

**FINANCIAL AND OPERATING SUMMARY**

(\$000s except per share amounts)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
<b>Financial highlights</b>						
Oil and NGL sales	135,548	83,154	63 %	357,536	184,030	94 %
Natural gas sales	8,161	3,674	122 %	21,888	14,384	52 %
Total oil, natural gas, and NGL revenue	143,709	86,828	66 %	379,424	198,414	91 %
Funds from operations <sup>1</sup>	71,298	44,455	60 %	190,593	96,504	97 %
Per share basic (\$)	0.33	0.37	(11)%	0.98	1.10	(11)%
Per share diluted (\$)	0.32	0.37	(14)%	0.98	1.10	(11)%
Net income (loss)	34,655	9,319	272 %	76,004	(7,039)	nm
Per share basic (\$)	0.16	0.08	100 %	0.39	(0.08)	nm
Per share diluted (\$)	0.16	0.08	100 %	0.39	(0.08)	nm
Capital expenditures - petroleum & gas properties <sup>2</sup>	32,473	19,997	62 %	109,799	85,228	29 %
Capital expenditures - acquisitions & dispositions <sup>2</sup>	(52,473)	218,439	nm <sup>4</sup>	529,350	202,255	162 %
Total capital expenditures <sup>2</sup>	(20,000)	238,436	nm	639,149	287,483	122 %
Net debt at end of period <sup>3</sup>	503,004	188,179	167 %	503,004	188,179	167 %
<b>Operating highlights</b>						
Production:						
Oil and NGL (bbls per day)	17,180	9,725	77 %	14,723	7,861	87 %
Natural gas (mcf per day)	18,879	13,696	38 %	15,269	14,933	2 %
Total (boe per day) (6:1)	20,327	12,008	69 %	17,268	10,350	67 %
Average realized price (excluding hedges):						
Oil and NGL (\$ per bbl)	85.76	92.93	(8)%	88.95	85.73	4 %
Natural gas (\$ per mcf)	4.70	2.92	61 %	5.25	3.53	49 %
Realized loss on financial contracts (\$ per boe)	(2.47)	(4.32)	(43)%	(4.18)	(2.47)	69 %
<b>Net back (excluding hedges) (\$ per boe)</b>						
Oil, natural gas and NGL sales	76.85	78.60	(2)%	80.49	70.22	15 %
Royalties	(13.61)	(14.55)	(6)%	(14.00)	(12.83)	9 %
Operating expenses	(16.02)	(12.94)	24 %	(15.44)	(12.54)	23 %
Transportation expenses	(1.82)	(2.01)	(9)%	(1.82)	(2.22)	(18)%
Operating netback	45.40	49.10	(8)%	49.23	42.63	15 %
G&A expense	(1.99)	(2.56)	(22)%	(2.06)	(3.46)	(40)%
Interest expense	(2.81)	(2.04)	38 %	(2.48)	(2.43)	2 %
Corporate netback	40.60	44.50	(9)%	44.69	36.74	22 %
Common shares outstanding, end of period	217,713	121,864	79 %	217,713	121,864	79 %
Weighted average basic shares outstanding	217,689	119,878	82 %	193,739	87,663	121 %
Stock option dilution (treasury method)	1,718	248	nm	1,279	—	nm
Weighted average diluted shares outstanding	219,407	120,126	83 %	195,018	87,663	122 %

1 Management uses funds from operations (cash flow from operating activities before changes in non-cash working capital, legal settlement expenses, decommissioning expenditures, transaction costs, cash settled stock-based compensation 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 Company defines net debt as outstanding bank debt plus or minus working capital, however, excluding the fair value of financial contracts and other current obligations.

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

## RECORD PRODUCTION AND FUNDS FROM OPERATIONS IN THE THIRD QUARTER OF 2014

Surge is pleased to report record average production of 20,327 boe per day, and record funds from operations of \$71.3 million, in the third quarter of 2014.

## FINANCIAL STRENGTH; SUSTAINABILITY

Surge is well positioned for success in delivering on the Company's focused business strategy - even during times of lower commodity prices.

The Company has a high netback, low decline asset base, strong capital efficiencies, and an excellent balance sheet. Continued implementation of Surge's ongoing risk management program has resulted in more than 40 percent of the Company's net crude oil production being locked in at over C\$100 per barrel through to July, 2015. With more than \$270 million of current credit availability on its bank line, Surge is well positioned to succeed in the current commodity price environment.

Surge has also continued to focus on rationalizing the Company's asset base, disposing of approximately \$52.6 million of miscellaneous assets in the third quarter, reducing net debt. In addition, the Company's focus on cost control, improving capital efficiencies and reducing per boe costs remains strong. Surge continues to reduce per boe costs via operational efficiencies and economies of scale as well.

Excluding the strategic business combination with Longview, Surge realized operating expenses of approximately \$15.25 per boe during the first nine months of 2014. Based on Longview's historical production of 5,600 boe per day and average operating expenses of greater than \$20.00 per boe prior to acquisition, an increase in operating expenses of more than \$1.30 per boe for the third quarter of 2014 was expected. However, Surge realized operating efficiencies as a result of the overlap of Longview's assets into Surge's existing core areas. Due to these operational synergies, the Company experienced only a fraction of this expected increase, with operating expenses increasing only \$0.31 per boe during the third quarter of 2014 from \$15.71 per boe in the second quarter of 2014 to \$16.02 per boe in the third quarter of 2014. Surge expects to achieve further synergies over the next several quarters.

