

Consolidated Statements of Financial Position

(Unaudited)

Stated in thousand of dollars

As at	September 30, 2012	December 31, 2011
Assets		
Current Assets		
Accounts receivable	\$ 26,223	\$ 19,512
Fair value of financial contracts (note 6)	1,869	-
Prepaid expenses and deposits	2,492	4,948
	30,584	24,460
Exploration and evaluation assets (note 4)	62,914	47,719
Petroleum and natural gas properties (note 5)	648,145	437,854
Goodwill (note 4)	5,831	6,029
	\$ 747,474	\$ 516,062
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 62,722	\$ 49,467
Fair value of financial contracts (note 6)	-	2,151
	62,722	51,618
Fair value of financial contracts (note 6)	1,681	2,751
Bank debt (note 8)	168,739	72,197
Decommissioning obligations	39,022	37,511
Deferred income taxes	58,822	27,829
Shareholders' equity		
Share capital (note 7)	350,983	278,302
Contributed surplus	18,778	12,879
Performance warrants (note 7)	7,059	7,196
Accumulated other comprehensive income (loss)	(50)	1,005
Retained earnings	39,718	24,774
	416,488	324,156
Subsequent event (note 9)	\$ 747,474	\$ 516,062

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

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(Unaudited)

Stated in thousands of dollars, except per share amounts

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Revenues				
Petroleum and natural gas	\$ 43,243	\$ 33,012	\$ 143,230	\$ 88,680
Royalties	(7,596)	(4,752)	(25,795)	(12,662)
Realized loss on financial contracts (note 6)	(47)	(473)	(1,059)	(2,401)
Unrealized gain (loss) on financial contracts (note 6)	(4,974)	4,040	5,090	4,203
	30,626	31,827	121,466	77,820
Expenses				
Operating	8,758	8,393	27,290	23,566
Transportation	1,582	1,226	5,228	3,884
General and administrative	2,383	2,793	8,307	7,439
Transaction costs	46	-	658	95
Stock-based compensation	890	969	2,539	2,402
Depletion and depreciation	16,959	10,279	52,262	26,887
Finance expense	1,960	1,336	5,483	3,109
Loss (gain) on disposal of petroleum and natural gas properties	(232)	24	(232)	(648)
	32,346	25,020	101,535	66,734
Income (loss) before income taxes	(1,720)	6,807	19,931	11,086
Deferred income taxes	(734)	1,996	4,987	3,460
Net income (loss) for the period	\$ (986)	\$ 4,811	\$ 14,944	\$ 7,626
Other comprehensive income:				
Currency translation adjustment	(1,244)	1,648	(1,055)	1,569
Other comprehensive loss for the period	(1,244)	1,648	(1,055)	1,569
Total comprehensive income (loss) for the period	\$ (2,230)	\$ 6,459	\$ 13,889	\$ 9,195
Income (loss) per share (note 7)				
Basic	\$ (0.01)	\$ 0.09	\$ 0.21	\$ 0.14
Diluted	\$ (0.01)	\$ 0.08	\$ 0.21	\$ 0.13

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

Consolidated Statement of Changes in Shareholders' Equity

(Unaudited)

Stated in thousands of dollars, except share amounts

	Number of common shares	Share capital	Contributed surplus	Performance warrants	Accumulated other comprehensive income (loss)	Retained earnings	Total equity
Balance at December 31, 2010	56,094,547	\$ 220,845	\$ 4,664	\$ 7,196	\$ -	\$ 22,679	\$ 255,384
Net income for the period	-	-	-	-	-	7,626	7,626
Other comprehensive income	-	-	-	-	1,569	-	1,569
Share issue costs	-	(18)	-	-	-	-	(18)
Stock-based compensation	-	-	5,680	-	-	-	5,680
Transfer on exercise of options	-	35	(35)	-	-	-	-
Options exercised	27,334	76	-	-	-	-	76
Balance at September 30, 2011	56,121,881	\$ 220,938	\$ 10,309	\$ 7,196	\$ 1,569	\$ 30,305	\$ 270,317
Balance at December 31, 2011	63,040,987	\$ 278,302	\$ 12,879	\$ 7,196	\$ 1,005	\$ 24,774	\$ 324,156
Net income for the period	-	-	-	-	-	14,944	14,944
Issued pursuant to acquisition	7,919,436	71,275	-	-	-	-	71,275
Other comprehensive loss	-	-	-	-	(1,055)	-	(1,055)
Share issue costs (net of tax of \$30)	-	(88)	-	-	-	-	(88)
Stock-based compensation	-	-	6,150	-	-	-	6,150
Transfer on exercise of options & warrants	-	388	(251)	(137)	-	-	-
Options exercised	155,497	969	-	-	-	-	969
Warrants exercised	26,592	137	-	-	-	-	137
Balance at September 30, 2012	71,142,512	\$ 350,983	\$ 18,778	\$ 7,059	\$ (50)	\$ 39,718	\$ 416,488

