MANAGEMENT'S LETTER

Management is responsible for the integrity and objectivity of the information contained in this annual report and for the consistency between the financial statements and other financial and operating data contained elsewhere in the report. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected with all information available up to April 26, 2011. The financial statements have been prepared using policies and procedures established by management in accordance with Canadian generally accepted accounting principles and reflect fairly Breaker's financial position, results of operations and cash flow.

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

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

The Board of Directors has approved the financial statements and information as presented in this annual report.

(*Signed*)	(*Signed*)
P. Daniel O'Neil	Maxwell A. W. Lof
President and Chief Executive Officer	Chief Financial Officer

April 26, 2011

AUDITORS' REPORT

To the Shareholders of Surge Energy Inc.

We have audited the accompanying consolidated financial statements of Surge Energy Inc., which comprise the consolidated balance sheet as at December 31, 2010, the consolidated statements of operations, comprehensive loss and retained earnings, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Surge Energy Inc. as at December 31, 2010, and the results of its consolidated operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other Matter

The consolidated financial statements of Surge Energy Inc. as at and for the year ended December 31, 2009 were audited by another auditor who expressed an unmodified opinion on those statements on March 8, 2010 except as to note 13, which is as of March 25, 2010.

(*Signed*) "KPMG LLP"

Chartered Accountants
Calgary, Canada
April 26, 2011

Consolidated Balance Sheets
Stated in Thousand of Dollars

	As at December 31, 2010	2009
Assets		
Current Assets:		
Cash	**$ 1,437**	$ -
Accounts receivable	**12,404**	4,061
Prepaid expenses and deposits	**1,657**	1,536
Current future income taxes (note 9)	**681**	-
	16,179	5,597
Petroleum and natural gas properties (notes 4 and 5)	**361,398**	126,763
	$ 377,577	$ 132,360
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 31,738**	$ 10,628
Fair value of financial contracts (note 12)	**2,570**	221
Bank debt (note 6)	**-**	41,650
	34,308	52,499
Bank debt (note 6)	**30,000**	-
Future income taxes (note 9)	**35,239**	17,636
Asset retirement obligations (note 7)	**11,994**	5,389
Shareholders' equity:		
Share capital (note 8)	**227,434**	16,209
Contributed surplus (note 8)	**4,664**	3,559
Performance warrants (note 8)	**7,196**	-
Retained earnings	**26,742**	37,068
	266,036	56,836
Commitments (note 11)		
Subsequent events (note 13)		
	$ 377,577	$ 132,360

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

(*Signed*)
Keith MacDonald, Director

(*Signed*)
Peter Bannister, Director

Consolidated Statements of Operations,
Comprehensive Loss and Retained Earnings
Stated in Thousands of Dollars, except per share amounts

	For the Years Ended December 31, 2010	2009
Revenues:		
Petroleum and natural gas	**$ 57,927**	$ 42,853
Royalties	**(8,122)**	(5,046)
Realized gain on financial contracts (note 12)	**2,794**	867
Unrealized loss on financial contracts (note 12)	**(2,349)**	(1,222)
	50,250	37,452
Expenses:		
Operating	**16,841**	13,042
Transportation	**2,426**	1,961
General and administrative	**6,185**	3,886
Stock-based compensation (note 8)	**5,351**	381
Interest expense	**998**	2,036
Bad debt provision	**506**	840
Depletion, depreciation and accretion	**23,681**	19,022
	55,988	41,168
Loss before the undernoted	**(5,738)**	(3,716)
Recapitalization costs	**5,409**	-
Loss before income taxes	**(11,147)**	(3,716)
Future income tax reduction (note 9)	**(821)**	(1,604)
Net loss and comprehensive loss	**(10,326)**	(2,112)
Retained earnings, beginning of year	**37,068**	39,219
Common shares repurchased and cancelled	**-**	(39)
Retained earnings, end of year	**$ 26,742**	$ 37,068
Loss per share (note 8)		
Basic	**$ (0.28)**	$ (0.13)
Diluted	**$ (0.28)**	$ (0.13)

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows
Stated in Thousands of Dollars

	For the Years Ended December 31, 2010	2009
Cash provided by (used in)		
Operating		
Loss including recapitalization costs of $5,409 for the year ended December 31, 2010	**$ (10,326)**	$ (2,112)
Depletion, depreciation and accretion	**23,681**	19,022
Future income tax reduction	**(821)**	(1,604)
Bad debt provision	**506**	840
Stock-based compensation	**5,351**	381
Unrealized loss on financial contracts	**2,349**	1,222
Abandonment expenditures	**(461)**	(257)
Change in non-cash working capital (note 10)	**(3,142)**	(1,151)
Cash flow from operating activities	**17,137**	16,341
Financing		
Bank debt	**(27,460)**	2,000
Issues of common shares and performance warrants, net of issue costs	**114,314**	3,511
Repurchase of common shares under normal course issuer bid	**-**	(66)
Cash flow from financing activities	**86,854**	5,445
Investing		
Petroleum and natural gas properties	**(41,996)**	(17,888)
Corporate acquistions (note 4)	**(1,009)**	-
Property acquisitions (note 4)	**(76,774)**	-
Proceeds on dispositions	**1,431**	-
Change in non-cash working capital (note 10)	**15,794**	(3,898)
Cash flow used in investing activities	**(102,554)**	(21,786)
Change in cash	**1,437**	-
Cash, beginning of year	**-**	-
Cash, end of year	**$ 1,437**	$ -
Interest paid	**$ 998**	$ 2,036

See note 10 for additional cash flow information.