## HIGHLIGHTS

- **Achieved a third quarter average production rate of 20,327 boe per day, an increase of 69 percent** from 12,008 boe per day in the same period of 2013.
- **Funds from operations increased 60 percent to a record \$71.3 million** in the third quarter of 2014 as compared to the same period of 2013.
- **Successfully closed \$52 million of miscellaneous asset dispositions**, including approximately 400 boe per day of non-core production, **reducing net debt to \$503.0 million - with only \$453.1 million drawn on Surges \$725 million bank line - while keeping Surge's forecast 2014 production exit rate intact at 21,350 boed.**
- **A third quarter capital program** (not including acquisitions and divestitures) **of \$32.5 million, which represents only 46 percent of funds from operations** for the quarter. Capital spending included \$21.8 million to **drill and complete 10.3 net wells with a 100 percent success rate**, \$9.6 million to optimize and upgrade equipment, facilities and pipelines, and \$1.0 million on land, seismic acquisitions and other capital items.
- **Surge achieved strong operating and corporate netbacks of \$45.40 per boe and \$40.60 per boe** respectively, in the third quarter of 2014.
- **Increased Surge's oil and natural gas liquids production weighting by four percent to 85 percent** in the third quarter of 2014 from 81 percent in the third quarter of 2013.
- **Approximately 94 percent of Surge's revenue resulted from oil and natural gas liquids production** in the third quarter of 2014.
- **Waterfloods have been expanded at Manson and Nipisi, initiated at Eyehill and preparations have begun for a waterflood pilot at Provost in the first quarter of 2015.**
- **Reduced G&A per boe by 22 percent** in the third quarter of 2014 as compared to the same period in 2013. The Company's G&A costs have dropped from \$2.56 per boe in the third quarter of 2013 to \$1.99 per boe in the third quarter of 2014.

**Netback Comparison**

	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Average production (boe per day)	20,327	16,395	15,024	12,014	12,008
Revenue	\$ 76.85	\$ 85.89	\$ 79.55	\$ 66.52	\$ 78.60
Royalties	(13.61)	(14.40)	(14.08)	(12.13)	(14.55)
Operating costs	(16.02)	(15.71)	(14.35)	(12.66)	(12.94)
Transportation costs	(1.82)	(1.71)	(1.92)	(2.03)	(2.01)
<b>Operating netback</b>	<b>\$ 45.40</b>	<b>\$ 54.07</b>	<b>\$ 49.20</b>	<b>\$ 39.70</b>	<b>\$ 49.10</b>
G&A expenses	(1.99)	(2.06)	(2.15)	(2.19)	(2.56)
Interest expense	(2.81)	(2.30)	(2.23)	(2.53)	(2.04)
<b>Corporate netback</b>	<b>\$ 40.60</b>	<b>\$ 49.71</b>	<b>\$ 44.82</b>	<b>\$ 34.98</b>	<b>\$ 44.50</b>

**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 "Company"), which includes its subsidiaries and partnership arrangements, is for the three and nine months ended September 30, 2014 and 2013. For a full understanding of the financial position and results of operations of the Company, 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](http://www.sedar.com).

Surge's interim 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: (i) the Company's expectations with respect to operational synergies and reductions in operating costs on a per boe basis, (ii) expectations with respect to the Company's waterflood program, results therefrom and quantity of producing assets that will be placed under waterflood, (iii) management's plans to pursue in-fill and step out development drilling and to utilize up to date completion techniques, (iv) expectations on corporate royalty rates applicable to the Company, (v) the Company's combined transportation and operating expenses per boe for the remainder of 2014, (vi) expected forfeiture rates of RSAs and PSAs granted under the Company's Stock Incentive Plan, (vii) the anticipated increases in the Company's monthly dividend, (viii) anticipated increases in the Company's bank line subsequent to the year-end reserves review, (ix) planned drilling, development and waterflood activities, (x) expected cost reductions in 2014, including under the company-wide service cost reduction initiatives, (xi) the expected sources of funding of future capital expenditures; (xii) expectations with respect to environmental legislation, and (xiii) expectations with respect to the Company's ability to operate and succeed in the current commodity price environment.

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, the successful negotiation and completion of the proposed disposition transaction, prevailing weather conditions, exchange rates, licensing requirements, the impact of completed facilities on operating costs and the availability, costs of capital, labour and services, the creditworthiness of industry partners and the receipt of approval of the lenders under Surge's bank line to increases thereto.

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, uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures or failure to obtain required approvals from the lenders under Surge's bank line to increases thereto. 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](http://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 Company'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 expenses, decommissioning expenditures, transaction costs, cash settled stock-based compensation and current tax on disposition as follows:

### Funds from Operations

(\$000s)	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Cash flow from operating activities	\$ 72,888	\$ 42,879	\$ 55,614	\$ 46,230	\$ 17,107
Change in non-cash working capital	(5,510)	15,271	(2,789)	(13,623)	22,597
Decommissioning expenditures	1,971	1,214	512	607	(68)
Transaction costs	454	6,161	433	4,001	4,751
Cash settled stock-based compensation	1,495	—	—	—	—
Current tax on disposition	—	—	—	53	—
<b>Funds from operations</b>	<b>\$ 71,298</b>	<b>\$ 65,525</b>	<b>\$ 53,770</b>	<b>\$ 37,268</b>	<b>\$ 44,387</b>

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 Company defines net debt as outstanding bank debt plus or minus working capital, however, 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 November 5, 2014.

## OPERATIONS

### Drilling

	Drilling		Success rate (%) net	Working interest (%)
	Gross	Net		
Q1 2014	20.00	13.96	100%	70%
Q2 2014	7.00	4.60	96%	66%
Q3 2014	23.00	10.34	100%	45%
<b>Total</b>	<b>50.00</b>	<b>28.90</b>	<b>99%</b>	<b>58%</b>

Surge achieved a 100% success rate during the three months ended September 30, 2014, drilling 23 gross (10.3 net) wells. During the third quarter of 2014, twelve (2.8 net) of the twenty-three gross wells drilled were Viking farmout wells which required no capital spending by Surge. The remaining eleven gross wells drilled during the quarter include one well at Wainwright, two wells at Eyehill, one well at Shaunavon, two wells at Valhalla, and five wells in Southeast Saskatchewan.