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

Consolidated Statements of Cash Flows

(Unaudited)

Stated in thousands of dollars

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Cash provided by (used in)				
Operating				
Net income (loss)	\$ (986)	\$ 4,811	\$ 14,944	\$ 7,626
Loss (gain) on disposal of petroleum and natural gas properties	(232)	24	(232)	(648)
Unrealized gain (loss) on financial contracts	4,974	(4,040)	(5,090)	(4,203)
Finance expense	1,960	1,336	5,483	3,109
Interest expense	(1,699)	(1,084)	(4,708)	(2,333)
Depletion and depreciation	16,959	10,279	52,262	26,887
Decommissioning expenditures	(1,283)	(289)	(2,014)	(599)
Stock-based compensation	890	969	2,539	2,402
Deferred income taxes	(734)	1,996	4,987	3,460
Change in non-cash working capital	4,634	3,270	1,574	1,916
Cash flow from operating activities	24,483	17,272	69,745	37,617
Financing				
Bank debt	16,096	10,101	81,919	66,560
Issue of common shares, net of issue costs	510	35	988	58
Cash flow from financing activities	16,606	10,136	82,907	66,618
Investing				
Petroleum and natural gas properties	(52,201)	(37,901)	(118,875)	(96,023)
Exploration and evaluation assets	(932)	(14,071)	(16,863)	(28,910)
Disposition of petroleum and natural gas properties	1,354	-	1,354	6,525
Acquisitions (note 3)	-	-	(27,847)	-
Change in non-cash working capital	10,690	24,564	9,579	12,736
Cash flow used in investing activities	(41,089)	(27,408)	(152,652)	(105,672)
Change in cash	-	-	-	(1,437)
Cash, beginning of period	-	-	-	1,437
Cash, end of period	\$ -	\$ -	\$ -	\$ -

Cash is defined as cash and cash equivalents.

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

1. REPORTING ENTITY

Surge Energy Inc.'s (the "Corporation" or "Surge") business consists of the exploration, development and production of oil and gas from properties in western Canada and the northern United States. The interim consolidated financial statements include the accounts of the Corporation, its wholly-owned subsidiaries and partnerships.

2. BASIS OF PREPARATION

Statement of compliance

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" and using the accounting policies outlined by the Corporation in its annual consolidated financial statements for the year ended December 31, 2011. These interim consolidated financial statements do not include all of the information required for full annual financial statements.

The interim consolidated financial statements were authorized for issuance by the Board of Directors on November 12, 2012.

3. ACQUISITIONS AND DISPOSITIONS

(a) Pradera Resources Inc.

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

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

Included in the 2012 interim consolidated statement of income and comprehensive income are the following amounts:

Amounts since acquisition	
Revenue	\$ 25,310
Income and comprehensive income	3,301

(b) Other

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

During the period, the Corporation made an insignificant property disposition for total cash consideration of \$1.4 million. This resulted in a gain on disposal of petroleum and natural gas properties of \$0.2 million.

4. EXPLORATION AND EVALUATION ASSETS AND GOODWILL

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

Exploration & Evaluation Assets

	Total
Cost:	
Balance at December 31, 2011	\$ 47,719
Acquisitions (note 3)	6,181
Additions	16,863
Change in foreign exchange rate	(765)
Transfer to petroleum and natural gas properties	(7,084)
Balance at September 30, 2012	\$ 62,914

Goodwill

	Total
Cost	
Balance at December 31, 2011	\$ 6,029
Change in foreign exchange rate	(198)
Balance at September 30, 2012	\$ 5,831

