,868)	(1,318)	(7,561)	**(44,747)**
Gain on acquisition	—	—	—	(22,682)	**(22,682)**
Net assets acquired	$ 242,439	$ 133,966	$ 139,420	$ 77,873	**$ 593,698**
Consideration					
Cash	$ 242,439	$ 3,218	$ 47,620	$ 77,873	**$ 371,150**
Shares	—	130,748	91,800	—	**222,548**
Total consideration	$ 242,439	$ 133,966	$ 139,420	$ 77,873	**$ 593,698**

Amounts since acquisition	Shaunavon	Macoun	Manson	Wainwright	Total
Revenue	$ 49,443	$ 5,148	$ 4,105	$ 1,708	$ 60,404
Income	11,854	687	157	253	12,951

Year ended December 31, 2013	As stated	Shaunavon prior to July 3	Macoun prior to Nov 13	Manson prior to Nov 13	Wainwright prior to Dec 3	Pro Forma
Revenue	$ 271,932	$ 50,263	$ 34,001	$ 27,110	$ 20,556	$ 403,862
Income	(9,886)	12,050	4,534	1,035	3,047	10,780

The fair value of petroleum and natural gas properties recognized on an acquisition is based on market values. The market value of petroleum and natural gas properties is the estimated amount for which petroleum and natural gas properties could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports which apply forward looking price decks as at the date of acquisition. Undeveloped land is valued using recent, third-party landsale prices in corresponding areas.

The Corporation recorded a $22.7 million gain on acquisition for Wainwright because the fair value of the petroleum and natural gas assets acquired exceeded the consideration paid.

The market value of other items of petroleum and natural gas properties is based on the quoted market prices for similar items.

Pradera Resources Inc.

Effective January 6, 2012, the Corporation acquired all of the issued and outstanding common shares of Pradera Resources Inc. ("Pradera"), a privately held junior oil and gas exploration company, in exchange 7,919,436 common shares of Surge with an assigned value of $71.3 million. The purpose of the acquisition was to expand the Corporation's exposure to certain light oil plays. The common shares have been ascribed a fair value of $9.00 per common share issued, as determined based on the Corporation's closing share price at the date of closing, being January 6, 2012. In addition, Surge incurred transaction costs of $0.4 million, which were expensed through the statement of income. The operations of Pradera have been included in the results of Surge commencing January 6, 2012. The transaction was accounted for by the purchase method. The allocation of the purchase price, based on management's estimates of fair values, is as follows:

Fair value of net assets acquired:		
Petroleum and natural gas properties	$	127,230
Exploration and evaluation assets		2,660
Current assets		5,948
Current liabilities		(3,796)
Bank debt		(14,623)
Decommissioning obligations		(1,608)
Deferred income tax liability		(26,036)
Net assets acquired	$	89,775
Consideration:		
Cash	$	18,500
Common shares (7,919,436 at $9.00 per share)		71,275
Total consideration paid	$	89,775

Included in the statement of income (loss) and comprehensive income (loss) are the following amounts for the year ended December 31, 2012:

Amounts since acquisition		
Revenue	$	33,424
Income and comprehensive income		3,467

During the year, the Corporation made certain property acquisitions for total cash consideration of $9.3 million. These amounts have been booked as follows: $3.5 million to exploration and evaluation assets and $5.8 million to petroleum and natural gas properties.

During the year, the Corporation made certain property dispositions for total cash consideration of $4.0 million. This resulted in a gain on disposal of petroleum and natural gas properties of $1.3 million.

6. DISPOSITION

Effective May 31, 2013, the Corporation disposed of all the issued and outstanding shares of Surge Energy USA Inc., for net consideration of $43.8 million. Surge Energy USA Inc. was the operating entity for all of the Corporation's US assets and operations.

The following table outlines the proceeds, net assets disposed of and gain:

Disposition of Surge Energy USA Inc.				
Consideration				
Cash proceeds (net of closing adjustments)			$	43,797
Net assets disposed				
Petroleum and natural gas properties, net book value	$	29,266		
Exploration and evaluation assets		11,831		
Deferred income taxes		2,322		
Working capital		1,412		
Decommissioning obligations		(1,099)		
Accumulated other comprehensive income		(1,316)		
			$	42,416
Gain on disposition			**$**	**1,381**

For the period from January 1, 2013 to May 31, 2013 petroleum and natural gas revenue for the U.S.A segment was $9.6 million (2012 - $8.3 million).

7. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation (E&E) assets consist of the Corporation's exploration projects which are pending the determination of proven or probable reserves. Additions represent the Corporation's share of costs incurred on E&E assets during the period.