### Production

	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Oil and NGL (bbls per day)	<b>17,180</b>	14,246	12,694	10,354	9,725
Natural gas (mcf per day)	<b>18,879</b>	12,893	13,980	9,958	13,696
Total (boe per day) (6:1)	<b>20,327</b>	16,395	15,024	12,014	12,008
% Oil and NGL	<b>85%</b>	87%	84%	86%	81%

Surge achieved an average production rate of 20,327 boe per day in the third quarter of 2014, a 69 percent increase from an average production rate of 12,008 boe per day in the same period of 2013, and a 24 percent increase over an average production rate of 16,395 boe per day for the second quarter of 2014. The increase in production volumes as compared to the same period in 2013 is primarily due to the results of the 2014 drilling program, the strategic business combination with Longview, the acquisitions of the Wainwright, Manson and Macoun properties in the fourth quarter of 2013 and the Southeast Saskatchewan asset acquisition completed midway through the first quarter of 2014. The average production rate in the third quarter of 2014 includes the first full quarter of production acquired from Longview, which added approximately 5,600 boe per day.

Surge realized an 85 percent oil and natural gas liquids production weighting in the third quarter of 2014, compared to 81 percent in the third quarter of 2013. Surge realized average oil and natural gas liquids production of 17,180 bbls per day for the third quarter of 2014, a 77 percent increase compared to the same period of 2013.

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

In the third quarter of 2014, 94 percent of Surge's revenue resulted from oil and natural gas liquids production, with six percent derived from natural gas.

A 69 percent increase in production, offset by a slight two percent decrease in revenue per boe, resulted in revenues of \$143.7 million in the third quarter of 2014, up 66 percent from \$86.8 million in the same period of 2013.

Surge had certain financial contracts in place as of September 30, 2014. Surge recognized an unrealized gain of \$18.9 million on its financial contracts for the three months ended September 30, 2014, primarily due to an decrease in forward strip prices on oil at the end of September, 2014. Surge recognized a realized loss of \$4.6 million on its financial contracts for the three months ended September 30, 2014, due to higher strip prices on oil during the period. This compares to an unrealized loss of \$0.2 million and a realized loss of \$4.8 million on its financial contracts for the three months ended September 30, 2013.

During the nine months of 2014, approximately 94 percent of Surge's revenue resulted from oil and natural gas liquids production, with approximately 6 percent derived from natural gas.

A 67 percent increase in production, combined with a 15 percent increase in revenue per boe, resulted in revenues of \$379.4 million in the nine months of 2014, up 91 percent from \$198.4 million in the same period of 2013.

Surge recognized an unrealized gain of \$8.0 million and a realized loss of \$19.7 million on its financial contracts in the nine months of 2014. This compares to an unrealized loss of \$7.9 million and a realized loss of \$7.0 million on its financial contracts in the nine months of 2013.

For the period ended September 30, 2014, Surge sold 34 percent 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 Company realized average revenue of \$76.85 per boe in the third quarter of 2014, before realized financial contract losses, a decrease of two percent from the \$78.60 per boe recorded in the same period of 2013, due to the decrease in commodity prices, partially offset by the increase in Surge's oil weighting.

The Company realized an average price of \$85.76 per bbl of oil and natural gas liquids in the third quarter of 2014, a decrease of eight percent from the \$92.93 per bbl realized in the same period of 2013. This compares to an average Edmonton Light Sweet price of \$96.98 per bbl for the quarter, which decreased seven percent per barrel from the \$104.76 per bbl during the same period of 2013.

The Company realized an average natural gas price of \$4.70 per mcf in the third quarter of 2014, a 61 percent increase from the \$2.92 per mcf averaged in the same period of 2013. This compares to an average AECO Daily Index reference price of \$3.98 per mcf in the quarter, which increased by 63 percent from the \$2.44 per mcf in the same period of 2013. The increase in realized natural gas prices is relatively consistent with the increase in benchmark prices. Surge's realized gas price is slightly higher than the benchmark due to the high heat content of the Company's gas production.

The Corporation realized average revenue of \$80.49 per boe in the nine months of 2014, before realized financial contract losses, an increase of 15 percent from the \$70.22 per boe recorded in the same period of 2013.

The Corporation realized an average of \$88.95 per bbl of oil and natural gas liquids in the nine months of 2014, an increase of four percent from the \$85.73 per bbl realized in the same period of 2013. This compares to an average Edmonton Light Sweet price of \$102.62 per bbl during the nine months of 2014, which increased eight percent per barrel from the \$95.15 per bbl during the same period of 2013.

The Corporation realized an average natural gas price of \$5.25 per mcf in the nine months of 2014, a 49 percent increase from the \$3.53 per mcf averaged in the same period of 2013. This compares to an average AECO Daily Index reference price of \$5.20



per mcf in the nine months of 2014, which increased by 70 percent from the \$3.06 per mcf in the same period of 2014. The increase in realized natural gas prices is primarily a result of the increase in average AECO Daily Index reference pricing.

Realized losses on financial contracts resulted in a decrease of \$4.18 per boe to the average revenue per boe in the nine months of 2014. The realized losses on financial contracts resulted in a decrease of \$2.47 per boe to average revenue per boe during the three months ended September 30, 2014.

