FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended December 31,			Years Ended December 31,		
	2013	2012	% Change	**2013**	2012	% Change
Financial highlights						
Oil and NGL sales	**69,701**	44,017	58 %	**253,688**	176,474	44 %
Natural gas sales	**3,778**	5,410	(30)%	**18,150**	16,129	13 %
Other revenue	**38**	3	nm[4]	**94**	57	65 %
Total oil, natural gas, and NGL revenue	**73,517**	49,430	49 %	**271,932**	192,660	41 %
Funds from Operations[1]	**36,659**	24,061	52 %	**133,165**	92,232	44 %
Per share basic ($)	**0.26**	0.34	(24)%	**1.31**	1.30	1 %
Per share diluted ($)	**0.26**	0.34	(24)%	**1.31**	1.30	1 %
Net income (loss)	**(2,848)**	(68,187)	96 %	**(9,886)**	(53,243)	81 %
Per share basic ($)	**(0.02)**	(0.96)	98 %	**(0.10)**	(0.75)	87 %
Per share diluted ($)	**(0.02)**	(0.96)	98 %	**(0.10)**	(0.75)	87 %
Capital expenditures - petroleum & gas properties[2]	**40,318**	44,975	(10)%	**125,546**	180,714	(31)%
Capital expenditures - acquisitions & dispositions[2]	**369,216**	(2,662)	nm	**571,471**	109,729	nm
Total capital expenditures[2]	**409,534**	42,313	868 %	**697,017**	290,443	nm
Net debt at end of period[3]	**305,349**	220,578	38 %	**305,349**	220,578	38 %
Operating highlights						
Production:						
Oil and NGL (bbls per day)	**10,354**	6,398	62 %	**8,489**	6,181	37 %
Natural gas (mcf per day)	**9,958**	15,129	(34)%	**13,679**	16,151	(15)%
Total (boe per day) (6:1)	**12,014**	8,919	35 %	**10,769**	8,873	21 %
Average realized price (excluding hedges):						
Oil and NGL ($per bbl)	**73.17**	74.78	(2)%	**81.87**	78.01	5 %
Natural gas ($ per mcf)	**4.12**	3.89	6 %	**3.64**	2.73	33 %
Realized loss on financial contracts ($ per boe)	**(1.26)**	1.72	nm	**(2.13)**	0.11	nm
Net back (excluding hedges) ($ per boe)						
Oil, natural gas and NGL sales	**66.52**	60.24	10 %	**69.18**	59.33	17 %
Royalties	**(12.13)**	(11.36)	7 %	**(12.64)**	(10.81)	17 %
Operating expenses	**(12.66)**	(12.68)	— %	**(12.57)**	(11.61)	8 %
Transportation expenses	**(2.03)**	(2.56)	(21)%	**(2.17)**	(2.26)	(4)%
Operating netback	**39.70**	33.65	18 %	**41.80**	34.65	21 %
G&A expenses	**(2.19)**	(3.08)	(29)%	**(3.10)**	(3.34)	(7)%
Interest expense	**(2.53)**	(2.56)	(1)%	**(2.45)**	(2.10)	17 %
Corporate netback	**34.98**	28.00	25 %	**36.25**	29.21	24 %
Common shares outstanding, end of period	**166,543**	71,217	134 %	**166,543**	71,217	134 %
Weighted average basic shares outstanding	**142,981**	71,196	101 %	**101,606**	70,962	43 %
Stock option dilution (treasury method)	**—**	—	nm	**—**	—	nm
Weighted average diluted shares outstanding	**142,981**	71,196	101 %	**101,606**	70,962	43 %

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

2 Please see capital expenditures note.

3 The Corporation defines net debt as outstanding bank debt plus or minus cash-based working capital and dividends payable, and excluding the fair value of financial contracts and other current obligations.

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

2013 : A Year of Transition + Achievement

Management Change, Transition to a New Sustainable Business Model, and Sale of Non-Core Assets

On May 8, 2013 Mr. Dan O'Neil retired from his role as CEO and President of the Company. The Company thanks Mr. O'Neil for his efforts and service on behalf of Surge shareholders. Mr. O'Neil continues as a director of the Company and provides technical assistance.

In addition, the Board of Directors announced that they unanimously agreed to appoint Mr. Paul Colborne as the President and CEO of Surge, with Mr. Colborne also continuing on as the Chairman of the Company.

Given the business environment, Surge's high netback crude oil asset base, and the Company's large inventory of low-risk development drilling locations and waterflood projects, the Board and management determined that a number of changes were necessary with the respect to the Company's business plan.

These changes included the following principles:

- Strategic conversion to a moderate growth / dividend paying business model;
- Target growth in reserves, production and cash flow per share of three to five percent;
- Opportunistically identify and acquire high quality, large OOIP[5] light and medium gravity crude oil assets with low recovery factors;
- Focus on lower risk infill and step-out development drilling opportunities and waterflood activities, on the Company's existing crude oil assets;
- Continue to utilize current up-to-date technology to drill and exploit the Company's assets and increase recovery factors;
- Utilize hedging techniques to lock-in cash flow to fund capital expenditures;
- Aggressively manage and protect the Company's balance sheet; and
- Aggressively manage the Company's cash costs and its general and administrative costs per boe.

At that time, the Board and management anticipated a dividend of $0.30 per share per year and an exit 2013 production rate of 8,350 boe per day.

Surge executed a formal purchase and sale agreement with a Canadian oil and gas producer to sell its non-core, primarily non-operated assets in North Dakota for a purchase price of approximately US$42.75 million.

Settlement of Valhalla Dispute

On May 23, 2013 Surge reached a mutually beneficial settlement agreement, whereby all third party objections to Surge's holding applications at Valhalla were withdrawn. The negotiated settlement included compensation by Surge of $4.0 million for gas production over the previous 30 months. The agreement included a commercial arrangement which accounted for and compensated the parties for any future gas obligations and the withdrawal of a lawsuit filed by one of the objectors. Surge will continue with the optimal development of the southern portion of this elite, operated light oil asset at Valhalla.

Acquisition of Elite, Large OOIP, Crude Oil Asset and $247.5 Million Equity Financing

On July 3, 2013, Surge closed the accretive acquisition of an operated, medium gravity crude oil producing asset in the Southwest area of Saskatchewan (the "Acquisition") with original oil in place ("OOIP") [5] of more than 250 million barrels and a recovery factor of less than 1.5 percent, for net consideration of $242.4 million.

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

In conjunction with the Acquisition, Surge completed a $247.5 million bought deal equity financing. At the time Surge's Board of Directors also announced a 33 percent increase in the Company's anticipated annual dividend from $0.30 per share per year to $0.40 per share per year.

Operational Success Leads to Five Percent Dividend Increase

On August 7, 2013 Surge's Board of Directors (the "Board") approved an increase in the Company's annual dividend by five percent from $0.40 per share per year to $0.42 per share per year prior to the first dividend being paid.

This dividend increase was based upon:

- Better than anticipated drilling results at Valhalla, Silver and Nipisi South
- Better than anticipated early waterflood response at Nipisi
- Significantly better than forecasted North American crude oil prices
- Continued execution of Surge's ongoing hedging/risk management program.

First Dividend Payment

On September 16, 2013, Surge paid the Company's first dividend of $0.035 per share ($0.42 per share per year) in respect of August 2013 production.

Three Acquisitions of Elite, Operated, Low Decline, Crude Oil Assets in the Forth Quarter of 2013 and a Twenty Four Percent Increase in Dividend

On November 13, 2013, Surge closed two strategic, high quality light oil acquisitions. The first acquisition involved the $147 million purchase of all of the shares of a Calgary based private oil and gas company, with high netback, operated, producing light oil assets focused in SE Saskatchewan and SW Saskatchewan.