Exploration & Evaluation Assets

		Total
Balance at December 31, 2011	$	47,719
Acquisitions		6,181
Additions		25,604
Change in foreign exchange rate		(102)
Transfer to petroleum and natural gas properties		(8,676)
Balance at December 31, 2012	$	70,726
Additions		8,051
Dispositions		(11,831)
Change in foreign exchange rate		391
Transfer to petroleum and natural gas properties		(42,188)
Balance at December 31, 2013	**$**	**25,149**

8. PETROLEUM AND NATURAL GAS PROPERTIES

Petroleum and Natural Gas Properties

		Total
Balance at December 31, 2011	$	504,802
Acquisitions		133,056
Additions		155,110
Transfer from exploration and evaluation assets		8,676
Change in decommissioning obligations		1,885
Capitalized stock-based compensation		4,992
Change in foreign exchange rate		(822)
Dispositions		(3,816)
Balance at December 31, 2012	$	803,883
Acquisitions		729,719
Additions		117,495
Transfer from exploration and evaluation assets		42,188
Change in decommissioning obligations		6,357
Capitalized stock-based compensation		3,810
Dispositions		(35,524)
Change in foreign exchange rate		968
Balance at December 31, 2013	**$**	**1,668,896**

		Total
Accumulated depletion and depreciation		
Balance at December 31, 2011	$	(66,948)
Depletion and depreciation expense		(69,262)
Impairment		(92,878)
Dispositions		688
Balance at December 31, 2012	$	(228,400)
Impairment		(51,189)
Depletion and depreciation expense		(82,410)
Dispositions		5,385
Balance at December 31, 2013	**$**	**(356,614)**

		Total
Carrying amounts		
At December 31, 2012	$	575,483
At December 31, 2013	**$**	**1,312,282**

The calculation of depletion and depreciation expense for the year ended December 31, 2013 included an estimated $453.6 million (December 31, 2012 - $256.9 million) for future development costs associated with proved plus probable reserves and deducted $86.4 million (December 31, 2012 - $31.3 million) for the estimated salvage value of production equipment and facilities.

9. IMPAIRMENT

For the years ended		December 31, 2013		December 31, 2012
Petroleum and natural gas properties	$	**51,189**	$	92,878
Goodwill		**—**		5,897
Impairment Expense	**$**	**51,189**	$	98,775

In conjunction with the disposal of the US petroleum and natural gas properties as outlined in note 6 and performance and reserve issues, the Corporation tested the remaining petroleum and natural gas properties in the related CGU for impairment. The estimated recoverable amount of the CGU was estimated as its fair value less costs to sell based on the net present value of before tax cash flows from oil and gas proved plus probable reserves estimated by the Corporation's third party reserve evaluators at a discount rate of 15 percent. In determining the appropriate discount rate, the Corporation referenced recent market transactions completed on assets similar to those in the CGU. It was determined that the net present value of the CGU exceeded the recoverable amount and the Corporation recorded a $24.0 million impairment charge in the second quarter of 2013.

At December 31, 2013, due to reserve revisions and adjustments to future costs, the Corporation tested certain natural gas and oil CGU's for impairment. The estimated recoverable amounts of the Corporation's CGU's were estimated at their fair value less costs to sell based on the net present value of before tax cash flows from oil and gas proved plus probable reserves estimated by the Corporation's third party reserve evaluators at rates ranging from ten to fifteen percent. In determining the appropriate discount rate, the Corporation referenced recent market transactions completed on assets similar to those in the CGU. At December 31, 2013, it was determined that the net book value of certain CGU's exceeded the recoverable amount and the Corporation recorded a $27.2 million ($92.9 million - December 31, 2012) impairment charge.

The following table outlines forecast commodity prices and exchange rates used in the Corporation's CGU impairment tests at December 31, 2013. The forecast commodity prices are consistent with those used by the Corporation's external reserve evaluators and are a key assumption in assessing the recoverable amount. The reserve evaluators also include financial assumptions regarding royalty rates, operating costs, and future development capital that can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities by Management.

	Medium and Light Crude Oil			Natural Gas	NGL			
Year	WTI Cushing Oklahoma 40? API (US$/bbl)	Edmonton Par Price 40? API ($/bbl)	Cromer Medium 29.3? API ($/bbl)	AECO Gas Price ($/MMBtu)	Pentanes plus FOB Field Gate ($/bbl)	Butanes FOB Field Gate ($/bbl)	Inflation rates (%/Yr)	Exchange rate ($US/$Cdn)
2014	94.65	92.64	90.64	4.00	103.50	69.05	1.5	0.94
2015	88.37	89.31	87.31	3.99	99.78	66.57	1.5	0.94
2016	84.25	89.63	87.63	4.00	100.14	66.81	1.5	0.94
2017	95.52	101.62	99.62	4.93	113.53	75.74	1.5	0.94
2018	96.96	103.14	101.14	5.01	115.24	76.88	1.5	0.94
2019	98.41	104.69	102.69	5.09	116.97	78.03	1.5	0.94
2020	99.89	106.26	104.26	5.18	118.72	79.20	1.5	0.94
2021	101.38	107.86	105.86	5.26	120.50	80.39	1.5	0.94
2022	102.91	109.47	107.47	5.35	122.31	81.60	1.5	0.94
2023	104.45	111.12	109.12	5.43	124.14	82.82	1.5	0.94

10. RISK MANAGEMENT

The Corporation has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives, policies and processes for measuring and managing risk, and the Corporation's management of capital. Further quantitative disclosures are included throughout these financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Board has implemented and monitors compliance with risk management policies. The Corporation's risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Corporation's activities.