### Revenue and Realized Prices

(\$000s except per amount)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Oil and NGL	135,548	83,154	63 %	357,536	184,030	94%
Natural gas	8,161	3,674	122 %	21,888	14,384	52%
Total oil, natural gas and NGL revenue	143,709	86,828	66 %	379,424	198,414	91%
Oil and NGL (\$ per bbl)	85.76	92.93	(8)%	88.95	85.73	4%
Natural gas (\$ per mcf)	4.70	2.92	61 %	5.25	3.53	49%
Total oil, natural gas and NGL revenue (\$ per boe)	76.85	78.60	(2)%	80.49	70.22	15%
Realized loss on commodity contracts (\$ per boe)	(2.47)	(4.32)	(43)%	(4.18)	(2.47)	69%
Total oil, natural gas, and NGL revenue after realized commodity contracts (\$ per boe)	74.38	74.28	— %	76.31	67.75	13%
Reference Prices						
Edmonton Light Sweet (\$ per bbl)	96.98	104.76	(7)%	102.62	95.15	8%
AECO Daily Index (\$ per mcf)	3.98	2.44	63 %	5.20	3.06	70%

### Benchmark Prices

	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
(\$ per bbl)					
Benchmark - WTI (US\$)	97.19	102.99	98.68	97.46	105.82
Difference - WTI realized to Edmonton Light Sweet (C\$)	(0.21)	2.50	1.06	(11.08)	(1.06)
% Difference	— %	2 %	1 %	(13)%	(1)%
Benchmark - Edmonton Light Sweet (C\$)	96.98	105.49	99.74	86.38	104.76
Difference - Edmonton Light Sweet to Surge realized (C\$)	(11.22)	(11.24)	(12.42)	(13.21)	(11.83)
% Difference	(12)%	(11)%	(12)%	(15)%	(11)%
Surge realized prices (C\$)	85.76	94.25	87.32	73.17	92.93
(C\$ per mcf)					
Benchmark - AECO Daily Index	3.98	4.68	5.72	3.53	2.44
Surge realized prices	4.70	5.06	6.19	4.12	2.92
Difference	0.72	0.38	0.47	0.59	0.48
% Difference	18 %	8 %	8 %	17 %	20 %

### ROYALTIES

Surge realized royalty expenses of \$25.5 million or 18 percent of revenue in the third quarter of 2014, as compared to \$16.1 million or 19 percent of revenue in the same period of 2013. During the nine months of 2014, Surge realized royalty expenses of \$66.0 million or 17 percent of revenue, as compared to \$36.3 million or 18 percent of revenue in the same period of 2013. Royalties as a percentage of revenue for the three and nine months ended September 30, 2014 did not change significantly as a result of the Longview acquisition as Longview's corporate royalty rate of between 17% and 19% trended similarly to Surge's existing royalty rate.

As royalties are sensitive to both commodity prices and production levels, the 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

(\$000s except per boe)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Royalties	<b>25,458</b>	16,070	58 %	<b>65,980</b>	36,262	82%
% of Revenue	<b>18%</b>	19%	(5)	<b>17%</b>	18%	(6)
\$ per boe	<b>13.61</b>	14.55	(6)%	<b>14.00</b>	12.83	9%

### OPERATING EXPENSES

Operating expenses per boe for the third quarter of 2014 were 24 percent higher than the same period in 2013, at \$16.02 per boe as compared to \$12.94 per boe in the same period of 2013 and two percent higher compared to \$15.71 per boe in the second quarter of 2014.

Operating expenses per boe for the nine months ended September 30, 2014 were 23 percent higher than the same period in 2013, at \$15.44 per boe as compared to \$12.54 per boe in the same period of 2013.

Operating expenses per boe for the three and nine months ended September 30, 2014 increased mainly due to higher operating costs associated with recent acquisitions as compared to the same periods of the prior year in addition to planned workovers in Surge's core operating areas during the current quarter.

Excluding the strategic business combination with Longview, Surge realized operating expenses of approximately \$15.25 per boe during the first nine months of 2014. Based on Longview's historical production of 5,600 boe per day and average operating expenses of greater than \$20.00 per boe prior to acquisition, an increase in operating expenses of more than \$1.30 per boe for the third quarter of 2014 was expected. However, Surge realized operating efficiencies as a result of the overlap of Longview's assets into Surge's existing core areas. Due to these operational synergies, the Company experienced only a fraction of this expected increase, with operating expenses increasing only \$0.31, to \$16.02 per boe during the third quarter of 2014 from \$15.71 per boe in the second quarter of 2014. Surge expects to achieve further synergies over the next several quarters.

### Operating Expenses

(\$000s except per boe)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Operating expenses	<b>29,950</b>	14,292	110%	<b>72,803</b>	35,417	106%
\$ per boe	<b>16.02</b>	12.94	24%	<b>15.44</b>	12.54	23%

### TRANSPORTATION EXPENSES

Transportation expenses per boe decreased by nine percent to \$1.82 per boe in the third quarter of 2014, as compared to \$2.01 per boe in the same period of 2013.

Transportation expenses per boe decreased by 18 percent in the nine months of 2014, to \$1.82 per boe, as compared to \$2.22 per boe in the nine months of 2013.

The decrease in transportation expense for the three and nine months ended September 30, 2014 is primarily due to an increase in waterflood projects undertaken by Surge, whereby produced water is held in the field for reinjection as opposed to transported for disposal as wet emulsion. During the third quarter of 2014, Surge retained an additional 1,200 boe per day of water in its core operating areas for reinjection as compared to the same period of 2013, equating to a per boe cost savings of approximately \$0.12 or six percent, using Surge's historical transportation expense of \$2.00 per boe. Additionally, production volumes acquired during the past twelve months located in low-cost pipeline connected areas, specifically southeast



Saskatchewan acquired from Longview, has led to further cost savings on a per boe basis as Surge has leveraged the additional pipeline infrastructure for pre-acquisition production transportation. Management expects transportation expense per boe to remain relatively consistent for the remainder of 2014.

### Transportation Expenses

(\$000s except per boe)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Transportation expenses	<b>3,409</b>	2,220	54 %	<b>8,563</b>	6,270	37 %
\$ per boe	<b>1.82</b>	2.01	(9)%	<b>1.82</b>	2.22	(18)%

### GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

Net G&A expenses per boe for the third quarter of 2014 decreased 22 percent to \$1.99 per boe as compared to \$2.56 per boe in the same period of 2013. G&A expenses for the third quarter of 2014, net of recoveries and capitalized amounts of \$1.7 million, were \$3.7 million, compared to \$2.8 million in the same period of 2013, after recoveries and capitalized amounts of \$2.1 million.