The second acquisition involved the $135 million purchase of high quality, high netback, operated, producing light oil assets primarily located in the SW area of Manitoba.

As a result of these two accretive acquisitions, together with better than anticipated operational and drilling results, Surge increased the Company's annual dividend by 19 percent, from $0.42 per share per year to $0.50 per share per year.

On December 3, 2013 Surge closed the acquisition of a high quality, low decline, operated, crude oil producing asset strategically located near Wainwright in the Company's core area of Central Alberta, for net consideration of $77 million. The Assets included over 980 barrels per day of medium gravity crude oil production (with a historical nine percent annual decline), and over 210 million barrels of estimated OOIP. In conjunction with the acquisition, Surge completed a $63.3 million bought deal equity financing.

As a result of this third accretive acquisition, together with better than anticipated operational and drilling results, Surge increased the Company's annual dividend by four percent, from $0.50 per share per year to $0.52 per share per year.

HIGHLIGHTS

- **Funds from operations increased 44 percent** to $133.2 million in 2013 as compared to 2012.
- **Increased Surge's oil and natural gas liquids production weighting by 13 percent to 79 percent** in 2013 from 70 percent in 2012.
- **Approximately 93 percent of Surge's revenue resulted from oil and natural gas liquids production** in 2013.
- **Increased the Company's bank line to $470 million** from $290 million during 2012. Surge expects a further increase in the bank line as a result of the year end reserve review.

- **Increased Surge's dividend 73 percent** during 2013, from an initially anticipated $0.30 per share per year in July 2013, to $0.52 per share per year at December 31, 2013, with a further increase to $0.54 per share per year early in 2014.
- **Maintained consistent risk management program** which supports the protection of Surge's balance sheet. The Company currently has approximately 50 percent of its current oil and NGL (after royalties) production hedged for 2014, at an average WTI floor price in excess of $97 CAD per barrel.
- **Reduced G&A per boe by 29 percent** in the fourth quarter of 2013 as compared to the same period in 2012.
- **Achieved a 98 percent success rate** during 2013 drilling 37 gross (31.12 net) wells.
- **Achieved a fourth quarter average production rate of 12,014 boe per day (with 1,104 boe per day of fourth quarter 2013 production shut in due to an extended third party facility turn around at Valhalla)** increased 35 percent from 8,919 boe per day in the same period of 2012.
- **In 2013 Surge completed four accretive acquisitions that added approximately 6,000 bopd** of high netback light and medium gravity crude oil production.
- **Reduced the Company's decline rate from more than 37% in 2012 to a forecast 24% in 2014**, as a result of Surge's low risk operating strategy and waterflood initiatives.
- **Expanded Surge's oil drilling inventory to 773 gross (708 net) locations**, as at the date of this MD&A and **significantly increased the Company's internally estimated OOIP to greater than 1.4 billion net barrels** (including the SE Saskatchewan light oil acquisition closed February 14, 2014 noted below):

Property	OOIP (MMbbls) (gross/net)	Locations (gross/net)
Western Alberta	335/322	118/109
SE Alberta	435/365	143/137
SW Saskatchewan	393/381	407/374
Williston Basin	453/376	105/88
TOTAL	1,616/1,444	773/708

- **Made significant waterflood progress, reducing the Company's annual decline to a forecast 24 percent in 2014:**
  - Silver/Wainwright (Lloyd/Cummings and Sparky): continued positive oil response from expanded waterflood initiative in two zones. Surge expects ultimate recovery of 37 percent in the Silver area and 37 percent in the Wainwright area.
  - Nipisi (Slave Point): waterflood pilot commenced during the second quarter of 2013. Surge estimates recovery of at least 20 percent of the estimated 78 mmbbls of OOIP in the northern pool. A third injector will be implemented in the first quarter of 2014.
  - Southwest Saskatchewan (Lower Shaunavon): commenced waterflood pilot in the fourth quarter of 2013. Three analog pilots are showing response.
  - Macoun (Midale): implemented the first horizontal injector in the pool in the fourth quarter of 2013. Nearby analog pool has successfully been waterflooded.
  - Manson (Bakken): implemented two injectors in the third quarter of 2013 with a positive response to date. Nearby analog pool has been successfully waterflooded.
  - Windfall (Bluesky): 52,000 m3 injected to date with offset declines flattening.
  - Surge plans to expand its waterflood program in 2014 by implementing pilots at Eyehill, Provost, Valhalla and Saskatchewan Viking.
- **Increased Proved plus Probable reserves by 59 percent to 73.5 million boe over December 31, 2012 reserves of 46.1 million boe.**
- Achieved organic Proved plus Probable finding and development costs **(F&D) of $17.03 per boe**, including the change in future development capital (“FDC”).

- Achieved Proved plus Probable finding, development and acquisition costs **(FD&A) of $27.27 per boe**, including the change in future development capital.
- **Achieved a corporate recycle ratio of 2.5** with **F&D costs of $17.03 per boe**, including the change in FDC and based on Surge's 2013 netback of $41.80 per boe.
- **Increased Proved plus Probable Oil and NGLs reserves by 79 percent** to 57.1 million barrels over December 31, 2012 reserves of 31.9 million barrels.
- **Oil and NGLs made up 78 percent** of the Corporation's total Proved plus Probable reserves.
- **Increased Surge's corporate netback by 24 percent** from $29.21 per boe for the year ended December 31, 2012 to $36.25 per boe for the year ended December 31, 2013.
- **Increased Net Present Value discounted at 10 percent Before Tax** ("NPV10 BT") of Proved plus Probable reserves by **86 percent to $1.4 billion** compared to $732 million as at December 31, 2012.

Netback Comparison

		Q4 2013		Q3 2013		Q2 2013		Q1 2013		Q4 2012
Average production (boe per day)		**12,014**		12,008		9,373		9,636		8,919
Revenue	**$**	**66.52**	$	78.60	$	68.00	$	61.78	$	60.24
Royalties		**(12.13)**		(14.55)		(12.56)		(10.93)		(11.36)
Operating costs		**(12.66)**		(12.94)		(11.97)		(12.58)		(12.68)
Transportation costs		**(2.03)**		(2.01)		(2.46)		(2.25)		(2.56)
Operating netback	**$**	**39.70**	$	49.10	$	41.01	$	36.02	$	33.64
G&A expenses		**(2.19)**		(2.56)		(4.88)		(3.20)		(3.08)
Interest expense		**(2.53)**		(2.04)		(2.62)		(2.72)		(2.56)
Corporate netback	**$**	**34.98**	$	44.50	$	33.51	$	30.10	$	28.00

SUBSEQUENT EVENTS

Acquisition of High Quality, Operated, Low Decline, Light Oil Assets, $80.5 Million Equity Financing and Four Percent Increase in Dividend

On February 14, 2014 Surge closed the acquisition of a high quality, low decline, operated, light oil producing asset strategically located in the Company's core area of Southeast Saskatchewan, for net consideration of $109 million. In conjunction with the acquisition, Surge completed an $80.5 million bought deal equity financing.

The acquired assets include an estimated annualized 1,250 boepd (97 percent oil) of high netback light crude oil production and OOIP of over 240 million barrels. The assets possess a low annual decline of less than 18 percent, which provides significant annual free cash flow to Surge. The acquisition fits very well with the Company's focused business strategy, and with Surge's dividend-paying / modest growth business model.

As a result of the accretive acquisition, Surge's Board of Directors approved an increase in the Company's annual dividend of four percent from $0.52 per share per year, to $0.54 per share per year. The dividend will be paid on April 15, 2014 in respect of March 2014 production, for the shareholders of record on March 31, 2014.