Cash is defined as cash and cash equivalents.

See accompanying notes to the consolidated financial statements.

1. BASIS OF PRESENTATION:

Surge Energy Inc. ("Surge" or the "Corporation"), formerly Zapata Energy Corporation, is incorporated under the laws of the Province of Alberta. The Corporation is engaged in the exploration for and development and production of oil and gas properties in western Canada.

2. SIGNIFICANT ACCOUNTING POLICIES:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Corporation, its wholly-owned subsidiaries and partnerships. All inter-entity transactions and balances have been eliminated.

(b) Measurement uncertainty

The consolidated financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of these financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the statements and accompanying notes. As a result, actual amounts could differ from estimated amounts. Specifically, the amounts recorded for depletion and depreciation of petroleum and natural gas properties, the provision for and accretion of asset retirement obligations and the ceiling test calculations are based on estimates of reserves, production rates, oil and natural gas prices, future development costs, salvage values and other relevant assumptions.

Assumptions used in the determination of the fair value of stock options and warrants issued are based on estimates of the future volatility of the Corporation's stock price, expected lives of the options and warrants, expected dividends and other relevant assumptions.

Future income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. The fair value of commodity contracts and the resultant unrealized gain (loss) on commodity contracts is based upon expected future commodity prices, interest rates and volatility in those prices and interest rates. These third-party prepared estimates are subject to change with fluctuations in commodity prices and interest rates.

By their nature, these estimates are subject to measurement uncertainty, and the effect of changes in estimates on the consolidated financial statements of future periods could be significant.

(c) Cash and cash equivalents

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

(d) Petroleum and natural gas properties

The Corporation follows the full cost method of accounting whereby all costs related to the acquisition of, exploration for and the development of petroleum and natural gas reserves are initially capitalized into a single Canadian cost center. Costs capitalized include land acquisition costs, geological and geophysical expenditures, lease rentals on undeveloped properties, costs of drilling productive and non-productive wells, asset retirement costs, together with overhead and interest directly related to exploration and development activities, and lease and well equipment.

Proceeds from the disposal of properties are normally applied as a reduction of the cost of the remaining petroleum and natural gas properties, except when such a disposition would alter the rate of depletion and depreciation by more than 20 percent, in which case a gain or loss is recorded.

Costs capitalized are depleted using the unit-of-production method based on estimated proved petroleum and natural gas reserves before royalties as determined by independent engineers. For purposes of this calculation, petroleum and gas reserves are converted to a common unit of measure on the basis of their relative energy content, where six thousand cubic feet of gas equals one barrel of oil or liquids.

In determining its depletion base, the Corporation includes estimated future capital costs to be incurred in developing proved reserves and excludes the cost of significant unproved properties until it is determined whether proved reserves are attributable to the unproved properties or impairment has occurred. Unproved properties are evaluated separately for impairment. When proved reserves are assigned to the property or the property is considered impaired, the cost of the property or the amount of impairment is added to the depletion base.

Other assets are depreciated using the declining balance method at annual rates of 20 percent to 100 percent.

Petroleum and natural gas properties are evaluated in each reporting period to determine whether the carrying amount in a cost center is recoverable and does not exceed the fair value of the properties in the cost center.

The carrying amounts are assessed to be recoverable when the sum of undiscounted cash flows expected from proved reserves plus the cost of unproved properties net of impairment, exceeds the carrying amount of petroleum and natural gas properties. If the carrying amount is considered not recoverable, the magnitude of the impairment is measured by comparing the carrying amount of the petroleum and natural gas properties to the estimated, discounted future cash flows of the Corporation’s proved plus probable reserves plus the cost of unproved properties, net of impairment. The future cash flows are discounted at the Corporation’s risk-free interest rate and are based on forecast prices and costs, as provided by an independent third party. Any recognized impairment is recorded as additional depletion expense.

(e) Asset retirement obligations

The estimated fair value of asset retirement obligations is recorded in the period a well or related asset is drilled, constructed or acquired. Fair value is estimated using the present value of the estimated future cash outflows to abandon the asset at the Corporation's credit-adjusted risk-free interest rate. The discounted obligations are initially capitalized as part of the carrying amount of the related petroleum and natural gas properties, and a corresponding liability is recognized. The increase in petroleum and natural gas properties is depleted and depreciated on the same basis as the remainder of the petroleum and natural gas properties. The liability is accreted against income until it is settled or the property is sold and is recorded as accretion expense. Revisions to the estimated timing of cash flows or the cost estimates could also result in an increase or decrease to the obligation. Actual restoration expenditures are charged to accumulated obligations as incurred to the extent of the liability recorded.

(f) Interest in joint operations

A portion of the Corporation's exploration and production activities are conducted jointly with others and, accordingly, these consolidated financial statements reflect only the Corporation's proportionate interest in such activities.