Net G&A expenses per boe for the nine months of 2014 decreased 40 percent to \$2.06 per boe as compared to \$3.46 in the same period of 2013. G&A expenses for the nine months of 2014, net of recoveries and capitalized amounts of \$4.6 million, were \$9.7 million, compared to \$9.8 million in the same period of 2013, after recoveries and capitalized amounts of \$5.7 million.

Surge has implemented a company wide G&A cost reduction initiative the results of which have been realized throughout 2014. Additionally, Surge has had appropriate staff and systems in place to absorb additional general and administrative capacities as a result of recent acquisitions.

### G&A Expenses

(\$000s except per boe)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
G&A expenses	<b>5,398</b>	4,940	9 %	<b>14,281</b>	15,452	(8)%
Recoveries and capitalized amounts	<b>(1,685)</b>	(2,111)	(20)%	<b>(4,593)</b>	(5,689)	(19)%
Net G&A expenses	<b>3,713</b>	2,829	31 %	<b>9,688</b>	9,763	(1)%
Net G&A expenses \$ per boe	<b>1.99</b>	2.56	(22)%	<b>2.06</b>	3.46	(40)%

### TRANSACTION COSTS

In the third quarter of 2014, the Company incurred transaction costs of \$0.5 million or \$0.24 per boe, primarily related to recent acquisitions. The Company incurred \$4.8 million or \$4.30 per boe related to the Shaunavon property acquisition during the same period of 2013.

In the nine months of 2014, the Corporation incurred transaction costs of \$7.0 million or \$1.50 per boe, primarily related to the Longview Acquisition that was completed in the second quarter of 2014, in addition to the Southeast Saskatchewan asset acquisition that was completed in the first quarter of 2014. This is compared to \$4.9 million or \$1.73 per boe during the same period of 2013, primarily related to the Shaunavon property acquisition.

### Transaction Costs

(\$000s except per boe)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Transaction costs	<b>454</b>	4,751	(90)%	<b>7,048</b>	4,890	44 %
\$ per boe	<b>0.24</b>	4.30	(94)%	<b>1.50</b>	1.73	(13)%

## FINANCE EXPENSES

During the quarter ended September 30, 2014, Surge incurred interest expense of \$5.3 million or \$2.81 per boe as compared to \$2.3 million or \$2.04 per boe in the same period of 2013. Surge incurred interest expense of \$11.7 million or \$2.48 per boe in the nine months of 2014 as compared to \$6.9 million or \$2.43 per boe in the same period of 2013. The increased interest expense during the three and nine months ended September 30, 2014 is primarily due to higher debt levels as compared to the same periods of 2013.

Accretion represents the change in the time value of the decommissioning liability as well as a firm transportation agreement. Accretion expense per boe increased for the three and nine months ended September 30, 2014 as compared to the same periods of 2013 primarily due to the change in estimate recorded and the acquisitions conducted in the prior periods. 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. This future obligation can be reduced as a result of abandonment work undertaken.

### Finance Expenses

(\$000s except per boe)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Interest expense	<b>5,260</b>	2,255	133%	<b>11,703</b>	6,855	71%
\$ per boe	<b>2.81</b>	2.04	38%	<b>2.48</b>	2.43	2%
Accretion expense	<b>1,448</b>	432	235%	<b>3,918</b>	1,077	264%
\$ per boe	<b>0.78</b>	0.39	100%	<b>0.83</b>	0.38	118%
Finance expenses	<b>6,708</b>	2,687	150%	<b>15,621</b>	7,932	97%
\$ per boe	<b>3.59</b>	2.43	48%	<b>3.31</b>	2.81	18%

## 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 \$45.40 for the third quarter of 2014, an eight percent decrease from the \$49.10 recorded during the same period of 2013. The decrease in operating netback was attributable to a two percent decrease in revenue per boe as a result of lower oil prices during the period and a 24 percent increase in operating expenses per boe, partially offset by a nine percent decrease in transportation costs per boe and a six percent decrease in royalties per boe. The decrease in corporate netback was further impacted by a 38 percent increase in interest expense per boe, partially offset by a 22 percent decrease in G&A expense per boe, as compared to the same period of 2013.

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 \$49.23 for the nine months of 2014, a 15 percent increase from the \$42.63 recorded during the same period of 2013. The increase in operating netback was attributable to a 15 percent increase in revenue per boe and an 18 percent decrease in transportation costs per boe, partially offset by a nine percent increase in royalties per boe and a 23 percent increase in operating costs per boe. The increase in corporate netback was impacted by a 40 percent decrease in G&A expense per boe and a slight two percent increase in interest expense per boe, as compared to the same period of 2013.

**Netbacks, Excluding Hedging Activity**

(\$ per boe, except production)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Average production (boe per day)	<b>20,327</b>	12,008	69 %	<b>17,268</b>	10,350	67 %
Revenue	<b>76.85</b>	78.60	(2)%	<b>80.49</b>	70.22	15 %
Royalties	<b>(13.61)</b>	(14.55)	(6)%	<b>(14.00)</b>	(12.83)	9 %
Operating costs	<b>(16.02)</b>	(12.94)	24 %	<b>(15.44)</b>	(12.54)	23 %
Transportation costs	<b>(1.82)</b>	(2.01)	(9)%	<b>(1.82)</b>	(2.22)	(18)%
<b>Operating netback</b>	<b>45.40</b>	49.10	(8)%	<b>49.23</b>	42.63	15 %
G&A expense	<b>(1.99)</b>	(2.56)	(22)%	<b>(2.06)</b>	(3.46)	(40)%
Interest expense	<b>(2.81)</b>	(2.04)	38 %	<b>(2.48)</b>	(2.43)	2 %
<b>Corporate netback</b>	<b>40.60</b>	44.50	(9)%	<b>44.69</b>	36.74	22 %