Surge acquires 19.8 percent block of Longview Oil Corp. shares

On February 28, 2014 Surge announced that it has acquired ownership and control of 9.3 million common shares ("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 "Block"). 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.

Surge's intent with respect to the acquisition of the Block is to obtain a large, strategic equity position in Longview, at a competitive cost base, and to pursue a mutually beneficial business combination with Longview. Surge, however, has no legal obligation to pursue any such business combination.

Given Surge's excellent balance sheet and low debt levels[6], pro-forma the investment in the Block, Surge will maintain a peer group low "all-in" payout/sustainability ratio of less than 89 percent, and an excellent balance sheet with a 2014 exit debt[6] to Q4 annualized FFO ratio of less than 1.2 times[6]. Pro-forma the investment in the Block, Surge forecasts more than $175 million of credit availability on the Company's bank lines.

OUTLOOK & FORECAST

Surge's Board of Directors has approved a 2014 capital budget of $116 million, plus an additional $42 million for the investment in the Block of Longview shares. The capital program aims to achieve a balanced approach of production growth (approximately 50 percent growth in annual production over 2013), and unlocking additional value in its high quality, large OOIP light and medium oil assets. Surge has allocated approximately $90 million to its 2014 drilling program, $16 million to waterflood implementation and optimization, and $10 million to a combination of facilities and plants, land and seismic, corporate and capitalized G&A expenditures. Surge expects that the Corporation’s bank line will be increased from $470 million as a result of the year end reserves review. The expected increase in the bank line, along with Surge's forecast all-in sustainability ratio of less than 89 percent will provide flexibility to execute the Company's 2014 capital program.

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

Surge has had excellent results with respect to managing and reducing costs. The Company's G&A costs have dropped from over $3.50 per boe in the second quarter of 2013 to an estimated $2.05 per boe in Surge's 2014 guidance.

With this 2014 budget, Surge expects to achieve approximately 50 percent growth in average production year over year with a production mix of over 84 percent light and medium gravity crude oil. Surge also expects greater than 80 percent growth year over year in annual funds from operations while maintaining an excellent balance sheet. The Company anticipates exiting 2014 with a low debt to Q4 2014 annualized FFO ratio of less than 1.2 times[6]. Surge has attractive replacement metrics and an operating netback of over $45 per boe.

Surge is an oil focused oil and gas company with operations throughout Alberta, Saskatchewan and Manitoba. Surge’s common shares trade on the Toronto Stock Exchange under the symbol SGY. At year end, the Corporation had 166.5 million basic and 101.6 million fully diluted common shares outstanding.

[6] Regarding the strategic purchase of the Block of Longview shares: Net Debt is calculated excluding the $41.4 million value of the Longview Block. Interest expense on the $41.4 million as well as $3.7 million of dividend income from March to December 2014 is included in 2014E FFO.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) of the consolidated financial position and results of operations of Surge Energy Inc. ("Surge" or the "Corporation"), which includes its subsidiaries and partnership arrangements, is for the three months and years ended December 31, 2013 and 2012. For a full understanding of the financial position and results of operations of the Corporation, the MD&A should be read in conjunction with the documents filed on SEDAR, including historical financial statements, MD&A and the Annual Information Form (AIF). These documents are available at www.sedar.com.

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

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements.

More particularly, this MD&A contains statements concerning anticipated: (i) timing and completion of the Acquisitions, expectations and assumptions concerning timing of receipt of required regulatory approvals and the satisfaction of other conditions to the completion of the Acquisitions, (ii) potential development opportunities and drilling locations associated with the Acquisitions, expectations and assumptions concerning the success of future drilling and development activities, the performance of existing wells, the performance of new wells, the successful application of technology and the geological characteristics of the Acquisitions, (iii) the timing and amount of future dividend payments, (iv) oil & natural gas production growth during 2013 and 2014, (v) debt and bank facilities, (vi) capital expenditures, (vii) primary and secondary recovery potentials and implementation thereof, (viii) decline rates, (ix) funds from operations, (x) operating and cash flow netbacks, (xi) operating expenses, (xii) general and administrative expenses, and (xiii) realization of anticipated benefits of acquisitions.

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

Although Surge believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Surge can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), commodity price and exchange rate fluctuations and constraint in the availability of services, adverse weather or break-up conditions, and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures. Certain of these risks are set out in more detail in this MD&A under the heading 'Risk Factors' and in Surge's Annual Information Form dated March 19, 2014 which has been filed on SEDAR and can be accessed at www.sedar.com.

The forward-looking statements contained in this MD&A are made as of the date hereof and Surge undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

BOE PRESENTATION

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

NON-IFRS MEASURES

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

Surge's method of calculating funds from operations may differ from that of other companies, and, accordingly, may not be comparable to measures used by other companies. Surge determines funds from operations as cash flow from operating activities before changes in non-cash working capital, legal settlement expense, transaction costs, and current tax on disposition as follows:

Funds from Operations

($000s)	**2013 YTD**	**Q4 2013**	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Cash flow from operating activities	**$ 113,027**	**$ 46,228**	$ 17,107	$ 24,703	$ 24,989	$ 23,116
Change in non-cash working capital	**6,205**	**(13,623)**	22,597	(3,019)	250	945
Legal settlement expense	**3,550**	**—**	—	3,550	—	—
Transaction costs	**8,891**	**4,001**	4,751	139	—	—
Current tax on disposition	**1,492**	**53**	—	1,439	—	—
Funds from operations	**$ 133,165**	**$ 36,659**	$ 44,455	$ 26,812	$ 25,239	$ 24,061

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

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

The Corporation defines net debt as outstanding bank debt plus or minus cash-based working capital and dividends payable, and excluding the fair value of financial contracts and other current obligations.

Surge’s Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A. This MD&A is dated March 19, 2014.

OPERATIONS

Drilling

	Drilling		Success rate (%)	Working interest (%)
	Gross	Net	gross	
Q1 2013	15.00	10.95	93%	73%
Q2 2013	6.00	5.47	100%	91%
Q3 2013	5.00	5.00	100%	100%
Q4 2013	11.00	9.70	100%	88%
Total	**37.00**	**31.12**	**98%**	**84%**

Surge achieved a 98 percent success rate during the year ended December 31, 2013, drilling 37 gross (31.12 net) wells. The 37 gross wells drilled year to date include eight wells at Valhalla, two wells at Silver Lake, one well at Sounding, three wells at Provost, eight wells at Eyehill, one well at Long Coulee, two wells in Nipisi, two wells in Shaunavon, three wells at Macoun, one well at Windfall, and six wells in the North Dakota area. The 11 gross wells drilled in Q4 include one well at Valhalla, three wells at Eyehill, one well at Provost, one well at Windfall, two wells at Shaunavon, and three wells at Macoun. Eight of the 11 wells drilled in the fourth quarter were producing at quarter end with the rest to be completed and brought on production during the first quarter of 2014.