(a) Credit Risk

Credit risk is the risk of financial loss to the Corporation if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's receivables from joint venture partners and petroleum and natural gas marketers. As at December 31, 2013, the Corporation's receivables consisted of $29.2 million ($18.3 million - December 31, 2012) due from petroleum and natural gas marketers, $3.9 million ($6.4 million - December 31, 2012) due from joint venture partners, and $2.9 million ($0.5 million - December 31, 2012) of other receivables consisting primarily of cash calls receivable. These amounts are presented net of the allowance for doubtful accounts.

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Corporation attempts to mitigate credit risk by establishing marketing relationships with a variety of purchasers.

Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Corporation attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to the expenditure. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint venture partners as disagreements occasionally arise that increase the potential for non-collection. The Corporation does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however the Corporation does have the ability to withhold production from joint venture partners in the event of non-payment.

The carrying value of accounts receivable and fair value of financial contracts when outstanding represent the maximum credit exposure. The Corporation has an allowance for doubtful accounts of $0.4 million (December 31, 2012 - $0.2 million) at December 31, 2013, which is being applied against outstanding receivables.

The Corporation's most significant customers are seven oil and natural gas marketers, accounting for approximately 85 percent of Surge's 2013 revenue.

As at December 31, 2013, the Corporation estimates its total accounts receivables, net of the allowance for doubtful accounts, to be aged as follows:

Years ended		Total Receivables		Current		Past Due
December 31, 2013	**$**	**36,036**	**$**	**33,963**	**$**	**2,073**
		100%		**94%**		**6%**
December 31, 2012	$	25,260	$	24,154	$	1,106
		100%		96%		4%

(b) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation actively manages its liquidity through cost control, debt and equity management policies. Such strategies include continuously monitoring forecast and actual cash flows, financing activities and available credit under existing banking arrangements. The nature of the oil and gas industry is very capital intensive. As a result, the Corporation prepares annual capital expenditure budgets and utilizes authorizations for expenditures for projects to manage capital expenditures. Management believes that future cash flows generated in the ordinary course of business will be adequate to settle the Corporation's liabilities as they come due.

Accounts payable and dividends payable are considered due to suppliers in one year or less while bank debt, which is subject to a renewal on or before May 31, 2014, could be potentially due in May 2015 if the facility is not renewed for a further 364-day period. Financial contracts are also due to be settled with the counter-parties at the estimated fair value on the statement of financial position.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Corporation's net income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Corporation utilizes financial derivative contracts to manage market risks. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

(i) Foreign currency exchange risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange risks. Substantially all of the Corporation's petroleum and natural gas sales are denominated in Canadian dollars, with the exception of Surge's US operations in North Dakota from January 1 to May 31, 2013 . However, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar.

The following table outlines the fair value of foreign exchange contracts as at December 31, 2013:

					As at December 31, 2013
Remaining Term	**Type**	**Notional ($USD)**	**Swap Price (Surge receives) (C$)**	**Index (Surge pays) (C$)**	**Fair Value ($000s CDN)**
Jan 1, 2014 to Dec 31, 2014	Swap	$33,361,000	$ 1.005	Floating CAD	**$ (2,110)**

(ii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank loan which bears a floating rate of interest. Average bank debt outstanding during the year ending December 31, 2013 was $237.1 million (2012 - $133.4 million). For the year ended December 31, 2013, a 1.0 percent change to the effective interest rate would have a $1.8 million impact on net income (2012 - $1.0 million).

The following table outlines the fair value of interest rate contracts as at December 31, 2013:

					As at December 31, 2013
Remaining Term	**Type (floating to fixed)**	**Amount (C$)**	**Company Fixed Interest Rate (%) (1)**	**Counter party Floating Rate Index**	**Fair Value ($000s CDN)**
Jan 1, 2014 to Dec 31, 2014	Swap	$50,000,000	3.081%	CAD-BA-CDOR	**$ (1,300)**

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

(iii) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices.

The nature of the Corporation's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices and initiates instruments to manage exposure to these risks when it deems appropriate. As a means of managing commodity price volatility, the Corporation enters into various derivative financial instrument agreements and physical contracts.