**Netbacks, Including Hedging Activity**

(\$ per boe)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Operating netback	<b>45.40</b>	49.10	(8)%	<b>49.23</b>	42.63	15 %
Realized loss on commodity contracts	<b>(2.47)</b>	(4.32)	(43)%	<b>(4.18)</b>	(2.47)	69 %
<b>Operating netback, net of hedging activity</b>	<b>42.93</b>	44.78	(4)%	<b>45.05</b>	40.16	12 %
G&A expense	<b>(1.99)</b>	(2.56)	(22)%	<b>(2.06)</b>	(3.46)	(40)%
Interest expense	<b>(2.81)</b>	(2.04)	38 %	<b>(2.48)</b>	(2.43)	2 %
<b>Corporate netback, net of hedging activity</b>	<b>38.13</b>	40.18	(5)%	<b>40.51</b>	34.27	18 %

**FUNDS FROM OPERATIONS AND CASH FLOW FROM OPERATIONS**

Funds from operations increased 60 percent to \$71.3 million in the third quarter of 2014 compared to \$44.5 million in the same period of 2013. On a per share basis, funds from operations decreased 11 percent, to \$0.33 per basic share from \$0.37 per basic share in the same period of 2013.

Funds from operations increased 97 percent to \$190.6 million in the nine months of 2014 compared to \$96.5 million in the same period of 2013. On a per share basis, funds from operations decreased 11 percent, to \$0.98 per basic share from \$1.10 per basic share in the same period of 2013.

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 \$72.9 million and \$171.4 million for the three and nine months ended September 30, 2014, respectively, as compared to \$17.1 million and \$66.8 million in the same periods of 2013.

Included in cash flow from operations is an increase in non-cash working capital of \$5.5 million in the third quarter of 2014 and a decrease of \$7.0 million for the nine months ended September 30, 2014.

**Funds from Operations**

(\$000s except per share and per boe)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Funds from operations	<b>71,298</b>	44,455	60 %	<b>190,593</b>	96,504	97 %
Per share - basic (\$)	<b>0.33</b>	0.37	(11)%	<b>0.98</b>	1.10	(11)%
Per share - diluted (\$)	<b>0.32</b>	0.37	(14)%	<b>0.98</b>	1.10	(11)%
\$ per boe	<b>38.13</b>	40.24	(5)%	<b>40.43</b>	34.16	18 %
Cash flow from operating activities	<b>72,888</b>	17,107	326 %	<b>171,381</b>	66,797	157 %

**STOCK-BASED COMPENSATION**

Surge recorded net stock-based compensation expense of \$2.2 million during the third quarter of 2014, compared to \$2.5 million for the same period of 2013. Surge recorded net stock-based compensation expense of \$7.3 million during the nine months of 2014, compared to \$7.6 million for the same period of 2013. The stock-based compensation recorded in the three and nine months ended September 30, 2014 primarily relates to the stock appreciation rights ("SARs"), restricted share awards ("RSAs") and performance share awards ("PSAs") grants issued during 2013.

In the fourth quarter of 2013, the Company 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 not limited to, but 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 period ended September 30, 2014. The weighted average fair value of awards granted for the period ended September 30, 2014 is \$7.06 per PSA and \$7.38 per RSA. In the case of PSAs, the award value is adjusted for a payout multiplier which can range from 0.0 to 2.0 and is dependent on the performance of the Company relative to pre-defined corporate performance measures for a particular period.

All share issuances under the plan were approved by the Toronto Stock Exchange and the Corporation's shareholders in May 2014.

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	854,425	908,625
Granted	1,193,288	668,580
Exercised	(9,100)	—
Forfeited	(143,525)	(56,625)
<b>Balance at September 30, 2014</b>	<b>1,895,088</b>	<b>1,520,580</b>

### Stock-based compensation

(\$000s except per boe)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Stock-based compensation	<b>2,970</b>	4,333	(31)%	<b>9,082</b>	10,925	(17)%
Capitalized stock-based compensation	<b>(795)</b>	(1,879)	(58)%	<b>(1,764)</b>	(3,280)	(46)%
Net stock-based compensation	<b>2,175</b>	2,454	(11)%	<b>7,318</b>	7,645	(4)%
Net stock-based compensation \$ per boe	<b>1.16</b>	2.22	(48)%	<b>1.55</b>	2.71	(43)%

### DEPLETION AND DEPRECIATION

Depletion and depreciation are calculated based upon capital expenditures, production rates and proved plus probable reserves. Deducted from the Company's depletion and depreciation calculation are costs associated with salvage values of \$151.8 million. Future development costs for proved and probable reserves of \$685.3 million have been included in the depletion calculation.

Surge recorded \$44.6 million or \$23.84 per boe in depletion and depreciation expense during the third quarter of 2014, as compared to \$23.1 million or \$20.91 per boe in depletion and depreciation expense in the same period of 2013. Surge recorded \$116.1 million or \$24.63 per boe in depletion and depreciation expense during the nine months of 2014, as compared to \$53.8 million or \$19.06 per boe in the same period of 2013. The increase in total depletion expense for the three and nine months ended September 30, 2014 is due primarily to the acquisitions in the fourth quarter of 2013 and the nine months of 2014.

The depletion and depreciation calculation is based on daily production volumes of 20,327 boe per day for the third quarter of 2014.

#### Depletion and Depreciation Expense

(\$000s except per boe)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Depletion and depreciation expense	<b>\$ 44,573</b>	\$ 23,104	93%	<b>\$ 116,077</b>	\$ 53,842	116%
\$ per boe	<b>23.84</b>	20.91	14%	<b>24.63</b>	19.06	29%

### NET INCOME (LOSS)

The Company recorded a net income of \$34.7 million or \$0.16 per basic share for the third quarter of 2014 compared to a net income of \$9.3 million or \$0.08 per basic share for the same period of 2013. The cause for the change in net income is in part due to the \$8.6 million gain on disposal of petroleum and natural gas properties and farm-outs (2013 - nil), an \$18.9 million unrealized gain on financial contracts (2013 - \$0.2 million loss), and an increase in funds from operations of \$26.8 million compared to the same period of the 2013.