(g) Future income taxes

Income taxes are accounted for using the asset and liability method of income tax allocation. Under the asset and liability method, future income tax assets and liabilities are recorded based on the difference between the tax basis of an asset or liability and the carrying amount on the balance sheet. Future income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities. Future income tax assets and liabilities are determined based on the tax laws and substantively enacted rates in effect. Actual rates in effect when the differences are expected to reverse may differ substantially as a result of changes to tax legislation. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

(h) Stock-based compensation and warrant valuation

The Corporation uses the fair value method for valuing stock options and warrants. Under the fair value method, compensation costs attributable to all stock options and warrants granted are measured at fair value at the date of grant and expensed over the vesting period with a corresponding increase to contributed surplus or warrants. The fair value of each option or warrant granted is estimated using the Black-Scholes option pricing model that takes into account the grant date, the exercise price and expected life of the option or warrant, the price of the underlying security, the expected volatility, the risk-free interest rate and dividends if any on the underlying security. Upon the exercise of the stock options and warrants, consideration received together with the amount previously recognized in contributed surplus or warrants is recorded as an increase to share capital and the contributed surplus or warrants balance is reduced.

The Corporation has not incorporated an estimated forfeiture rate for stock options or warrants that will not vest, rather, the Corporation accounts for actual forfeitures as they occur.

(i) Revenue recognition

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

(j) Per share information

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

(k) Flow-through shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to subscribers. To recognize the foregone tax benefits to the Corporation, share capital is reduced and a future tax liability is recorded equal to the estimated amount of future income taxes payable when the income tax deduction is renounced.

(l) Financial instruments

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by the standard.

The Corporation has designated its cash and cash equivalents as held for trading which are measured at fair value with changes in those fair values recognized in net earnings. Accounts receivable are classified as loans and receivables which are measured at amortized cost. Accounts payable and accrued liabilities and bank debt are classified as other liabilities which are measured at amortized cost which is determined using the effective interest rate method. The Corporation enters into forward swap, collar or put agreements to manage its exposure to the risks associated with fluctuating oil and gas prices and interest rates.

The Corporation has policies and procedures in place with respect to the required documentation and approvals for the use of derivative financial instruments. All transactions of this nature entered into by the Corporation are related to future oil and gas production or anticipated debt levels. Derivative financial instruments are used by the

Corporation to manage exposure to fluctuating commodity prices and interest rates and are not used for speculative or trading purposes. The Corporation has elected not to designate these derivative instruments as hedges for accounting purposes. As a result, all derivative financial instruments are recorded on a mark-to-market basis or fair valued with the resulting gains or losses taken into income. The fair value of these derivative financial instruments are based on an estimate of the amount that would have been recovered or paid to settle these instruments prior to maturity given market prices and other relevant factors.

The Corporation has elected to account for its physical delivery commodity sales contracts and other non-financial contracts held for the purpose of receipt or delivery of non-financial items in accordance with the expected purchase, sale or usage requirements on an accrual basis. The Corporation measures and recognizes embedded derivatives separately from the host contracts when the economic characteristics of the embedded derivative are not closely related to those of the host contract, when it meets the definition of a derivative and when the entire contract is not measured at fair value. Embedded derivatives are recorded at fair value. The Corporation nets all transaction costs incurred, in relation to the acquisition of a financial asset or liability, against the related financial asset or liability. Bank debt is presented net of deferred interest payments, with interest recognized in earnings on an effective interest basis.

(m) Comparative figures

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

3. FUTURE ACCOUNTING POLICIES:

Adoption of International Financial Reporting Standards ("IFRS")

On January 1, 2011 International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, will become the generally accepted accounting principles in Canada. The transition from Canadian GAAP to IFRS will result in significant differences affecting financial position and results of operations. The Corporation will be reporting under IFRS for all periods beginning after January 1, 2011 and will be required to restate comparative information for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010.

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

4. ACQUISITIONS:

(a) Corinthian Energy Corp.

Effective July 9, 2010, the Corporation acquired all of the issued and outstanding common shares of Corinthian Energy Corp. ("Corinthian"), a privately held junior oil and gas exploration company, in exchange for 16,025,529 common shares of Surge with an assigned value of $94,477,000. The common shares have been ascribed a fair value of $5.90 per common share issued, as determined based on the Corporation's weighted average trading price at the date of announcement being June 22, 2010. In addition, Surge incurred transaction costs of $1,009,000. The operations of Corinthian have been included in the results of Surge commencing July 9, 2010. The transaction was accounted for by the purchase method. The allocation of the purchase price for the acquisition has not been finalized. The following amounts are estimates based on information available at the time of preparation of these financial statements. Accordingly, these amounts are subject to changes as cost estimates and values are finalized. The preliminary allocation of the purchase price, based on management's estimates of fair values, is as follows:

Fair value of net assets acquired:		
Petroleum and natural gas properties	$	133,255
Bank debt		(15,810)
Working capital		472
Asset retirement obligations		(4,959)
Future income tax liability		(17,472)
Net assets acquired	$	95,486
Consideration:		
Common shares (16,025,529 common shares)	$	94,477
Transaction costs		1,009
Total consideration	$	95,486

(b) Crystal Lake Resources Ltd.