Production

	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Oil and NGL (bbls per day)	**10,354**	9,725	6,966	6,854	6,398
Natural gas (mcf per day)	**9,958**	13,696	14,442	16,689	15,129
Total (boe per day) (6:1)	**12,014**	12,008	9,373	9,636	8,919
% Oil and NGL	**86%**	81%	74%	71%	72%

Surge achieved an average production rate of 12,014 boe per day in the fourth quarter of 2013, a 35 percent increase from an average production rate of 8,919 boe per day in the same period of 2012, and consistent with the average production rate of 12,008 for the third quarter of 2013. The increase in production volumes as compared to 2012 is primarily due to the results of the 2013 drilling program, the Shaunavon Acquisition in the third quarter of 2013 which added approximately 3,400 barrels per day of production to third and fourth quarter results, and the acquisitions of the Wainwright, Manson and Macoun properties in the fourth quarter of 2013 which added approximately 1,600 boe per day of production to fourth quarter results. The increased production as a result of 2013 acquisitions was partially offset by the loss of approximately 1,104 boe per day of production in the fourth quarter of 2013 from shut-in volumes at Valhalla due to an extended turn around at a third party facility. The 1,104 boe per day is comprised of 497 bbl per day of oil and ngl production and 607 boe per day of gas production.

Surge realized a 86 percent oil and natural gas liquids production weighting in the fourth quarter of 2013. Surge realized average oil and natural gas liquids production of 10,354 bbls per day for the fourth quarter of 2013.

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

In the fourth quarter of 2013, 95 percent of Surge's revenue resulted from oil and natural gas liquids production, with five percent derived from natural gas.

A 10 percent increase in revenue per boe, combined with a 35 percent increase in production, resulted in revenues of $73.5 million in the fourth quarter of 2013, up 49 percent from $49.4 million in the same period of 2012.

Surge had certain financial contracts in place as of December 31, 2013. Surge recognized an unrealized loss of $5.9 million and a realized loss of $1.4 million on its financial contracts for the three months ended December 31, 2013 primarily due to an increase in forward strip prices on oil for the three months ended December 31, 2013. This compares to an unrealized loss of $5.0 million and a realized loss of $0.05 million on its financial contracts for the three months ended December 31, 2012.

The realized losses on financial contracts resulted in a decrease of $1.26 per boe to average revenue per boe during the three months ended December 31, 2013.

For the year ended December 31, 2013, 93 percent of Surge's revenue resulted from oil and natural gas liquids production, with seven percent derived from natural gas.

A 17 percent increase in revenue per boe, combined with a 21 percent increase in production, resulted in revenues of $271.9 million for the year ended December 31, 2013, up 41 percent from $192.7 million for the same period of 2012.

Surge had certain financial contracts in place as of December 31, 2013. Surge recognized an unrealized loss of $13.9 million and a realized loss of $8.4 million on its financial contracts for the year ended December 31, 2013 due to an increase in forward strip prices on oil during 2013. This compares to an unrealized gain of $5.2 million and a realized gain of $0.4 million on its financial contracts in the same period of 2012.

The realized losses on financial contracts resulted in a decrease of $2.13 per boe to average revenue per boe for the year ended December 31, 2013.

For the year ended December 31, 2013, Surge sold 29% of its gross revenue to a third party marketer that an Officer/Director of the Company has a significant ownership interest in.

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

PRICES

The Corporation realized average revenue of $66.52 per boe in the fourth quarter of 2013, before realized financial contract losses, an increase of 10 percent from the $60.24 per boe recorded in the same period of 2012, partially due to the increase in Surge's oil weighting.

The Corporation realized an average of $73.17 per bbl of oil and natural gas liquids in the fourth quarter of 2013, a decrease of two percent from the $74.78 per bbl realized in the same period of 2012. This compares to an average Edmonton Light Sweet price of $86.38 per bbl for the quarter, which increased three percent per barrel from the $83.99 per bbl during the same period of 2012. The decrease in Surge's realized oil and natural gas liquids price in Q4 2013 is due to medium-heavy oil differentials and an extended turn around at a third party facility at Valhalla resulting in lower production for the quarter.

The Corporation realized an average natural gas price of $4.12 per mcf in the fourth quarter of 2013, a six percent increase from the $3.89 per mcf averaged in the same period of 2012. This compares to an average AECO Daily Index reference price of $3.53 per mcf in the quarter, which increased by ten percent from the $3.22 per mcf in the same period of 2012. The increase in realized natural gas prices is relatively consistent with the increase in benchmark prices.

The Corporation realized average revenue of $69.18 per boe for the year ended December 31, 2013, before realized financial contract losses, an increase of 17 percent from the $59.33 per boe recorded in the same period of 2012.

The Corporation realized an average of $81.87 per barrel of oil and natural gas liquids for the year ended December 31, 2013, a five percent increase from the $78.01 per barrel realized in the same period of 2012. This compares to an average Edmonton Light Sweet price of $92.96 for the year ended December 31, 2013, which increased eight percent per barrel from the $86.12 per barrel during the same period of 2012. The increase in Surge's realized oil and natural gas liquids price is relatively consistent with the increase in benchmark prices.

The Corporation realized an average natural gas price of $3.64 per mcf for the year ended December 31, 2013, a 33 percent increase from the $2.73 per mcf averaged in the same period of 2012. This compares to an average AECO Daily Index reference price of $3.18 per mcf for the year ended December 31, 2013, which increased by 34 percent from the $2.38 per mcf in the same period of 2012. The increase in realized natural gas prices is relatively consistent when compared to the increase in the benchmark price.

Revenue and Realized Prices

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per amount)	**2013**	2012	% Change	**2013**	2012	% Change
Oil and NGL	**69,701**	44,017	58 %	**253,688**	176,474	44%
Natural gas	**3,778**	5,410	(30)%	**18,150**	16,129	13%
Processing and other	**38**	3	1,167 %	**94**	57	65%
Total oil, natural gas and NGL revenue	**73,517**	49,430	49 %	**271,932**	192,660	41%
Oil and NGL ($ per bbl)	**73.17**	74.78	(2)%	**81.87**	78.01	5%
Natural gas ($ per mcf)	**4.12**	3.89	6 %	**3.64**	2.73	33%
Total oil, natural gas and NGL revenue ($ per boe)	**66.52**	60.24	10 %	**69.18**	59.33	17%
Realized loss on commodity contracts ($ per boe)	**(1.26)**	1.72	nm	**(2.13)**	0.11	nm
Total oil, natural gas, and NGL revenue after realized commodity contracts ($ per boe)	**65.26**	61.96	5 %	**67.05**	59.44	13%
Reference Prices						
Edmonton Light Sweet ($ per bbl)	**86.38**	83.99	3 %	**92.96**	86.12	8%
AECO Daily Index ($ per mcf)	**3.53**	3.22	10 %	**3.18**	2.38	34%

Benchmark prices

	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
($ per bbl)					
Benchmark - WTI (US$)	**97.46**	105.82	94.22	94.37	88.18
Difference - WTI realized to Edmonton Light Sweet (C$)	**(11.08)**	(1.06)	(1.74)	(6.15)	(4.19)
% Difference	**(13)%**	(1)%	(2)%	(7)%	(5)%
Benchmark - Edmonton Light Sweet (C$)	**86.38**	104.76	92.48	88.22	83.99
Difference - Edmonton Light Sweet to Surge realized (C$)	**(13.21)**	(11.83)	(9.47)	(10.04)	(9.21)
% Difference	**(15)%**	(11)%	(10)%	(11)%	(11)%
Surge realized prices (C$)	**73.17**	92.93	83.01	78.18	74.78
(C$ per mcf)					
Benchmark - AECO Daily Index	**3.53**	2.44	3.53	3.20	3.22
Surge realized prices	**4.12**	2.92	4.06	3.57	2.73
Difference	**0.59**	0.48	0.53	0.37	(0.49)
% Difference	**17%**	20%	15%	11%	(15)%

ROYALTIES

Surge realized royalty expenses of $13.4 million or 18 percent of revenue in the fourth quarter of 2013, as compared to $9.3 million or 19 percent of revenue in the same period of 2012. For the year ended December 31, 2013, Surge realized royalty expenses of $49.7 million or 18 percent of revenue, as compared to $35.1 million or 18 percent of revenue in the same period of 2012. Royalties decreased slightly as a percentage of revenue during the fourth quarter of 2013, in comparison to the same period in 2012, due to a reduction in production at Valhalla caused by an extended third party gas plant turn around.