For the nine months ended September 30, 2014, the Company recorded a net income of \$76.0 million or \$0.39 per basic share compared to a net loss of \$7.0 million or \$0.08 per basic share for the same period of 2013. The cause for the change in net income is due to a strong netback achieved throughout the nine months of 2014 relative to the same period of 2013, the \$9.5 million gain on disposal of petroleum and natural gas properties and farm-outs (2013 - \$1.5 million), the \$23.6 million gain on investment (2013 - nil), no impairment recognition (2013 - \$24.0 million), as well as the \$8.0 million unrealized gain on financial contracts as compared to the \$7.9 million unrealized loss on financial contracts in the same period of 2013. All of these increases in recorded net income were partially offset by a \$19.7 million realized loss on financial contracts during the nine months ended September 30, 2014 as compared to the \$7.0 million realized loss on financial contracts during the same period of 2013.

**Net Income (Loss)**

(\$000s except per share)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Net Income (Loss)	<b>34,655</b>	9,319	nm	<b>76,004</b>	(7,039)	nm
Per share - basic (\$)	<b>0.16</b>	0.08	100%	<b>0.39</b>	(0.08)	nm
Per share - diluted (\$)	<b>0.16</b>	0.08	100%	<b>0.39</b>	(0.08)	nm

**CAPITAL EXPENDITURES**

During the three months ended September 30, 2014, Surge invested a total of \$32.5 million excluding acquisitions and dispositions. Surge invested \$21.8 million to drill 23.0 gross (10.3 net) wells.

In addition, the Company invested \$9.6 million in facilities, equipment, and pipelines, and \$1.0 million in land and seismic acquisitions and other capital items.

In the third quarter of 2014, Surge successfully closed several miscellaneous asset dispositions, including approximately 400 boe per day of non-core production, for proceeds of \$52.6 million.

**Capital Expenditure Summary**

(\$000s)	Q1 2014	Q2 2014	Q3 2014	2014 YTD	2013 YTD	Change
Land	791	853	633	<b>2,277</b>	3,622	(37)%
Seismic	103	539	216	<b>858</b>	928	(8)%
Drilling and completions	38,766	9,915	21,834	<b>70,515</b>	58,914	20 %
Facilities, equipment and pipelines	15,346	5,573	9,593	<b>30,512</b>	16,247	88 %
Other	3,345	2,094	197	<b>5,636</b>	5,517	2 %
Total exploration and development	58,351	18,974	32,473	<b>109,799</b>	85,228	29 %
Acquisitions - cash consideration	108,712	39,819	6,061	<b>154,592</b>	242,439	(36)%
Acquisitions - debt acquired	—	161,388	(5,902)	<b>155,486</b>	—	nm
Acquisitions - share based consideration	—	271,904	—	<b>271,904</b>	—	nm
Property dispositions	—	—	(52,632)	<b>(52,632)</b>	(40,184)	31 %
Total acquisitions & dispositions	108,712	473,111	(52,473)	<b>529,350</b>	202,255	162 %
Total capital expenditures	167,063	492,085	(20,000)	<b>639,149</b>	287,483	122 %

**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 third 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**

	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Weighted common shares	<b>217,689,253</b>	189,968,583	173,069,989	142,980,744	119,878,292
Dilutive instruments (treasury method)	<b>1,718,354</b>	1,383,899	828,174	—	248,162
Weighted average diluted shares outstanding	<b>219,407,607</b>	191,352,482	173,898,163	142,980,744	120,126,454



	Q2 2013	Q1 2013	Q4 2012	Q3 2012
Weighted common shares	71,358,171	71,217,345	71,196,143	71,117,390
Dilutive instruments (treasury method)	—	—	—	—
Weighted average diluted shares outstanding	71,358,171	71,217,345	71,196,143	71,117,390

On November 5, 2014 Surge had 220,057,375 common shares, 2,088,711 warrants, 2,000,000 SAR's, 1,526,830 PSAs and 1,675,970 RSAs, and 232,533 options outstanding.

### Quarterly Financial Information

	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Oil, Natural gas & NGL sales	<b>143,709</b>	128,148	107,567	73,518	86,828
Net earnings (loss)	<b>34,655</b>	37,927	3,422	(2,847)	9,319
Net earnings (loss) per share (\$):					
Basic	<b>0.16</b>	0.20	0.02	(0.02)	0.08
Diluted	<b>0.16</b>	0.20	0.02	(0.02)	0.08
Funds from operations	<b>71,298</b>	65,525	53,770	37,268	44,387
Funds from operations per share (\$):					
Basic	<b>0.33</b>	0.34	0.31	0.26	0.37
Diluted	<b>0.32</b>	0.34	0.31	0.26	0.37
Average daily sales					
Oil & NGL (bbls/d)	<b>17,180</b>	14,246	12,694	10,354	9,725
Natural gas (mcf/d)	<b>18,879</b>	12,893	13,980	9,958	13,696
Barrels of oil equivalent (boe per day) (6:1)	<b>20,327</b>	16,395	15,024	12,014	12,008
Average sales price					
Natural gas (\$/mcf)	<b>4.70</b>	5.06	6.19	4.12	2.92
Oil & NGL (\$/bbl)	<b>85.76</b>	94.25	87.32	73.17	92.93
Barrels of oil equivalent (\$/boe)	<b>76.85</b>	85.89	79.55	66.52	78.60