Effective July 19, 2010, Surge acquired all of the issued and outstanding common shares of Crystal Lake Resources Ltd. ("Crystal Lake"), a privately held junior oil and gas exploration company, in exchange for 288,639 common shares of Surge with an assigned value of $1,702,000. The common shares have been ascribed a fair value of $5.90 per common share issued, as determined based on the Corporation's weighted average trading price at the date of announcement being June 22, 2010. The operations of Crystal Lake have been included in the results of Surge commencing July 19, 2010. The transaction was accounted for by the purchase method. The allocation of the purchase price for the acquisition has not been finalized. The following amounts are estimates based on information available at the time of preparation of these financial statements. Accordingly, these amounts are subject to changes as cost estimates and values are finalized. The preliminary allocation of the purchase price, based on management's estimates of fair values, is as follows:

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

Fair value of net assets acquired:		
Petroleum and natural gas properties	$	1,675
Working capital		40
Asset retirement obligations		(90)
Future income tax liability		77
Net assets acquired	$	1,702
Consideration:		
Common shares (288,639 common shares)	$	1,702
Total consideration	$	1,702

(c) Valhalla Property Acquisition

Effective November 1, 2010, Surge acquired certain petroleum and natural gas properties in the Valhalla region of Alberta, in exchange for cash of $74.5 million with associated asset retirement obligations of $1.1 million.

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

5. PETROLEUM AND NATURAL GAS PROPERTIES:

December 31, 2010			
	Cost	Accumulated Depletion	Net Book Value
Petroleum and natural gas properties	$ 487,055	$ 125,657	$ 361,398

December 31, 2009			
	Cost	Accumulated Depletion	Net Book Value
Petroleum and natural gas properties	$ 229,352	$ 102,589	$ 126,763

During the year ended December 31, 2010, the Corporation capitalized $2.4 million (2009 - $0.02 million) of overhead-related costs to petroleum and natural gas properties. In addition, $3.0 million in stock-based compensation and the related tax impact of $1.0 million was capitalized during the year ended December 31, 2010.

Costs associated with unproven properties, salvage values and seismic excluded from costs subject to depletion as at December 31, 2010 totaled $107.1 million (2009 – $7.6 million). Future development costs for proved reserves of $63.8 million (2009 – $16.8 million) have been included in the depletion calculation.

During 2010, the Corporation disposed of certain interests in petroleum and natural gas properties for cash proceeds of $1.4 million, with associated asset retirement obligations of $0.1 million also eliminated.

The Corporation performed a ceiling test calculation at December 31, 2010 to assess the recoverable value of the petroleum and natural gas assets. As at December 31, 2010 there was no impairment required. For purposes of the ceiling test calculation, the Corporation used the January 1, 2011 commodity price forecast of its independent reserve evaluators. The following table summarizes the benchmark prices used in the calculation:

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

	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)
2011	88.40	93.08	85.63	4.04	95.32	62.44	1.5	0.932
2012	89.14	93.85	86.34	4.66	96.11	62.95	1.5	0.932
2013	88.77	93.43	85.02	4.99	95.68	62.67	1.5	0.932
2014	88.88	93.54	84.18	6.58	95.79	62.75	1.5	0.932
2015	90.22	94.95	85.45	6.69	97.24	63.69	1.5	0.932
2016	91.57	96.38	86.74	6.80	98.70	64.65	1.5	0.932
2017	92.94	97.84	88.05	6.91	100.18	65.62	1.5	0.932
2018	94.34	99.32	89.38	7.02	101.68	66.60	1.5	0.932
2019	95.75	100.81	90.73	7.14	103.21	67.60	1.5	0.932
2020	97.19	102.34	92.10	7.26	104.76	68.61	1.5	0.932

6. BANK DEBT:

The Corporation has a $105.0 million extendible, revolving term credit facility with a Canadian bank bearing interest at bank rates. The facility is available on a revolving basis until July 13, 2011. On July 13, 2011, 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 bank. As the available lending limits of the facilities are based on the bank'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, 2010 (2009 – prime plus 1.25 percent).

The facility is secured by a general assignment of book debts, debentures of $200.0 million with a floating charge over all assets of the Corporation with a negative pledge and undertaking to provide fixed charges on the major producing petroleum and natural gas properties at the request of the bank. Under the terms of the agreement, the Corporation is required to meet certain financial and engineering reporting requirements.

Under the terms of the agreement, the Corporation must maintain an adjusted working capital ratio of not less than 1.00:1.00 at all times. The working capital ratio is defined under the current credit facility as current assets, including the undrawn portion of the facility, to current liabilities, excluding any current bank indebtedness. The Corporation is compliant with this covenant at December 31, 2010.

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

7. ASSET RETIREMENT OBLIGATIONS:

The Corporation's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations is approximately $74.3 million (2009 – $19.7 million) which will be incurred between 2011 and 2059. The majority of these costs will be incurred between 2011 and 2037. A credit-adjusted risk free rate of eight percent (2009 – eight percent and an inflation rate of two percent (2009 – two percent) was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

	Years ended December 31, **2010**	2009
Balance, beginning of year	**$ 5,389**	$ 5,243
Liabilities related to acquisitions (note 4)	**6,162**	-
Liabilities related to dispositions (note 5)	**(51)**	-
Liabilities incurred	**342**	(1)
Accretion expense	**613**	404
Abandonment expenditures	**(461)**	(257)
Balance, end of year	**$ 11,994**	$ 5,389

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

8. SHARE CAPITAL:

(a) Authorized:

Unlimited number of voting common shares.