The following table outlines the fair value of natural gas commodity contracts as at December 31, 2013:

Remaining Term	Type (floating to fixed)	Volume	Swap Price (Surge receives) (C$)	Index (Surge pays) (C$)	As at December 31, 2013 Fair Value ($000s CDN)
Jan 1, 2014 to Dec 31, 2014	Swap	2,000 gj/d	$ 3.40	AECO	(223)
Jan 1, 2014 to Dec 31, 2014	Swap	2,000 gj/d	$ 3.60	AECO	(76)
Jan 1, 2014 to Dec 31, 2014	Swap	4,000 gj/d	$ 3.35	AECO	(503)
Total					**$ (802)**

The following table outlines the fair value of oil commodity contracts as at December 31, 2013:

Remaining Term	Type (floating to fixed)	Volume	Swap Price (Surge receives) (C$)	Index (Surge pays) (C$)	As at December 31, 2013 Fair Value ($000s CDN)
Jan 1, 2014 to Jun 30, 2014	Swap	500 bbls/d	$101.45	WTI - NYMEX	(243)
Jan 1, 2014 to Dec 31, 2015	Swap	250 bbls/d	$98.15	WTI - NYMEX	(69)
Jan 1, 2014 to Jun 30, 2014	Swap	500 bbls/d	$100.05	WTI - NYMEX	(371)
Jan 1, 2014 to Jun 30, 2014	Swap	200 bbls/d	$96.00	WTI - NYMEX	(295)
Jan 1, 2014 to Jun 30, 2014	Swap	250 bbls/d	$105.80	WTI - NYMEX	73
Jan 1, 2014 to Dec 31, 2014	Swap	100 bbls/d	$98.00	WTI - NYMEX	(151)
Jan 1, 2014 to Dec 31, 2014	Swap	200 bbls/d	$96.45	WTI - NYMEX	(414)
Jan 1, 2014 to Dec 31, 2014	Swap	150 bbls/d	$100.10	WTI - NYMEX	(112)
Jan 1, 2014 to Dec 31, 2014	Swap	1,000 bbls/d	$91.40 (USD)	WTI - NYMEX	(1,624)
Jan 1, 2014 to Dec 31, 2014	Swap	500 bbls/d	$94.50	WTI - NYMEX	(1,357)
Jan 1, 2014 to Dec 31, 2014	Swap	200 bbls/d	$95.50	WTI - NYMEX	(481)
Jan 1, 2014 to Dec 31, 2014	Swap	500 bbls/d	$93.80	WTI - NYMEX	(1,507)
Jan 1, 2014 to Dec 31, 2014	Swap	150 bbls/d	$95.05	WTI - NYMEX	(386)
Jul 1, 2014 to Dec 31, 2014	Swap	200 bbls/d	$95.05	WTI - NYMEX	(186)
Jul 1, 2014 to Dec 31, 2014	Swap	500 bbls/d	$100.24	WTI - NYMEX	12
Jul 1, 2014 to Dec 31, 2014	Swap	500 bbls/d	$95.90	WTI - NYMEX	(371)
Jul 1, 2014 to Dec 31, 2014	Swap	100 bbls/d	$100.40	WTI - NYMEX	4
Jan 1, 2014 to Dec 31, 2015	Swap	500 bbls/d	$(22.60)	WCS Basis	(476)
Jan 1, 2015 to Dec 31, 2015	Swap	250 bbls/d	$91.55	WTI - NYMEX	(299)
Jan 1, 2015 to Dec 31, 2015	Swap	250 bbls/d	$92.00	WTI - NYMEX	(258)
Jan 1, 2015 to Dec 31, 2015	Swap	250 bbls/d	$92.29	WTI - NYMEX	(232)
Jan 1, 2015 to Dec 31, 2015	Swap	1,000 bbls/d	$93.05	WTI - NYMEX	(631)
Total					**$ (9,374)**

The following table summarizes the sensitivity of the fair value of the Corporation's market risk management positions to fluctuations in interest rates, foreign exchange rates, and natural gas and crude oil prices. 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 interest rates, foreign exchange rates, and crude oil and natural gas prices would have had the following impact on the net earnings:

Net earnings impact for the period ended December 31, 2013	**Price Increase**	**Price Decrease**
Crude Oil - Change of +/- $1.00	(2,032)	2,032
Natural Gas - Change of +/- $0.10	(219)	219
Interest rate - Change of +/- 100 points	375	(375)
Foreign Exchange - Change of +/- $0.01	(250)	250

(d) Capital management

The Corporation's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and sustain the future development of the business. The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Corporation considers its capital structure to include shareholder's equity of $854.2 million (2012 - $351.0 million), bank debt of $279.6 million (2012 - $194.5 million) and a working capital deficiency of $40.2 million (2012 - $24.6 million). In order to maintain or adjust capital structure, the Corporation may from time to time issue shares and adjust its capital spending to manage current and projected debt levels.