**Quarterly Financial Information**

	Q2 2013	Q1 2013	Q4 2012	Q3 2012
Oil, Natural gas & NGL sales	58,004	53,582	49,430	43,243
Net earnings (loss)	(15,004)	(1,354)	(68,187)	(986)
Net earnings (loss) per share (\$):				
Basic	(0.21)	(0.02)	(0.96)	(0.01)
Diluted	(0.21)	(0.02)	(0.96)	(0.01)
Funds from operations	26,812	25,237	24,061	19,849
Funds from operations per share (\$):				
Basic	0.38	0.35	0.34	0.28
Diluted	0.38	0.35	0.34	0.28
Average daily sales				
Oil & NGL (bbls/d)	6,966	6,854	6,398	5,651
Natural gas (mcf/d)	14,442	16,689	15,129	15,846
Barrels of oil equivalent (boe per day) (6:1)	9,373	9,636	8,919	8,292
Average sales price				
Natural gas (\$/mcf)	4.06	3.57	3.89	2.56
Oil & NGL (\$/bbl)	83.01	78.18	74.78	75.94
Barrels of oil equivalent (\$/boe)	68.00	61.78	60.24	56.70

**LIQUIDITY AND CAPITAL RESOURCES**

On September 30, 2014, Surge had drawn \$453.1 million on its credit facility with total net debt of \$503.0 million, an increase in total net debt of 167 percent as compared to the same date in 2013. Surge has approximately \$272 million of borrowing capacity in relation to the \$725 million credit facility, giving Surge considerable financial flexibility through 2015.

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 Company to meet its capital requirements.

The Company defines net debt as outstanding bank debt plus or minus working capital, however, excluding the fair value of financial contracts and other current obligations as follows.

**Net Debt**

(\$000s)	
Bank debt	\$ (453,094)
Accounts receivable	65,558
Prepaid expenses and deposits	5,627
Accounts payable and accrued liabilities	(110,209)
Dividends payable	(10,886)
<b>Total</b>	<b>\$ (503,004)</b>

As at September 30, 2014, the Company had a \$725 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, 2015. On May 31, 2015, at the Company’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 Company 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 Company’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 1.50 percent as at September 30, 2014 (December 31, 2013 – prime plus 1.25 percent).

Surge’s facility is secured by a general assignment of book debts, debentures of \$1.5 billion with a floating charge over all assets of the Company with a negative pledge and undertaking to provide fixed charges on the major producing petroleum and natural gas properties at the request of the bank.

### RELATED-PARTY AND OFF-BALANCE-SHEET TRANSACTIONS

Surge was not involved in any off-balance-sheet transactions or related party transactions during the period ended September 30, 2014.

### CONTRACTUAL OBLIGATIONS

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

Surge has future minimum payments relating to its operating lease and firm transport commitments totaling \$31.8 million, as summarized below:

<b>Commitments</b>	
(\$000s)	
2014	\$ 1,483
2015	5,647
2016	5,493
2017	5,171
2018	4,410
2019+	9,628
<b>Total</b>	<b>\$ 31,832</b>

### FINANCIAL INSTRUMENTS

As a means of managing commodity price, interest rate, and foreign exchange volatility, the Company 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 Company’s financial and physical 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)
Q4 2014	1,500	\$ 8.57
Q1 2015	2,000	\$ 8.34

**WCS Oil Differential Hedges**

Period	Volume Hedged (bbl/d)	Avg Price (Surge receives) (US\$ per bbl)
Q4 2014	2,500	\$ 21.47
Q1 2015	3,000	\$ 22.10
Q2 2015	3,000	\$ 22.10
Q3 2015	3,000	\$ 22.10
Q4 2015	3,000	\$ 22.10
Q1 2016	1,000	\$ 21.75
Q2 2016	1,000	\$ 21.75
Q3 2016	1,000	\$ 21.75
Q4 2016	1,000	\$ 21.75

**WTI Oil Hedges**

Period	Volume Hedged (bbl/d)	Avg Floor Price (Surge receives) (C\$ per bbl)
Q4 2014	7,100	\$ 99.54
Q1 2015	4,750	\$ 100.76
Q2 2015	4,750	\$ 100.76
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)
Q4 2014	10,430	\$ 3.86
Q1 2015	7,586	\$ 4.14
Q2 2015	7,586	\$ 4.14
Q3 2015	7,586	\$ 4.14
Q4 2015	7,586	\$ 4.14

**Interest Contract**

Product	Period	Notional (C\$)	Company Fixed Interest Rate (%) <sup>(1)</sup>
Interest Rate Swap	Calendar 2013 - 2014	\$50,000,000	3.841%

(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 Contract**

Product	Period	Notional (US\$)	Swap Price (C\$)
Foreign Exchange Swap	Calendar 2014	\$8,408,800	\$1.005

**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 Company'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 Company is made known to the Company'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 Company 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 Company's ICFR during the period ended September 30, 2014 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

### Disclosure Controls

Disclosure controls and procedures have been designed to ensure that information to be disclosed by the Company 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 Company'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 September 30, 2014.

### 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 Company'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 Company's ICFR as at September 30, 2014 based on the COSO framework. Based on this evaluation, the officers concluded that as of September 30, 2014, 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 cash flows.

### CHANGES IN ACCOUNTING POLICIES

On January 1, 2014, the Corporation adopted IFRIC 21 which provides guidance with respect to recognition of liabilities resulting from government levies. The Company also adopted IAS 32 that clarifies the requirements for offsetting financial assets and liabilities. The adoption of these standards had no impact on the amounts recorded in the consolidated financial statements as at September 30, 2014 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, 2015 and have not yet been adopted by the Company. 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.

The Company 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 Company's Annual Information Form for the year ended December 31, 2013, which can be found on [www.sedar.com](http://www.sedar.com). Many risks are discussed below and in the 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 Company'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 Company'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 Company to meet its capital requirements. If any components of the Company's business plan are missing, the Company 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 Company'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 Company'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 Company 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 Company'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 Company'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 Company'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 Company will in part be determined by the Company'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 Company 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.