Unlimited number of preferred shares, issuable in series.

(b) Issued and outstanding:

	Number of Shares	Amount
Common Shares:		
Balance, December 31, 2008	16,697,811	$ 12,641
Issued pursuant to unit offering	417,466	1,252
Issued pursuant to flow-through offering	757,000	2,574
Share issue costs	-	(315)
Tax effect of share issue costs	-	84
Shares purchased pursuant to a normal course issuer bid	(36,000)	(27)
Balance, December 31, 2009	17,836,277	$ 16,209
Issued pursuant to unit offering	926,933	2,781
Issued pursuant to private placement	3,863,636	14,716
Issued pursuant to short form prospectus	6,945,000	50,004
Issued pursuant to Corinthian acquisition (note 4)	16,025,529	94,477
Issued pursuant to Crystal Lake acquisition (note 4)	288,639	1,702
Issued pursuant to short form prospectus	8,001,000	42,005
Share issue costs	-	(5,029)
Tax effect of share issue costs	-	1,359
Exercise of stock options	1,535,334	6,865
Exercise of warrants	672,199	2,689
Stock-based compensation of flow-through units	-	331
Tax effect of flow-through shares issued in 2009	-	(675)
Balance, December 31, 2010	**56,094,547**	**$ 227,434**

On January 19, 2010, the Corporation issued 848,600 units at a price of $3.00 per unit, with each unit consisting of one common share and one-half of a common share purchase warrant (with each whole warrant exercisable into one common share at a price of $4.00 per share until December 23, 2010), for total gross proceeds of $2,545,800. Certain former officers and directors purchased 20,000 units for total gross proceeds of $60,000.

On January 29, 2010, the Corporation issued 78,333 units at a price of $3.00 per unit, with each unit consisting of one common share and one-half of a common share purchase warrant (with each whole warrant exercisable into one common share at a price of $4.00 per share until December 23, 2010), for total gross proceeds of $235,000.

On April 13, 2010, pursuant to a private placement, the new management group, together with certain additional subscribers identified by the new management group, subscribed for 1,394,317 common units of the Corporation at a price of $4.40 per common unit, 1,787,500 common shares of the Corporation at a price of $4.40 per common share and 681,819 flow-through units at a price of $4.40 per flow-through unit, for total proceeds to the Corporation of approximately $17,000,000. Each common unit is comprised of one common share and one common share performance warrant, entitling the holder to purchase one common share at a price of $5.17 for a period of five years. Each flow-through unit is comprised of one common share issued on a flow-through basis pursuant to the Income Tax Act of Canada and one common share performance warrant, also entitling the holder to purchase one common share at a price of $5.17 for a period of five years. The common and flow-through shares issued as part of the common and flow-through units were ascribed a value of $3.30 per share or $6,851,000 due to the escrow restrictions described below. For further details on the vesting conditions and valuation of the common share performance warrants, please refer to note 8(d). The Corporation also recorded $331,000 of stock-based compensation on the flow-through units. Certain officers and directors of the Corporation purchased 1,099,413 common units, 661,951 flow-through units and 9,088 common shares as part of the private placement.

All of the units issued were acquired by contractors, employees, officers or directors of the Corporation (“deemed service providers”). For deemed service providers, units acquired through the private placement are held under an escrow agreement in which one-third of the units are to be released equally every six months following the date of issuance. No securities will be released from escrow after the date the deemed service provider ceases to be a service provider, unless directed by a resolution of the Board of Directors. Upon the deemed service provider ceasing to be a service provider, Surge will repurchase for cancellation or provide for a transfer to another deemed service provider all of the securities of the deemed service provider then held in escrow at a price equal to the lessor of $4.40 per unit and the market price of the common shares of Surge on the last day of trading immediately prior to the deemed service provider ceasing to be a service provider.

On May 5, 2010, the Corporation issued 6,945,000 common shares at a price of $7.20 per share for gross proceeds of $50,004,000, pursuant to a short form prospectus.

On November 1, 2010, the Corporation issued 8,001,000 common shares at a price of $5.25 per share for gross proceeds of $42.0 million. The proceeds were used to partially fund the Valhalla acquisition (note 4).

During the year ended December 31, 2010, two share purchase loans aggregating $360,000 due from two former officers of the Corporation were repaid. The loans bore interest at a rate of 4.75 percent and were due on June 30, 2010. The entire amount of the principal and interest outstanding has been repaid and the related common shares totaling 160,000 were issued. The 160,000 shares attributable to the share purchase loans had been included in the stock options and are shown as part of the stock options exercised balance below.

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

(c) Stock Options:

Under the Corporation's stock option plan, it may grant options to its employees for up to 5,609,455 common shares of the Corporation as at December 31, 2010. The exercise price of each option equals the market price of the Corporation's common shares at the date of grant. Options granted have a term of five years to maturity and vest as to one-third on each of the first, second and third anniversaries from the date of grant.