The Corporation monitors its capital based on the ratio of forecast net debt to forecast funds from operations. Net debt is defined as outstanding bank debt plus or minus working capital and dividends payable, and excluding the fair value of financial contracts, accrued share appreciation rights within accounts payable and other current obligations. Funds from operations is defined as cash flow from operating activities before changes in non-cash working capital, legal settlement expenses, transaction costs and current tax on disposition. The Corporation's strategy is to maintain a one year forward looking forecast debt to forecast funds from operations ratio of less than two to one. This ratio may increase at certain times as a result of acquisitions or other capital spending. In order to facilitate the management of this ratio, the Corporation prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast prices, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

(e) Fair value of financial instruments

The Corporation's financial instruments as at December 31, 2013 and 2012 include cash, accounts receivable, accounts payable and accrued liabilities, dividends payable, the fair value of financial contracts and bank debt. The fair value of cash, accounts receivable, accounts payable, accrued liabilities and dividends payable approximate their carrying amounts due to their short-terms to maturity.

The fair value of forward contracts and swaps is determined by discounting the difference between the contracted prices and published forward price curves as at the statement of financial position date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates). The fair value of options and costless collars is based on option models that use published information with respect to volatility, prices and interest rates. The fair value of interest rate and foreign exchange contracts is determined by discounting the difference between the contracted prices and published forward price curves as at the statement of financial position date, using the remaining notional values.

Bank debt bears interest at a floating market rate and the margins charged by lenders are indicative of current credit spreads and accordingly the fair market value approximates the carrying value.

The Corporation classifies its financial instruments recorded at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Corporation's financial contracts are considered level 2 in the fair value hierarchy.

11. BANK DEBT

The Corporation at December 31, 2013, has a $470 million extendible, revolving term credit facility with a syndicate of Canadian banks bearing interest at bank rates. The facility is available on a revolving basis until May 31, 2014. On May 31, 2014, 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 1.25 percent as at December 31, 2013 (December 31, 2012 – prime plus 2.00 percent).

The facility is secured by a general assignment of book debts, debentures of $1.0 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.

Under the terms of the agreement, the Corporation must maintain an adjusted working capital ratio of not less than 1.00:1.00 at all times. The working capital ratio is defined under the current credit facility as cash-based current assets, including the undrawn portion of the facility, to cash-based current liabilities, excluding any current bank indebtedness. The Corporation is compliant with this covenant at December 31, 2013.

12. 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 undiscounted amount of cash flows required to settle its decommissioning obligations is approximately $277.7 million (December 31, 2012 – $73.9 million). A risk free rate of 3.24 percent (December 31, 2012 – 2.5 percent) and an inflation rate of two percent (December 31, 2012 – two percent) was used to calculate the fair value of the decommissioning obligations.

A reconciliation of the decommissioning obligations is provided below:

	December 31, 2013	December 31, 2012
Balance, beginning of year	**$ 39,339**	$ 37,511
Liabilities related to acquisitions (note 5)	**39,965**	1,608
Liabilities related to dispositions (note 6)	**(1,316)**	(441)
Change in foreign exchange rate	**—**	(4)
Change in estimate	**4,855**	—
Liabilities incurred	**1,502**	1,885
Accretion expense	**1,793**	1,041
Decommissioning expenditures	**(966)**	(2,261)
Balance, end of year	**$ 85,172**	$ 39,339

13. SHARE CAPITAL

(a) Authorized

Unlimited number of voting common shares.

Unlimited number of preferred shares, issuable in series.

(b) Short Form Prospectus

In July 2013, the Corporation completed a short form prospectus for 49.5 million common shares for gross proceeds of $247.5 million. There were 0.3 million common shares issued for gross proceeds of $1.5 million issued to key management personnel and directors.

In November 2013, the Corporation completed a short form prospectus for 9.7 million common shares for gross proceeds of $63.3 million. There were 0.1 million common shares issued for gross proceeds of $0.9 million issued to key management personnel and directors.

(c) Private Placement

In June 2013, the Corporation completed a private placement for $2.5 million in units with the new President and Chief Executive Officer at a price of $3.57 per unit, each unit consisted of one Common Share and two Common Share purchase warrants. Concurrent with the private placement, the Corporation issued 2.0 million stock appreciation rights ("SARs") at a price of $3.24 per SAR. The warrants and SARs are both considered compensatory, for further details see below.

(d) Stock Options

Under the Corporation's stock option plan, it may grant options to its officers, directors, employees and certain consultants for up to 16,654,331 common shares of the Corporation as at December 31, 2013. The exercise price of each option equals the market price of the Corporation's common shares at the date of grant. Options granted have a term of five years to maturity and vest as to one-third on each of the first, second and third anniversaries from the date of grant.