As royalties under the Alberta Royalty Framework (ARF) are sensitive to both commodity prices and production levels, the estimated ARF and corporate royalty rates will fluctuate with commodity prices, well production rates, production decline of existing wells, and performance and location of new wells drilled.

Royalties

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per boe)	**2013**	2012	% Change	**2013**	2012	% Change
Royalties	**13,412**	9,319	44 %	**49,674**	35,114	41%
% of Revenue	**18%**	19%	(5)%	**18%**	18%	—
$ per boe	**12.13**	11.36	7 %	**12.64**	10.81	17%

OPERATING EXPENSES

Operating expenses per boe in the fourth quarter of 2013 were consistent with the same period in 2012, at $12.66 per boe as compared to $12.68 per boe in the same period of 2012. Operating expenses per boe for the year ended December 31, 2013 were eight percent higher than the same period in 2012, at $12.57 per boe as compared to $11.61 per boe in the same period of 2012.

Operating expenses per boe for the three months and year ended December 31, 2013 increased mainly due to poor weather conditions, reduced production due to the Valhalla gas plant turn around and increased utility costs combined with site repairs and maintenance costs, as compared to the prior periods.

Surge has implemented a company wide operating cost reduction initiative.

Operating Expenses

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per boe)	**2013**	2012	% Change	**2013**	2012	% Change
Operating expenses	**13,988**	10,402	34 %	**49,405**	37,692	31%
$ per boe	**12.66**	12.68	— %	**12.57**	11.61	8%

TRANSPORTATION EXPENSES

Transportation expenses per boe decreased by 21 percent to $2.03 per boe in the fourth quarter of 2013, as compared to $2.56 per boe in the same period of 2012. The decrease for the three months ended December 31, 2013 is primarily due to additional production volumes from pipeline connected production areas.

Transportation expenses per boe decreased by four percent for the year ended December 31, 2013, to $2.17 per boe, as compared to $2.26 per boe in the same period of 2012. The decrease for the year ended December 31, 2013 is primarily due to additional production volumes from pipeline connected production areas.

Transportation Expenses

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per boe)	**2013**	2012	% Change	**2013**	2012	% Change
Transportation expenses	**2,241**	2,102	7 %	**8,511**	7,330	16 %
$ per boe	**2.03**	2.56	(21)%	**2.17**	2.26	(4)%

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

Net G&A expenses per boe for the fourth quarter of 2013 decreased 29 percent to $2.19 per boe as compared to $3.08 per boe in the same period of 2012. G&A expenses for the fourth quarter of 2013, net of recoveries and capitalized amounts of $1.1 million, were $2.4 million, compared to $2.5 million in the same period of 2012, after recoveries and capitalized amounts of $0.6 million.

Net G&A expenses per boe for the year ended December 31, 2013 decreased seven percent to $3.10 per boe as compared to $3.34 per boe in the same period of 2012. G&A expenses for the year ended December 31, 2013, net of recoveries and capitalized amounts of $6.8 million, were $12.2 million, compared to $10.8 million in the same period of 2012, after recoveries and capitalized amounts of $6.3 million.

2013 G&A expenses are higher than the comparative period due to non-recurring severance payments made in the second and third quarters of 2013.

Surge has implemented a company wide G&A cost reduction initiative the results of which have begun to be realized in the second half of 2013. Management expects to see continued reductions in per boe G&A costs continuing into 2014.

G&A Expenses

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per boe)	**2013**	2012	% Change	**2013**	2012	% Change
G&A expenses	**3,544**	3,114	14 %	**18,995**	17,180	11 %
Recoveries and capitalized amounts	**(1,120)**	(583)	92 %	**(6,809)**	(6,342)	7 %
Net G&A expenses	**2,424**	2,531	(4)%	**12,186**	10,838	12 %
Net G&A expenses $ per boe	**2.19**	3.08	(29)%	**3.10**	3.34	(7)%

TRANSACTION COSTS

In the fourth quarter of 2013, the Corporation incurred transaction costs of $4.0 million or $3.62 per boe, primarily related to the Wainwright, Manson and Macoun property acquisitions that were completed during the fourth quarter of 2013. This compares to $0.08 million or $0.10 per boe during the same period of 2012.

In the first twelve months of 2013, the Corporation incurred transaction costs of $8.9 million or $2.26 per boe related to evaluation and review of business and property acquisitions, particularly the Shaunavon, Wainwright, Manson and Macoun acquisitions. This compares to $0.7 million or $0.23 per boe during the same period of 2012. The $8.9 million of transaction costs incurred in 2013 represents one percent when compared to total consideration of $616 million for the Shaunavon, Wainwright, Manson and Macoun acquisitions.

Transaction Costs

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per boe)	**2013**	2012	% Change	**2013**	2012	% Change
Transaction costs	**4,001**	82	4,779%	**8,891**	740	1,101%
$ per boe	**3.62**	0.10	3,520%	**2.26**	0.23	883%

FINANCE EXPENSES

During the quarter ended December 31, 2013, Surge incurred interest expense of $2.8 million or $2.53 per boe as compared to $2.1 million or $2.56 per boe in the same period of 2012. Surge incurred interest expense of $9.6 million or $2.45 per boe for the year ended December 31, 2013 as compared to $6.8 million or $2.10 per boe in the same period of 2012. The increased interest expense during the three months and year ended December 31, 2013 is primarily due to higher debt levels as compared to the same period of 2012.

Surge decreased its year end 2013 net debt to annualized Q4 funds from operations ratio by nine percent, from 2.29 in Q4 2012 to 2.08 in Q4 2013. Surge's funds from operations for the fourth quarter of 2013 include only a partial quarter of funds from operations from the three acquisitions completed in the fourth quarter of 2013. Given a full quarter's funds from operations from these assets, Surge would expect it's net debt to annualized funds from operations to decrease.

Accretion represents the change in the time value of the decommissioning liability as well as the firm transportation agreement acquired in the Shaunavon acquisition. Accretion expense per boe increased for the three months and year ended December 31, 2013 as compared to the same periods of 2012 primarily due to the change in estimate recorded and the acquisitions conducted in the period. The underlying liability may increase over a period of time, based on new obligations incurred from drilling wells, constructing facilities, acquiring operations or adjusting future estimates of timing or amounts. Similarly, this future obligation can be reduced as a result of abandonment work undertaken.

Finance Expenses

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per boe)	**2013**	2012	% Change	**2013**	2012	% Change
Interest expense	**2,793**	2,100	33 %	**9,648**	6,808	42%
$ per boe	**2.53**	2.56	(1)%	**2.45**	2.10	17%
Accretion expense	**920**	266	246 %	**1,997**	1,041	92%
$ per boe	**0.83**	0.32	159 %	**0.51**	0.32	59%
Finance expenses	**3,714**	2,366	57 %	**11,645**	7,849	48%
$ per boe	**3.36**	2.88	17 %	**2.96**	2.42	22%

NETBACKS

Surge's operating netback (defined as revenue excluding realized and unrealized gains or losses on financial contracts per boe less royalties, operating and transportation expenses on a per boe) was $39.70 for the fourth quarter of 2013, a 18 percent increase from the $33.65 recorded during the same period of 2012. The increase in operating netback was attributable to a ten percent increase in revenue per boe and a twenty-one percent decrease in transportation costs per boe, partially offset by a seven percent increase in royalties per boe. The increase in corporate netback was impacted by a 29 percent decrease in G&A expense per boe and a one percent decrease in interest expense per boe, as compared to the same period of 2012.