	Years ended December 31,					
	2010			2009		
	Number of Options		**Weighted average exercise price**	Number of Options		Weighted average exercise price
Stock options oustanding, beginning of year	**1,878,001**	**$**	**3.74**	1,643,666	$	3.87
Granted	**2,636,000**	**$**	**6.38**	345,000	$	3.20
Exercised	**(1,535,334)**	**$**	**3.17**	-	$	-
Forfeited	**(295,000)**	**$**	**6.61**	(110,665)	$	4.04
Stock options oustanding, end of year	**2,683,667**	**$**	**6.24**	1,878,001	$	3.74
Exercisable at year-end	**99,666**	**$**	**2.59**	1,408,337	$	4.07

	Year ended December 31, 2010						
	Options outstanding				**Options Exercisable**		
Range of exercise prices	**Outstanding**		**Weighted average exercise price**	**Weighted average contractual life (years)**	**Number exercisable**		**Weighted average exercise price**
$1.00 - $2.79	46,666	$	1.75	2.95	46,666	$	1.75
$2.80 - $4.59	51,000	$	3.19	3.91	51,000	$	3.19
$4.60 - $6.39	610,501	$	5.77	4.60	-	$	-
$6.40 - $8.19	1,975,500	$	6.57	4.56	2,000	$	7.10
$1.00 - $8.19	2,683,667	$	6.24	4.53	99,666	$	2.59

(d) Performance warrants:

As part of the private placement completed on April 13, 2010, 2,076,136 performance warrants were issued with an exercise price of $5.17 as part of the common share and flow-through units. The performance warrants vest and become exercisable as to one-third upon the 20 day weighted average trading price of the common shares equaling or exceeding $5.69, an additional one-third upon the trading price equaling or exceeding $6.20 and a final one-third upon the trading price equaling or exceeding $6.72. The performance warrants are released from escrow one third on each of the six, twelve and eighteen month anniversaries from the date of grant.

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

The performance warrants expire on April 13, 2015. As at December 31, 2010, all 2,076,136 performance warrants were outstanding, vested, and two-thirds held in escrow.

A Black-Scholes derived fair value of $3.47 per warrant, or $7,196,000 was assigned to the performance warrants. As the consideration received on the common and flow-through units of $4.40 per share, or $9,135,000 was less than the total fair values ascribed to the common and flow-through shares ($6,851,000) and the performance warrants ($7,196,000) of $14,047,000, an additional stock-based compensation cost of $4,912,000 was recognized in the year.

(e) Stock purchase warrants:

As part of equity financings completed in December 2009 and January 2010, the Corporation issued 672,199 warrants exercisable immediately at an exercise price of $4.00 and with an expiry date of December 23, 2010. During the year ended December 31, 2010, all warrants were exercised.

(f) Stock-based compensation

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

	Years ended December 31,	
	2010	2009
Stock-based compensation on options	**$ 3,106**	$ 381
Stock-based compensation on performance warrants (note 8(d))	**4,912**	-
Stock-based compensation on flow-through share premiums (note 8(b))	**331**	-
Capitalized stock-based compensation	**(2,998)**	-
Total stock-based compensation expense	**$ 5,351**	$ 381

The Corporation's stock-based compensation expense for the year ended December 31, 2010 was $5.4 million (2009 - $0.4 million). A Black-Scholes valuation model was applied to determine the fair value the options and performance warrants.

The following assumptions were used to calculate stock-based compensation on options granted for the year ended December 31, 2010: zero dividend yield (2009 – zero); expected volatility of 69 percent (2009 – 69 percent); risk free rate of 2 percent (2009 – 2 percent); and expected life of five years (2009 – 5 years). The weighted average fair value of options granted in 2010 is $3.79 per option (2009 - $1.52).

The following assumptions were used to calculate stock-based compensation on performance warrants issued in 2010: zero dividend yield; expected volatility of 69 percent; risk free rate of 3 percent; and expected life of five years. The weighted average fair value of performance warrants issued in 2010 is $3.47 per performance warrant.

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

(g) Contributed surplus:

	Years ended December 31, 2010		2009	
Balance, beginning of year	**$**	**3,559**	$	3,178
Stock-based compensation on options		**3,106**		381
Transfer on exercise of stock options		**(2,001)**		-
Balance, end of year	**$**	**4,664**	$	3,559

(h) Per share amounts:

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

	Years ended December 31, 2010	2009
Weighted average number of shares - basic and diluted	**36,467,864**	16,699,721

In computing diluted per share amount at December 31, 2010, 2,683,667 options (2009 – 1,878,001) and 2,076,136 performance warrants were excluded from the calculation as their effect was anti-dilutive.

9. INCOME TAXES:

Significant components of the Corporation's future income tax liability are as follows:

	Years ended December 31, 2010		2009	
Petroleum and natural gas properties	**$**	**32,413**	$	15,680
Asset retirement obligations		**(2,999)**		(1,412)
Fair value of financial contracts		**(681)**		-
Deferred partnership income		**11,822**		3,535
Non-capital losses		**(4,431)**		-
Other		**(1,566)**		(167)
	$	**34,558**	$	17,636

The Corporation has recognized the benefit of $16.7 million of non-capital losses which are available to carry forward to reduce future taxable income in future years. These losses expire between 2013 and 2029.