5. PETROLEUM AND NATURAL GAS PROPERTIES

PP&E

	Total
Cost or deemed cost	
Balance at December 31, 2011	\$ 504,802
Acquisitions (note 3)	133,056
Additions	120,367
Dispositions	(1,455)
Transfer from exploration and evaluation assets	7,084
Capitalized stock-based compensation	3,611
Change in foreign exchange rate	(110)
Balance at September 30, 2012	\$ 767,355

	Total
Accumulated depletion and depreciation	
Balance at December 31, 2011	(\$66,948)
Depletion and depreciation expense	(52,262)
Balance at September 30, 2012	(\$119,210)

	Total
Carrying amounts	
At December 31, 2011	437,854
At September 30, 2012	648,145

The calculation of depletion and depreciation expense for the three months ended September 30, 2012 included an estimated \$111.8 million (September 30, 2011 - \$24.3 million) for future development costs associated with proved plus probable reserves and deducted \$31.2 million (September 30, 2011 - \$27.2 million) for the estimated salvage value of production equipment and facilities.

6. RISK MANAGEMENT CONTRACTS

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

The following table outlines the realized and unrealized gains (losses) on oil differential contracts for the three and nine months ended September 30, 2012:

Term	Type (floating to fixed)	Volume	Differential (Surge receives) (C\$)	Index (Surge pays) (C\$)	Three months ended Sep 30, 2012		Nine months ended Sep 30, 2012	
					Unrealized gains (losses) (\$000s CDN)	Realized gains (losses) (\$000s CDN)	Unrealized gains (losses) (\$000s CDN)	Realized gains (losses) (\$000s CDN)
Jan 1 to Mar 31, 2012	Swap	500 bbls/d	\$ 13.25	Western Canadian Select	-	-	(104)	385
Jan 1 to Jun 30, 2012	Swap	250 bbls/d	\$ 14.85	Western Canadian Select	-	-	(37)	401
Jun 1 to Jun 30, 2012	Swap	750 bbls/d	\$ 17.50	Western Canadian Select	-	-	-	(23)
Jul 1 to Sep 30, 2012	Swap	500 bbls/d	\$ 20.25	Western Canadian Select	(312)	67	-	67
Oct 1 to Dec 31, 2012	Swap	500 bbls/d	\$ 23.15	Western Canadian Select	(562)	-	(562)	-
Oct 1 to Oct 31, 2012	Swap	500 bbls/d	\$ 21.25	Western Canadian Select	(181)	-	(181)	-
Nov 1 to Dec 31, 2012	Swap	500 bbls/d	\$ 20.50	Western Canadian Select	(271)	-	(271)	-
Oct 1 to Dec 31, 2012	Swap	2,000 bbls/d	\$ -	Edmonton Sweet Crude	(61)	-	(61)	-
Total					\$ (1,387)	\$ 67	\$ (1,216)	\$ 830

The following table outlines the realized and unrealized gains (losses) on interest rate contracts for three and nine months ended September 30, 2012:

Term	Type (floating to fixed)	Amount (C\$)	Company Fixed Interest Rate (%) ⁽¹⁾	Counter party Floating Rate Index	Three months ended Sep 30, 2012		Nine months ended Sep 30, 2012	
					Unrealized gain (loss) (\$000s CDN)	Realized gain (loss) (\$000s CDN)	Unrealized gain (loss) (\$000s CDN)	Realized gain (loss) (\$000s CDN)
Jan 1, 2012 to Dec 31, 2014	Swap	\$ 50,000,000	2.74%	CAD-BA-CDOR	134	(136)	396	(220)

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

The following table outlines the realized and unrealized gains (losses) on natural gas commodity contracts for the three and nine months ended September 30, 2012:

Term	Type (floating to fixed)	Volume	Swap Price (Surge receives) (C\$)	Index (Surge pays) (C\$)	Three months ended Sep 30, 2012		Nine months ended Sep 30, 2012	
					Unrealized gains (losses) (\$000s CDN)	Realized gains (losses) (\$000s CDN)	Unrealized gains (losses) (\$000s CDN)	Realized gains (losses) (\$000s CDN)
Jan 1 to Dec 31, 2013	Swap	2,000 gj/d	\$ 3.10	AECO	(84)	-	(84)	-
Jan 1 to Dec 31, 2013	Swap	1,000 gj/d	\$ 3.05	AECO	(60)	-	(60)	-
Jan 1 to Dec 31, 2013	Swap	1,000 gj/d	\$ 3.07	AECO	(52)	-	(52)	-
Total					\$ (196)	\$ -	\$ (196)	\$ -