	December 31, 2013		December 31, 2012	
	Number of Options	**Weighted average exercise price**	Number of Options	Weighted average exercise price
Stock options outstanding, beginning of year	**6,580,701**	**$ 7.53**	4,948,999	$ 7.54
Granted	**74,500**	**$ 4.05**	2,433,450	$ 7.49
Exercised	**(251,667)**	**$ 5.19**	(230,330)	$ 6.04
Forfeited	**(1,529,608)**	**$ 8.00**	(571,418)	$ 8.11
Cancelled	**(4,624,727)**	**$ 7.50**	—	$ —
Stock options outstanding, end of year	**249,199**	**$ 6.49**	6,580,701	$ 7.53
Exercisable at year-end	**159,632**	**$ 7.03**	2,132,742	$ 7.13

During the year ended December 31, 2013, officers, directors, employees and certain consultants cancelled 4.6 million options resulting in an additional $1.7 million being expensed in the period.

During the year ended December 31, 2013, 107,000 stock options at a price of $5.31 were exercised on a cashless basis and 21,809 shares were issued.

The weighted average share price at the date of exercise for share options exercised in 2013 was $5.92 (2012 - $ 8.27).

The following table summarizes stock options outstanding and exercisable at December 31, 2013:

	Options Outstanding			**Options Exercisable**	
Range of exercise prices	**Number outstanding**	**Weighted average exercise price**	**Weighted average contractual life (years)**	**Number exercisable**	**Weighted average exercise price**
$1 to $2.99	6,666	$1.75	0.08	6,666	$1.75
$3 to $4.99	52,500	$3.43	4.32	—	—
$5 to $6.99	103,333	$6.40	1.35	103,333	$6.40
$7 to $8.99	24,500	$7.34	3.61	8,167	$7.34
$9 to $11.15	62,200	$9.39	2.49	41,466	$9.39
$1 to $11.15	249,199	$6.49	2.45	159,632	$7.03

(e) Warrants

The Corporation has 1,091,833 performance warrants outstanding (December 31, 2012 – 2,047,272) that expire on April 13, 2015. As at December 31, 2013, all 1,091,833 outstanding performance warrants were vested and exercisable at a price of $5.17. During the year ended December 31, 2013 955,439 performance warrants were exercised (December 31, 2012 - 26,592).

The weighted average share price at the date of exercise for performance warrants exercised in 2013 was $6.23 (2011 - $9.72).

The Corporation, in conjunction with the June 2013 private placement, issued 1,400,560 warrants exercisable at a price of $4.46. The warrants will 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. There are no warrants exercisable as at December 31, 2013.

(f) Stock Appreciation Rights

During the year ended December 31, 2013, the Corporation issued 2.0 million SAR's exercisable at a price of $3.24 per SAR. 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 December 31, 2013 is $3.05. 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. The Corporation realized a liability within accounts payable and an offsetting increase to stock-based compensation of $3.0 million.

(g) Restricted and Performance Share Award Incentive Plan

In the fourth quarter of 2013, the Corporation adopted 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% was used to value all awards granted in 2013. The weighted average fair value of awards granted for the year ended December 31, 2013 is $6.23 per RSA and PSA. 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.

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

All share issuances under the plan are subject to receiving approval of the plan from the Toronto Stock Exchange and the Corporation's shareholders, failing which all entitlements under the plan will be cash settled by the Company.

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

	Number of restricted share awards	Number of performance share awards
Balance at January 1, 2013	—	—
Granted	893,675	914,875
Forfeited	(39,250)	(6,250)
Balance at December 31, 2013	**854,425**	**908,625**

(h) Stock-based compensation

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

	Years ended December 31,	
	2013	2012
Stock-based compensation on options	**$ 6,231**	$ 8,423
Stock-based compensation on SARs	**2,977**	—
Stock-based compensation on warrants	**3,522**	—
Stock-based compensation on PSAs and RSAs	**1,006**	—
Capitalized stock-based compensation	**(3,810)**	(4,992)
Total stock-based compensation expense	**$ 9,926**	$ 3,431

The Corporation's stock-based compensation expense for the year ended December 31, 2013 was $9.9 million (December 31, 2012 - $3.4 million), which includes a non-recurring expense of $3.5 million recognized on warrants issued in the June 2013 private placement and $1.7 million for the option cancellation mentioned above. A Black-Scholes valuation model was applied to determine the fair value of the options and warrants.