Surge's operating netback (defined as revenue excluding realized and unrealized gains or losses on financial contracts per boe less royalties, operating and transportation expenses on a per boe) was $41.80 for the year ended December 31, 2013, a 21 percent increase from the $34.65 recorded during the same period of 2012. The increase in operating netback was attributable to a 17 percent increase in revenue per boe and a four percent decrease in transportation costs per boe, partially offset by a 17 percent increase in royalties per boe and a eight percent increase in operating costs per boe. The increase in corporate netback was impacted by a seven percent decrease in G&A expense and a 17 percent increase in interest expense per boe, as compared to the same period of 2012.

Netbacks, Excluding Hedging Activity

	Three Months Ended December 31,			Years Ended December 31,		
($ per boe, except production)	**2013**	2012	% Change	**2013**	2012	% Change
Average production (boe per day)	**12,014**	8,919	35 %	**10,769**	8,873	21 %
Revenue	**66.52**	60.24	10 %	**69.18**	59.33	17 %
Royalties	**(12.13)**	(11.36)	7 %	**(12.64)**	(10.81)	17 %
Operating costs	**(12.66)**	(12.68)	— %	**(12.57)**	(11.61)	8 %
Transportation costs	**(2.03)**	(2.56)	(21)%	**(2.17)**	(2.26)	(4)%
Operating netback	**39.70**	33.65	18 %	**41.80**	34.65	21 %
G&A expense	**(2.19)**	(3.08)	(29)%	**(3.10)**	(3.34)	(7)%
Interest expense	**(2.53)**	(2.56)	(1)%	**(2.45)**	(2.10)	17 %
Corporate netback	**34.98**	28.00	25 %	**36.25**	29.21	24 %

Netbacks, Including Hedging Activity

	Three Months Ended December 31,			Years Ended December 31,		
($ per boe)	**2013**	2012	% Change	**2013**	2012	% Change
Operating netback	**39.70**	33.65	18 %	**41.80**	34.65	21 %
Realized gain (loss) on commodity contracts	**(1.26)**	1.72	nm	**(2.13)**	0.11	nm
Operating netback, net of hedging activity	**38.44**	35.37	9 %	**39.67**	34.76	14 %
G&A expense	**(2.19)**	(3.08)	(29)%	**(3.10)**	(3.34)	(7)%
Interest expense	**(2.53)**	(2.56)	(1)%	**(2.45)**	(2.10)	17 %
Corporate netback, net of hedging activity	**33.72**	29.73	13 %	**34.12**	29.32	16 %

FUNDS FROM OPERATIONS AND CASH FLOW FROM OPERATIONS

Funds from operations increased 52 percent to $36.7 million in the fourth quarter of 2013 compared to $24.1 million in the same period of 2012. On a per share basis, funds from operations decreased 24 percent, to $0.26 per basic share from $0.34 per basic share in the same period of 2012.

Funds from operations increased 44 percent to $133.2 million for the year ended December 31, 2013 compared to $92.2 million in the same period of 2012. On a per share basis, funds from operations increased one percent, to $1.31 per basic share from $1.30 per basic share in the same period of 2012.

Cash flow from operating activities differs from funds from operations principally due to the inclusion of changes in non-cash working capital. Cash flow from operations was $46.2 million for the fourth quarter of 2013 as compared to $23.1 million in the same period of 2012. Cash flow from operations was $113.0 million for the year ended December 31, 2013 as compared to $92.9 million in the same period of 2012.

Included in cash flow from operations is an increase in non-cash working capital of $13.6 million in the fourth quarter of 2013 and an increase of $6.2 million for the twelve months ended December 31, 2013.

Funds from Operations

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per share and per boe)	**2013**	2012	% Change	**2013**	2012	% Change
Funds from operations	**36,659**	24,061	52 %	**133,165**	92,232	44%
Per share - basic ($)	**0.26**	0.34	(24)%	**1.31**	1.30	1%
Per share - diluted ($)	**0.26**	0.34	(24)%	**1.31**	1.30	1%
$ per boe	**33.17**	29.32	13 %	**33.88**	28.40	19%
Cash flow from operating activities	**46,228**	23,116	100 %	**113,027**	92,861	22%

STOCK-BASED COMPENSATION

Surge recorded net stock-based compensation expense of $2.3 million during the fourth quarter of 2013, compared to $0.9 million for the same period of 2012. The stock based compensation recorded in the quarter primarily relates to the restricted share awards ("RSAs") and performance share awards ("PSAs") grants issued in the fourth quarter of 2013.

Surge recorded net stock-based compensation expense of $9.9 million for the year ended December 31, 2013, compared to $3.4 million for the same period of 2012. The increase in stock-based compensation for this period was primarily due to immediate recognition of $3.5 million related to warrants issued through a private placement to the CEO of the Corporation during the second quarter of 2013 that were considered compensatory and $1.7 million associated with the options cancelled. The fair value of the options was calculated using the Black-Scholes option-pricing model.

For the year ended December 31, 2013, 74,500 options were issued at a weighted average exercise price of $4.05 per option, 1,529,608 options were forfeited at a weighted average exercise price of $8.00 per option and 4,624,727 options were cancelled at a weighted average price of $7.50 per option. There were 251,667 options exercised at a weighted average price of $5.19.

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

The following assumptions were used to calculate the fair value of options granted in 2013: zero dividend yield; expected volatility of 69 percent; risk free rate of two percent; forfeiture rate of zero and expected life of five years.

For the year ended December 31, 2013, the Corporation in conjunction with the 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.

The following assumptions were used to calculate stock-based compensation recognized on warrants in the period: 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.

For the year ended December 31, 2013, the Corporation issued 2.0 million stock appreciation rights (“SAR’s”) exercisable at a price of $3.24 per SAR. The SAR’s 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. The SAR’s 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 SAR’s 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 $2.9 million.

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

Subject to terms and conditions of the plan, each RSA entitles the holder to an award value to be typically paid as to one-third on each of the first, second and third anniversaries of the date of grant. Each PSA entitles the holder to an award value to be typically paid on the third anniversary of the date of grant. For the purpose of calculating share-based compensation, the fair value of each award is determined at the grant date using the closing price of the common shares. An estimated forfeiture rate of 15% was used to value all awards granted for the three and twelve month period ended December 31, 2013. The weighted average fair value of awards granted for the three and twelve months ended December 31, 2013 is $6.23. In the case of PSAs, the award value is adjusted for a payout multiplier which can range from 0.0 to 2.0 and is dependent on the performance of the Company relative to pre-defined corporate performance measures for a particular period.

All share issuances under the plan are subject to receiving approval of the plan from the Toronto Stock Exchange and the Company’s shareholders, failing which all entitlements under the plan will be cash settled by the Company. On the vesting dates, the Company has the option of settling the award value in cash or common shares of the Company, pending shareholder approval.

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**

Stock-based compensation

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per boe)	**2013**	2012	% Change	**2013**	2012	% Change
Stock-based compensation	**2,811**	2,273	24 %	**13,736**	8,423	63 %
Capitalized stock-based compensation	**(530)**	(1,381)	(62)%	**(3,810)**	(4,992)	(24)%
Net stock-based compensation	**2,281**	892	156 %	**9,926**	3,431	189 %
Net stock-based compensation $ per boe	**2.06**	1.09	89 %	**2.53**	1.06	139 %

DEPLETION AND DEPRECIATION

Depletion and depreciation are calculated based upon capital expenditures, production rates and proved plus probable reserves. Deducted from the Corporation's depletion and depreciation calculation are costs associated with salvage values of $86.4 million. Future development costs for proved and probable reserves of $453.6 million have been included in the depletion calculation.