Income tax recovery differs from that which would be expected from applying the combined effective Canadian federal and provincial corporate tax rates of 28 percent (2009 – 29 percent) to the loss before income taxes as follows:

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

	Years ended December 31,	
	2010	2009
Loss before income taxes	**$ (11,147)**	$ (3,716)
Combined federal and provincial statutory rate	**28%**	29%
Expected income tax recovery	**$ (3,121)**	$ (1,078)
Difference resulting from:		
Changes in tax rates	**116**	(607)
Non-deductible stock-based compensation costs	**1,498**	110
Other	**686**	(29)
	$ (821)	$ (1,604)

10. CASH FLOW INFORMATION:

	Years ended December 31,	
	2010	2009
Accounts receviable	**(8,849)**	539
Prepaid expenses and deposits	**(121)**	(61)
Accounts payable and acrued liabilities	**21,110**	(5,527)
Working capital acquired on acquisitions (note 4)	**512**	-
Change in non-cash working capital	**12,652**	**(5,049)**
These changes relate to the following activities		
Operating	**(3,142)**	(1,151)
Investing	**15,794**	(3,898)
	12,652	(5,049)

11. COMMITMENTS

(a) Future minimum payments relating to operating lease and firm transport commitments:

2011	$ 1,599
2012	2,245
2013	1,611
2014	1,109
2015	960
2016+	2,019
Total	**$ 9,543**

(b) Flow-through shares:

In 2009, the Corporation issued a total of 757,000 flow-through common shares at $3.40 per share for gross proceeds of $2.6 million. The Corporation renounced these qualifying petroleum and natural gas expenditures on

December 31, 2009. As at December 31, 2010, the Corporation had incurred the entire $2.6 million towards this flow-through share obligation and has satisfied the terms of this flow-through share offering.

In 2010, the Corporation issued a total of 681,819 flow-through common shares at $4.40 per share as part of a flow-through unit for gross proceeds of $3.0 million. The Corporation renounced these qualifying petroleum and natural gas expenditures effective December 31, 2010. As at December 31, 2010 Corporation had incurred $0.8 million towards this flow-through share obligation and has until December 31, 2011 to incur the $2.2 million of remaining expenditures.

12. FINANCIAL INSTRUMENTS OVERVIEW

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

- Credit risk
- Liquidity risk
- Market risk

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

(a) Credit Risk:

Credit risk is the risk of financial loss to the Corporation if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's receivables from joint venture partners and petroleum and natural gas marketers. As at December 31, 2010, the Corporation's receivables consisted of $8.2 million due from petroleum and natural gas marketers and $4.2 million due from joint venture partners. These amounts are presented net of the allowance for doubtful accounts.

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

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

The carrying value of cash and accounts receivable represent the maximum credit exposure. The Corporation has an allowance for doubtful accounts of $0.5 million (2009 - $4.0 million) at December 31, 2010. During the year ended December 31, 2010, the Corporation allowed for $0.5 million of bad debts (2009 – $0.8 million) and applied $4.0 million of its allowance for doubtful accounts against outstanding receivables.

As at December 31, 2010, the Corporation estimates its total accounts receivables, net of the allowance for doubtful accounts, to be aged as follows:

Year ended	Total receivable ($000s)		Current		Past Due	
December 31, 2010	**$**	**12,404**	**$**	**11,181**	**$**	**1,223**
		100%		**90%**		**10%**
December 31, 2009	$	4,061	$	2,641	$	1,420
		100%		65%		35%

(b) Liquidity risk:

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

Accounts payable are considered due to suppliers in one year or less while bank debt, which is subject to a renewal after a 364-day revolving period, could be potentially due within the next year if the facility is not renewed for a further 364-day period. Financial contracts are also due to be settled with the counter-parties in one year at the estimated fair value on the balance sheet.

(c) Market risk:

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

(i) Foreign currency exchange risk:

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange risks. Although substantially all of the Corporation's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar.

The Corporation had no forward exchange rate contracts in place as at or during the years ended December 31, 2010 and 2009.

(ii) Commodity price risk:

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

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

The following table outlines the realized and unrealized losses on oil and gas commodity contracts for the year ended December 31, 2010:

12. FINANCIAL INSTRUMENTS (cont'd)

					Year ended Dec 31, 2010	Year ended Dec 31, 2010
Term	Type (floating to fixed)	Volume	Swap Price (Surge receives) (C$)	Index (Surge pays) (C$)	Unrealized gains (losses) (C$000s)	Realized gains (losses) (C$000s)
Jan 1 – Dec 31, 2010	Swap	2,000 GJs/d	$5.80	AECO Monthly Average	-	1,459
Apr 1 – Oct 31, 2010	Swap	1,000 GJs/d	$5.32	AECO Monthly Average	-	377
Nov 1, 2009 - Mar 31, 2010	Swap	500 GJs/d	$6.00	AECO Monthly Average	-	42
Jan 1 to Dec 31, 2011	Call	500 GJs/d	$6.55	AECO Monthly Average	(2)	-
Jan 1 to Dec 31, 2011	Put	500 GJs/d	$5.00	AECO Monthly Average	454	-
Mar 1, 2009 - Dec 31, 2010	Swap	750 GJs/d	$5.64	AECO Monthly Average	-	261
Jan 1 to Dec 31, 2010	Swap	100 bbls/d	$86.00	WTI - NYMEX	-	151
Jan 1 to Dec 31, 2010	Swap	100 bbls/d	$84.00	WTI - NYMEX	-	78
Jan 1 to Dec 31, 2010	Swap	100 bbls/d	$86.00	WTI - NYMEX	-	151
Jan 1 to Dec 31, 2010	Swap	200 bbls/d	$81.00	WTI - NYMEX	-	(63)
Feb 1 to Dec 31, 2010	Swap	100 bbls/d	$87.75	WTI - NYMEX	-	197
Feb 1 to Dec 31, 2010	Swap	100 bbls/d	$87.90	WTI - NYMEX	-	201
Jan 1 to Dec 31, 2011	Swap	250 bbls/d	$80.00	WTI - NYMEX	(1,247)	-
Jan 1 to Dec 31, 2011	Call	250 bbls/d	$96.55	WTI - NYMEX	415	-
Jan 1 to Dec 31, 2011	Swap	250 bbls/d	$80.00	WTI - NYMEX	(1,247)	-
Jan 1 to Dec 31, 2011	Call	250 bbls/d	$91.00	WTI - NYMEX	661	-
Jan 1 to Dec 31, 2011	Call	125 bbls/d	$78.40	WTI - NYMEX	(757)	-
Jan 1 to Dec 31, 2011	Swap	250 bbls/d	$85.50	WTI - NYMEX	(749)	-
Jan 1 to Dec 31, 2011	Put	250 bbls/d	$78.40	WTI - NYMEX	123	-
Total					**(2,349)**	**2,854**