The following table outlines the realized and unrealized gains (losses) on oil commodity contracts for the three and nine months ended September 30, 2012:

Term	Type (floating to fixed)	Volume	Swap Price (Surge receives) (C\$)	Index (Surge pays) (C\$)	Three months ended Sep 30, 2012		Nine months ended Sep 30, 2012	
					Unrealized gains (losses) (\$000s CDN)	Realized gains (losses) (\$000s CDN)	Unrealized gains (losses) (\$000s CDN)	Realized gains (losses) (\$000s CDN)
Jan 1 to Dec 31, 2012	Swap	250 bbls/d	\$ 97.00	WTI - NYMEX	(285)	122	477	46
Jan 1 to Dec 31, 2012	Put	250 bbls/d	\$ 80.00	WTI - NYMEX	(59)	-	536	-
Jan 1 to Dec 31, 2012	Call	62.5 bbls/d	\$ 80.00	WTI - NYMEX	41	(67)	(274)	(280)
Jan 1 to Dec 31, 2012	Swap	250 bbls/d	\$ 80.00	WTI - NYMEX	104	(269)	1,631	(1,119)
Jan 1 to Dec 31, 2012	Call	250 bbls/d	\$ 89.95	WTI - NYMEX	(49)	46	(1,286)	483
Jan 1 to Dec 31, 2012	Put	250 bbls/d	\$ 90.00	WTI - NYMEX	(174)	6	569	46
Jan 1 to Dec 31, 2012	Call	92.5 bbls/d	\$ 90.00	WTI - NYMEX	18	(17)	(425)	(178)
Jan 1 to Dec 31, 2012	Put	500 bbls/d	\$ 90.00	WTI - NYMEX	31	(29)	(840)	(302)
Jan 1 to Dec 31, 2012	Call	157.5 bbls/d	\$ 90.00	WTI - NYMEX	(348)	13	986	13
Jan 1 to Dec 31, 2012	Swap	500 bbls/d	\$ 85.00	WTI - NYMEX	(30)	(308)	2,583	(1,553)
Jan 1 to Dec 31, 2012	Call	500 bbls/d	\$ 96.00	WTI - NYMEX	(204)	-	(1,883)	420
Apr 1 to Dec 31, 2012	Swap	500bbls/d	\$ 90.00	WTI - NYMEX	(330)	(78)	(57)	(274)
Apr 1 to Dec 31, 2012	Call	500bbls/d	\$ 96.00	WTI - NYMEX	64	451	64	99
Apr 1 to Dec 31, 2012	Swap	500bbls/d	\$ 101.50	WTI - NYMEX	(776)	152	469	779
Jul 1 to Dec 31, 2012	Swap	500bbls/d	\$ 95.00	WTI - NYMEX	(479)	-	171	151
Jul 1 to Dec 31, 2012	Call	500bbls/d	\$ 99.80	WTI - NYMEX	(60)	-	38	-
Jan 1 to Mar 31, 2013	Swap	250bbls/d	\$ 104.85	WTI - NYMEX	(55)	-	276	-
Jan 1 to Dec 31, 2013	Swap	250bbls/d	\$ 98.00	WTI - NYMEX	469	-	469	-
Jan 1 to Dec 31, 2013	Swap	250bbls/d	\$ 95.00	WTI - NYMEX	(190)	-	198	-
Jan 1 to Mar 31, 2013	Swap	500bbls/d	\$ 95.00	WTI - NYMEX	(89)	-	332	-
Jan 1 to Mar 31, 2013	Call	185bbls/d	\$ 95.00	WTI - NYMEX	(8)	-	(83)	-
Apr 1 to Jun 30, 2013	Swap	250bbls/d	\$ 105.05	WTI - NYMEX	(48)	-	272	-
Apr 1 to Jun 30, 2013	Swap	500bbls/d	\$ 95.00	WTI - NYMEX	(97)	-	91	-
Apr 1 to Jun 30, 2013	Call	300bbls/d	\$ 95.00	WTI - NYMEX	4	-	183	-
Jan 1 to Dec 31, 2013	Swap	250 bbls/d	\$ 85.00	WTI - NYMEX	(845)	-	(422)	-
Jan 1 to Dec 31, 2013	Call	250bbls/d	\$ 95.00	WTI - NYMEX	5	-	619	-
Jan 1 to Mar 31, 2013	Swap	500bbls/d	\$ 95.00	WTI - NYMEX	(110)	-	112	-
Jan 1 to Mar 31, 2013	Call	500bbls/d	\$ 103.70	WTI - NYMEX	58	-	89	-
Jan 1 to Jun 30, 2013	Swap	500bbls/d	\$ 95.00	WTI - NYMEX	(212)	-	(248)	-
Jan 1 to Jun 30, 2013	Call	380bbls/d	\$ 95.00	WTI - NYMEX	16	-	589	-
Jan 1 to Jun 30, 2013	Swap	1,000 bbls/d	\$ 90.00	WTI - NYMEX	(428)	-	(507)	-
Jan 1 to Jun 30, 2013	Call	1,000 bbls/d	\$ 96.00	WTI - NYMEX	150	-	986	-
Jul 1 to Dec 31, 2013	Swap	750 bbls/d	\$ 94.97	WTI - NYMEX	295	-	295	-
Apr 1 to Jun 30, 2013	Swap	500 bbls/d	\$ 95.15	WTI - NYMEX	96	-	96	-
Total					\$ (3,525)	\$ 22	\$ 6,106	\$ (1,669)