The following assumptions were used to calculate stock-based compensation on options granted for the year ended December 31, 2013: zero dividend yield (December 31, 2012 - zero); expected volatility of 69 percent (December 31, 2012 - 69 percent); risk free rate of two percent (December 31, 2012 - two percent); forfeiture rate of zero (December 31, 2012 - zero) and expected life of five years (December 31, 2012 - five years). The weighted average fair value of options granted in the year was $2.66 per option (December 31, 2012 - $4.28).

The following assumptions were used to calculate stock-based compensation recognized on warrants in the year: zero dividend yield; expected volatility of 66 percent; risk free rate of one percent; forfeiture rate of zero percent and expected life of five years. A fair value per warrant of $3.23 was determined.

The following assumptions were used to calculate stock-based compensation recognized on SARs in the year: zero dividend yield; expected volatility of 47 percent; risk free rate of two percent; forfeiture rate of zero percent and expected life of five years. A fair value per SAR of $4.31 was determined.

(i) Per share amounts

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

	Years ended December 31,	
	2013	**2012**
Weighted average number of shares - basic	**101,605,990**	70,962,463
Effect of dilutive stock options	**—**	—
Weighted average number of shares - diluted	**101,605,990**	70,962,463

In computing diluted per share amounts at December 31, 2013, 249,199 options (December 31, 2012 – 6,580,701), 1,091,833 performance warrants (December 31, 2012 – 2,047,272) and 1,400,560 warrants (December 31, 2012 – nil) and 1,763,050 RSAs and PSAs (December 31, 2012 - nil) were excluded from the calculation as their effect was anti-dilutive.

(j) Dividends

The Board of Directors declared for the months of August through December dividends of $0.19 per share. Dividends of $0.0433 per share are declared and outstanding at December 31, 2013 and were paid in January 2014. Dividends for the months of January through March have also been declared at $0.04333 per share per month.

14. PETROLEUM AND NATURAL GAS REVENUE, NET OF ROYALTIES

	Years ended December 31,	
	2013	**2012**
Oil	**$ 253,688**	$ 176,474
Natural Gas	**18,150**	16,129
Processing and other income	**94**	57
Less: Royalties	**(49,674)**	(35,114)
Total petroleum and natural gas revenue, net of royalties	**$ 222,258**	$ 157,546

15. FINANCE EXPENSE

	Years ended December 31,	
	2013	**2012**
Interest on bank debt	**$ 9,648**	$ 6,808
Accretion of decommissioning obligations	**1,793**	1,041
Accretion of other long term liabilities	**204**	—
	$ 11,645	$ 7,849

16. INCOME TAXES

(a) Deferred income tax expense

The provision for income tax expense in the financial statements differs from the result which would have been obtained by applying the combined federal and provincial income tax rate to the Corporation's income (loss) before income taxes. This difference results from the following items:

	Years ended December 31,	
	2013	**2012**
Income (loss) before income taxes	**$ (13,939)**	$ (71,495)
Combined federal and provincial statutory rate	**25.0%**	25.0%
Expected income tax expense (recovery)	**$ (3,485)**	$ (17,874)
Difference resulting from:		
Non-deductible items, rate changes & other	**3,611**	(378)
Non-taxable gain on acquisition	**(5,671)**	—
Current income tax on sale of US assets	**1,492**	—
Income tax expense (recovery)	**$ (4,053)**	$ (18,252)

(b) Deferred Income Tax Liability

The components of the Corporation's net deferred income tax liability are as follows:

	Years ended December 31, 2013	2012
Petroleum and natural gas properties	**$ (93,956)**	$ (32,977)
Decommissioning obligations	**21,293**	9,835
Fair value of financial contracts	**3,397**	(73)
Deferred partnership income	**(29,124)**	(20,753)
Non-capital losses	**18,547**	6,704
Share issue costs	**4,016**	1,478
Other	**2,915**	204
	$ (72,912)	$ (35,583)

The Company has $74.2 million in non-capital losses that begin expiring in the year 2026.

The following table provides a continuity of the deferred income tax asset (liability):

	January 1 2012	Recognized in equity	Business combinations	Recognized in profit or loss	December 31 2012
Property, plant and equipment	$ (44,683)	$ —	$ (26,438)	$ 38,144	**$ (32,977)**
Decommissioning obligations	9,378	—	402	55	**9,835**
Fair value of financial contracts	1,225	—	—	(1,298)	**(73)**
Partnership deferral	(14,236)	—	—	(6,517)	**(20,753)**
Non-capital losses	18,668	—	—	(11,964)	**6,704**
Share issue costs	1,610	30	—	(163)	**1,478**
Other	209	—	—	(6)	**203**
	$ (27,829)	$ 30	$ (26,036)	$ 18,252	**$ (35,583)**