Surge recorded $28.6 million or $25.84 per boe in depletion and depreciation expense during the fourth quarter of 2013, as compared to $17.0 million or $20.72 per boe in depletion and depreciation expense in the same period of 2012. The increase in total depletion expense is due primarily to the acquisitions in the second half of the year.

The depletion and depreciation calculation is based on daily production volumes of 12,014 boed for the fourth quarter of 2013.

Surge recorded $82.4 million or $20.98 per boe in depletion and depreciation expense for the year ended December 31, 2013, as compared to $69.3 million or $21.33 per boe in depletion and depreciation expense in the same period of 2012. The increase in total depletion expense is due primarily to the acquisitions in the second half of the year.

Depletion and Depreciation Expense

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per boe)	**2013**	2012	% Change	**2013**	2012	% Change
Depletion and depreciation expense	**$ 28,568**	$ 17,000	68%	**$ 82,410**	$ 69,262	19 %
$ per boe	**25.84**	20.72	25%	**20.98**	21.33	(2)%

IMPAIRMENT

Impairment

($000s except per boe)	Three Months Ended December 31, 2013	2012	% Change	Years Ended December 31, 2013	2012	% Change
Impairment	**$ 27,189**	$ 98,775	(72)%	**$ 51,189**	$ 92,878	(48)%
$ per boe	**24.60**	120.37	(80)%	**13.02**	30.42	(57)%

During the second quarter of 2013, in conjunction with the disposal of the US petroleum and natural gas properties 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. At this time, it was determined that the net book value of the CGU exceeded the recoverable amount and the Corporation recorded a $24.0 million impairment charge.

At December 31, 2013, due to declining forward natural gas prices, 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 10 to 15 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

NET INCOME

The Corporation recorded a net loss of $2.8 million or $0.02 per basic share for the fourth quarter of 2013 compared to a net loss of $68.2 million or $0.96 per basic share for the same period of 2012. The primary cause for the change in net loss is due to the gain on acquisition recorded in the three months ended December 31, 2013 and increased production.

The Corporation recorded net loss of $9.8 million or $0.10 per basic share for the year ended December 31, 2013 compared to a net loss of $53.2 million or $0.75 per basic share for the same period of 2012. The primary cause for the change in net income is due to the gain on acquisition and increased production.

Net Income (Loss)

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per share)	**2013**	2012	% Change	**2013**	2012	% Change
Net Income (Loss)	**(2,847)**	(68,187)	(96)%	**(9,886)**	(53,243)	(81)%
Per share - basic ($)	**(0.02)**	(0.96)	(98)%	**(0.10)**	(0.75)	(87)%
Per share - diluted ($)	**(0.02)**	(0.96)	(98)%	**(0.10)**	(0.75)	(87)%

CAPITAL EXPENDITURES

During the year ended December 31, 2013, Surge invested a total of $125.5 million excluding acquisitions. Surge invested $83.7 million to drill 37 gross (31.12 net) wells.

In addition, Surge invested $17.8 million in facilities, equipment, and pipelines, $8.5 million in waterflood capital, $8.7 million in land and seismic acquisitions, and $6.9 million on other capital items.

During the fourth quarter of 2013, Surge invested a total of $40.3 million prior to acquisitions. Surge invested $24.8 million to drill 11 gross (9.70 net) wells.

In addition, Surge invested $10.0 million in facilities, equipment, and pipelines, $4.2 million in seismic and land acquisitions, and $1.4 million on other capital items.

Surge has implemented a company wide service cost reduction initiative the results of which have begun to be realized in 2013. Management expects to see continued reductions in costs in 2014.

Capital Expenditure Summary

($000s)	Q1 2013	Q2 2013	Q3 2013	**Q4 2013**	**2013 YTD**	2012 YTD	**Change**
Land	1,975	335	1,312	**3,163**	**6,785**	12,522	(46)%
Seismic	311	61	556	**1,005**	**1,933**	2,172	(11)%
Drilling and completions	27,607	17,372	13,935	**24,777**	**83,691**	124,215	(33)%
Facilities, equipment and pipelines	8,075	5,799	2,373	**10,019**	**26,266**	34,654	(24)%
Other	2,097	1,599	1,821	**1,354**	**6,871**	7,151	(4)%
Total exploration and development	40,065	25,166	19,997	**40,318**	**125,546**	180,714	(31)%
Acquisitions - cash consideration	—	—	242,439	**128,711**	**371,150**	27,847	1,233 %
Acquisitions - debt acquired	—	—	—	**22,376**	**22,376**	14,623	53 %
Acquisitions - share based consideration	—	—	—	**222,548**	**222,548**	71,275	212 %
Property dispositions	(807)	(39,377)	—	**(4,419)**	**(44,603)**	(4,016)	1,011 %
Total acquisitions & dispositions	(807)	(39,377)	242,439	**369,216**	**571,471**	109,729	421 %
Total capital expenditures	39,258	(14,211)	262,436	**409,534**	**697,017**	290,443	140 %

Quarterly Financial Information

	Year end 2013	**Q4 2013**	Q3 2013	Q2 2013	Q1 2013	Year end 2012
Oil, Natural gas & NGL sales	**271,932**	**73,517**	86,828	58,004	53,582	192,660
Net earnings (loss)	**(9,886)**	**(2,848)**	9,319	(15,004)	(1,354)	(53,243)
Net earnings (loss) per share ($):						
Basic	**(0.10)**	**(0.02)**	0.08	(0.21)	(0.02)	(0.75)
Diluted	**(0.10)**	**(0.02)**	0.08	(0.21)	(0.02)	(0.75)
Total assets	**1,376,725**					681,444
Total long-term financial liabilities	**279,619**					194,523
Dividends declared	**7,216**					—
Funds from operations	**133,165**	**36,659**	44,455	26,812	25,237	92,232
Funds from operations per share ($):						
Basic	**1.31**	**0.26**	0.37	0.38	0.35	1.30
Diluted	**1.31**	**0.26**	0.37	0.38	0.35	1.30
Average daily sales						
Oil & NGL (bbls/d)	**8,489**	**10,354**	9,725	6,966	6,854	6,181
Natural gas (mcf/d)	**13,679**	**9,958**	13,696	14,442	16,689	16,151
Barrels of oil equivalent (boe per day) (6:1)	**10,769**	**12,014**	12,008	9,373	9,636	8,873
Average sales price						
Natural gas ($/mcf)	**3.64**	**4.12**	2.92	4.06	3.57	2.73
Oil & NGL ($/bbl)	**81.87**	**73.17**	92.93	83.01	78.18	78.01
Barrels of oil equivalent ($/boe)	**69.18**	**66.52**	78.60	68.00	61.78	59.33

Quarterly Financial Information

	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Year end 2011
Oil, Natural gas & NGL sales	49,430	43,243	48,927	51,060	131,492
Net earnings (loss)	(68,187)	(986)	13,273	2,657	2,095
Net earnings (loss) per share ($):					
Basic	(0.96)	(0.01)	0.19	0.04	0.04
Diluted	(0.96)	(0.01)	0.18	0.04	0.04
Total assets					516,062
Total long-term financial liabilities					72,197
Dividends declared					—
Funds from operations	24,061	19,849	24,315	24,005	57,789
Funds from operations per share ($):					
Basic	0.34	0.28	0.34	0.34	1.00
Diluted	0.34	0.28	0.34	0.33	0.98
Average daily sales					
Oil & NGL (bbls/d)	6,398	5,651	6,568	6,110	6,339
Natural gas (mcf/d)	15,129	15,846	16,246	17,398	16,822
Barrels of oil equivalent (boe per day) (6:1)	8,919	8,292	9,275	9,009	9,143
Average sales price					
Natural gas ($/mcf)	3.89	2.56	2.24	2.32	2.28
Oil & NGL ($/bbl)	74.78	75.94	76.31	85.19	80.59
Barrels of oil equivalent ($/boe)	60.24	56.70	57.97	62.28	60.09

FACTORS THAT HAVE CAUSED VARIATIONS OVER THE QUARTERS

The fluctuations in Surge's revenue and net earnings from quarter to quarter are primarily caused by increases in production volumes, changes in realized commodity prices and the related impact on royalties, and realized and unrealized gains or losses on derivative instruments. The increases in production from the first quarter of 2012 through the current quarter are due to Surge's successful drilling program, as well as corporate and asset acquisitions over that period. Please refer to the Financial and Operating Results section and other sections of this MD&A for detailed discussions on variations during the comparative quarters and to Surge's previously issued interim and annual MD&A for changes in prior quarters.