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

12. FINANCIAL INSTRUMENTS (cont'd)

(iii) Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Over the course of the year ended December 31, 2010, the Corporation was exposed to interest rate fluctuations on its bank debt, which bears a floating rate of interest. As at December 31, 2010, if interest rates had been 100 basis points lower with all other variables held constant, net earnings for year ended would have been approximately $0.2 million (2009 - $0.4 million) higher, due to lower interest expense. An equal and opposite impact would have occurred to net earnings had interest rates been 100 basis points higher.

The following table outlines the unrealized and realized loss on an interest rate swap contract for the year ended December 31, 2010:

					Year ended Dec 31, 2010	Year ended Dec 31, 2010
Term	**Type (floating to fixed)**	**Amount (C$)**	**Company fixed interest rate (%)**	**Counter party floating rate index**	**Unrealized gains (losses) (C$)**	**Realized loss (C$)**
Feb 24 – Apr 15, 2010	Swap	35,000,000	4.42 to 4.44	CAD-BA-CDOR	-	(60)

The following table summarizes the sensitivity of the fair value of the Corporation's market risk management positions to fluctuations in both crude oil and natural gas prices. Both such fluctuations were evaluated independently, with all other variables held constant. In assessing the potential impact of these fluctuations, the Corporation believes that the volatilities presented below are reasonable measures. Fluctuations in crude oil and natural gas prices, which would impact the mark-to-market calculation of commodity contracts, could have had the following impact on the net earnings:

	Net Earnings Impact for Year ended December 31, 2010	
	Price Increase	Price Decrease
Crude Oil - Change of +/- $1.00	$ (212,156)	$ 212,156
Natural Gas - Change of +/- $0.50	$ (75,731)	$ 75,731

(d) Capital management:

The Corporation's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and sustain the future development of the business. The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Corporation considers its capital structure to include shareholder's equity of $266.0 million (2009 - $56.8 million), bank debt of $ 30.0 million (2009 - $41.7 million) and a working capital deficiency excluding bank debt of $18.1 million (2009 – $5.3 million). In order to maintain or adjust capital structure, the Corporation may from time to time issue shares and adjust its capital spending to manage current and projected debt levels.

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

(e) Fair value of financial instruments:

The Corporation's financial instruments as at December 31, 2010 and 2009 include cash, accounts receivable, accounts payable and accrued liabilities, the fair value of financial contracts and bank debt. The fair value of cash, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to their short-terms to maturity.

The fair value of financial contracts is determined by discounting the difference between the contracted commodity price/interest rate and published forward commodity price/interest rate curves as at the balance sheet date, using the remaining contracted notional volumes.

Bank debt, when outstanding, bears interest at a floating market rate and accordingly the fair market value approximates the carrying value.

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

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

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

The Corporation's financial contracts are considered level 2, while cash is considered level 1.

13. SUBSEQUENT EVENTS

Subsequent to December 31, 2010, the Corporation entered into seven financial oil contracts:

Term	Volume	Floor Price (C$)	Other Terms.
Apr 1 to Dec 31, 2011	250 bbls/day	$80.00	Participation in 100 percent of the upside above $84.35 CDN per barrel.
Jul 1 to Dec 31, 2011	250 bbls/day	$90.00	Participation in upside above $90.00 CDN per barrel at a rate of 74 percent.
Jan 1 to Dec 31, 2012	250 bbls/day	$97.00	N/A
Jan 1 to Dec 31, 2012	250 bbls/day	$80.00	Participation in upside above $80.00 CDN per barrel at a rate of 75 percent.
Jan 1 to Dec 31, 2012	250 bbls/day	$90.00	Participation in upside above $90.00 CDN per barrel at a rate of 63 percent.
Jan 1 to Dec 31, 2012	250 bbls/day	$80.00	Participation in 100 percent of the upside above $89.95 CDN per barrel.
Jan 1 to Dec 31, 2012	500 bbls/day	$90.00	Participation in 68.5 percent of the upside above $90.00 CDN per barrel.