	January 1 2013	Recognized in equity	Business combinations	Recognized in profit or loss	December 31 2013
Property, plant and equipment	$ (32,977)	$ —	$ (58,196)	$ (2,783)	**$ (93,956)**
Decommissioning obligations	9,835	—	9,717	1,741	**21,293**
Fair value of financial contracts	(73)	—	—	3,470	**3,397**
Partnership deferral	(20,753)	—	—	(8,371)	**(29,124)**
Non-capital losses	6,704	—	—	11,843	**18,547**
Share issue costs	1,478	4,195	—	(1,657)	**4,016**
Other	203	—	1,410	1,302	**2,915**
	$ (35,583)	$ 4,195	$ (47,069)	$ 5,545	**$ (72,912)**

17. KEY MANAGEMENT PERSONNEL COMPENSATION

Key Management Personnel includes the Board of Directors, President and Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Vice President Land, Vice President Engineering, Vice President Production, and Vice President Business Development.

	Years ended December 31, 2013	2012
Salaries and wages	**$ 2,376**	$ 1,914
Short-term employee benefits	**159**	203
Termination benefits	**1,810**	390
Stock-based payments (i)	**8,305**	1,973
	$ 12,650	$ 4,480

(i) Represents the amortization of stock-based compensation associated with options granted to key management personnel as recorded in the financial statements.

18. CASHFLOW INFORMATION

	Years ended December 31,	
	2013	2012
Accounts receivable	**$ (10,776)**	$ (5,748)
Prepaid expenses and deposits	**(750)**	2,440
Accounts payable and accrued liabilities	**3,985**	4,360
Working capital on acquisition (note 5)	**2,142**	2,152
Working capital on disposal (note 6)	**(1,412)**	—
Bad debt provision	**(444)**	—
Accounts payable - SARs	**(2,977)**	—
Other liabilities	**(236)**	—
Change in non-cash working capital	**$ (10,468)**	$ 3,204
These changes relate to the following activities		
Operating	**$ (6,205)**	$ 629
Investing	**(4,263)**	2,575
	$ (10,468)	$ 3,204

19. COMMITMENTS

Future minimum payments relating to operating lease and firm transport commitments are as follows:

($000s)	
2014	$ 2,461
2015	2,244
2016	1,762
2017	1,480
2018	730
2019+	12
Total	**$ 8,689**

20. CONTINGENCIES

On May 23, 2013 the Corporation reached a settlement agreement, whereby all third party objections to the Corporation's holding applications at its Valhalla property were withdrawn. The negotiated settlement includes compensation by Surge of $4.0 million for gas production from the property over the preceding 30 months and included a commercial arrangement which accounts for and compensates the parties for any future gas obligations and the withdrawal of a lawsuit filed by one of the objectors.

21. SUBSEQUENT EVENTS

(a) Acquisition and Equity Issuance

On February 14, 2014 the Corporation acquired certain working interests in petroleum and natural gas properties in Saskatchewan for $109 million in cash consideration from a Canadian oil and gas producer.

In conjunction with the acquisition, Surge on February 4, 2014 completed a bought deal financing issuing of 12.8 million common shares at $6.30 per share for gross proceeds of $80.5 million.

(b) Investment

On February 28, 2014 the Corporation announced that it has acquired ownership and control of 9.3 million common shares of Longview Oil Corp. ("Longview") representing 19.8 percent of the outstanding common shares, at a purchase price of $4.45 per common share. The common shares were acquired pursuant to a bought deal secondary offering of common shares, which were sold by an existing shareholder of Longview on February 28, 2014.

(c) Risk Management Contracts

WTI Oil Contracts

Term	Type	Volume	Price (C$) (Surge Receives)	Index (Surge Pays) (C$)
1) Mar 1, 2014 - Jun 30, 2015	Swap	375bbls/d	106.00	CAD WTI
1) Mar 1, 2014 - Jun 30, 2015	Swap	375bbls/d	105.65	CAD WTI

Oil Differential Contracts

Term	Type	Volume	Differential (C$) (Surge Receives)	Index (Surge Pays) (C$)
1) Feb 1, 2014 - June 30, 2014	Swap	1,000bbls/d	8.00	TMX SW 1a (Edm-to-WTI)
2) Feb 1, 2014 - June 30, 2014	Swap	500bbls/d	18.50	TMX SW 1a (WCS-to-WTI)
3) Feb 1, 2014 - Dec 31, 2014	Swap	500bbls/d	8.70	TMX SW 1a (Edm-to-WTI)
4) April 1 - June 30, 2014	Swap	1,000bbls/d	7.40	TMX SW 1a (Edm-to-WTI)

AECO Gas Contracts

Term	Type	Volume	Differential (C$) (Surge Receives)	Index (Surge Pays) (C$)
1) Jan 1, 2015 - Dec 31, 2015	Swap	2,000gj/d	3.66	AECO - Daily
2) Jan 1, 2015 - Dec 31, 2015	Swap	2,000gj/d	3.68	AECO - Daily