Share Capital and Option Activity

	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Weighted Common Shares	142,980,744	119,878,292	71,358,171	71,217,345	71,196,143	71,117,390	71,057,943	70,474,105
Stock option dilution (treasury method)[1]	—	248,162	—	—	—	—	1,080,348	1,711,244
Weighted average diluted shares oustanding[1]	142,980,744	120,126,454	71,358,171	71,217,345	71,196,143	71,117,390	72,138,291	72,185,349

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

On March 19, 2014 Surge had 179,501,315 common shares, 2,319,853 warrants, 2,000,000 SAR's, 889,500 PSAs and 798,550 RSAs, and 242,533 options outstanding.

LIQUIDITY AND CAPITAL RESOURCES

On December 31, 2013, Surge had drawn $279.6 million on its credit facility with total net debt of $305.3 million, an increase in total net debt of 38% as compared to the same date in 2012. Surge has approximately $190 million of borrowing capacity in relation to the $470 million credit facility, giving Surge considerable financial flexibility through 2014. Surge expects an increase in it's bank line subsequent to the year end reserve review.

During the course of 2013, Surge decreased its year end 2013 net debt to annualized Q4 funds from operations ratio by nine percent, from 2.29 in Q4 2012 to 2.08 in Q4 2013. Surge's funds from operations for the fourth quarter of 2013 include only a partial quarter of funds from operations from the three acquisitions completed in the fourth quarter of 2013. Given a full quarter's funds from operations from these assets, Surge would expect it's net debt to annualized funds from operations to decrease.

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

The Corporation defines net debt as outstanding bank debt plus or minus cash-based working capital and dividends payable, and excluding the fair value of financial contracts and other current obligations as follows:

Net Debt

($000s)	
Bank debt	$ (279,619)
Accounts receivable	36,036
Prepaid expenses and deposits	3,258
Accounts payable and accrued liabilities	(57,808)
Dividends payable	(7,216)
Total	**$ (305,349)**

As at December 31, 2013, the Corporation had 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 2.0 percent).

Surge's 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 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.

RELATED-PARTY AND OFF-BALANCE-SHEET TRANSACTIONS

Surge was not involved in any off-balance-sheet transactions or related party transactions during the period ended December 31, 2013.

CONTRACTUAL OBLIGATIONS

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

Surge has future minimum payments relating to its operating leases and firm transportation agreements totaling $8.7 million, as summarized below:

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

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.

FINANCIAL INSTRUMENTS

As a means of managing commodity price, interest rate, and foreign exchange volatility, the Corporation enters into various derivative financial instrument agreements and physical contracts. The fair value of forward contracts and swaps is determined by discounting the difference between the contracted prices and published forward price curves as at the statement of financial position date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates). The fair value of options is based on option models that use published information with respect to volatility, prices and interest rates. The fair value of interest rate and foreign exchange contracts is determined by discounting the difference between the contracted prices and published forward price curves as at the statement of financial position date, using the remaining notional values. Surge's financial derivative contracts are classified as level two.

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

Commodity Contracts

WTI-to-Edm Light Differential Hedges

Period	Volume Hedged (bbl/d)	Avg Price (Surge receives) (US$ per bbl)
Q1 2014	1,500	$ 8.23
Q2 2014	2,500	$ 7.90
Q3 2014	1,500	$ 8.48
Q4 2014	500	$ 8.70

WCS Oil Differential Hedges

Period	Volume Hedged (bbl/d)	Avg Price (Surge receives) (US$ per bbl)
Q1 2014	2,500	$ 21.87
Q2 2014	2,500	$ 21.87
Q3 2014	2,000	$ 22.71
Q4 2014	2,000	$ 22.71
2015	2,000	$ 22.71

WTI Oil Hedges

Period	Volume Hedged (bbl/d)	Avg Floor Price (Surge receives) (C$ per bbl)
Q1 2014	4,500	$ 96.54
Q2 2014	5,250	$ 97.86
Q3 2014	5,100	$ 96.95
Q4 2014	5,100	$ 96.95
Q1 2015	2,750	$ 96.70
Q2 2015	2,750	$ 96.70
Q3 2015	2,000	$ 93.27
Q4 2015	2,000	$ 93.27

AECO Gas Hedges

Period	Volume Hedged (mcf/d)	Avg Swap Price (Surge receives) (C$ per mcf)
Q1 2014	7,586	$ 3.61
Q2 2014	7,586	$ 3.61
Q3 2014	7,586	$ 3.61
Q4 2014	7,586	$ 3.61

Interest Contracts

Product	Period	Notional (C$)	Company Fixed Interest Rate (%) (1)
Interest Rate Swap	Calendar 2013 - 2014	$50,000,000	3.081%

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

Foreign Exchange Contracts

Product	Period	Notional (US$)	Swap Price (C$)
Foreign Exchange Swap	Calendar 2014	$33,361,000	$1.005

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

CONTROLS AND PROCEDURES

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

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

There were no changes in the Corporation's ICFR during the period ended December 31, 2013 that materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

Disclosure Controls

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

The President and Chief Executive Officer and the Chief Financial Officer of Surge evaluated the effectiveness and the design and operation of the Corporation's design of disclosure controls and procedures ("DC&P"). Based on that evaluation, the officers concluded that Surge's DC&P were effective as at December 31, 2013.

Internal Controls over Financial Reporting

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

Under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, Surge conducted an evaluation of the effectiveness of the Corporation's ICFR as at December 31, 2013 based on the COSO framework. Based on this evaluation, the officers concluded that as of December 31, 2013, Surge maintained effective ICFR.

CRITICAL ACCOUNTING ESTIMATES

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

Reserves

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

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

Forecasted Commodity Prices

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

Business Combinations

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

Decommissioning Liability

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

Derivative Financial Instruments

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

Stock-based Compensation

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

Deferred Income Taxes

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

CHANGES IN ACCOUNTING POLICIES

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.

FUTURE ACCOUNTING POLICY CHANGES

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.

RISK FACTORS

Additional risk factors can be found under "Risk Factors" in the Corporation's 2013 Annual Information Form, which can be found on www.sedar.com. Many risks are discussed below and in the 2013 Annual Information Form, but these risk factors should not be construed as exhaustive. There are numerous factors, both known and unknown, that could cause actual results or events to differ materially from forecast results.

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Surge depends on its ability to find, acquire, develop, and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves Surge may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited.

A future increase in Surge's reserves will depend not only on the Corporation's ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that further commercial quantities of oil and natural gas will be discovered or acquired by Surge.

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

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

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

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

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

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

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