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

Net earnings impact for the period ended September 30, 2012		
	Price Increase	Price Decrease
Crude Oil - Change of +/- \$1.00	\$ (2,127)	\$ 2,127
Natural Gas - Change of +/- \$0.10	\$ (146)	\$ 146
Interest rate - Change of +/- 100 points	\$ (375)	\$ 375

7. SHARE CAPITAL

(a) Stock Options

Under the Corporation's stock option plan, it may grant options to its officers, directors, employees and certain consultants for up to 7,114,251 common shares of the Corporation as at September 30, 2012. 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.

	September 30, 2012		December 31, 2011	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Stock options outstanding, beginning of period	4,948,999	\$ 7.54	2,683,667	\$ 6.24
Granted	2,333,450	\$ 7.54	2,355,500	\$ 8.92
Exercised	(155,497)	\$ 5.82	(47,168)	\$ 3.95
Forfeited	(325,336)	\$ 7.64	(43,000)	\$ 5.96
Stock options outstanding, end of period	6,801,616	\$ 7.58	4,948,999	\$ 7.54
Exercisable at period-end	1,986,576	\$ 7.21	899,484	\$ 6.10

The following table summarizes stock options outstanding and exercisable at September 30, 2012:

Range of exercise prices	Options Outstanding			Options Exercisable		
	Number outstanding	Weighted average exercise price	Weighted average contractual life (years)	Number exercisable	Weighted average exercise price	
\$1 to \$2.99	26,666	\$ 1.75	1.20	26,666	\$ 1.75	
\$3 to \$4.99	24,000	\$ 3.20	2.23	24,000	\$ 3.20	
\$5 to \$6.99	2,250,667	\$ 6.42	2.82	1,203,653	\$ 6.37	
\$7 to \$8.99	2,779,950	\$ 7.52	4.54	193,501	\$ 7.98	
\$9 to \$11.15	1,720,333	\$ 9.33	3.88	538,756	\$ 9.27	
\$1 to \$11.15	6,801,616	\$ 7.58	3.78	1,986,576	\$ 7.21	

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

(b) Performance warrants

The Corporation has 2,047,272 performance warrants outstanding (December 31, 2011 – 2,073,864) that expire on April 13, 2015. As at September 30, 2012, all 2,047,272 outstanding performance warrants were vested and exercisable at a price of \$5.17.

(c) Per share amounts

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Weighted average number of shares - basic	71,117,390	56,118,838	70,884,001	56,104,010
Effect of dilutive stock options	-	1,348,828	1,248,668	1,124,732
Weighted average number of shares - diluted	71,117,390	57,467,666	72,132,669	57,228,742

In computing diluted per share amounts for the three months ended September 30, 2012, 6,801,616 options (September 30, 2011 – 2,383,000) and 2,047,272 performance warrants (September 30, 2011 – nil) were excluded from the calculation as their effect was anti-dilutive.

In computing diluted per share amounts for the nine months ended September 30, 2012, 4,414,583 options (September 30, 2011 – 3,058,000) and nil performance warrants (September 30, 2011 – nil) were excluded from the calculation as their effect was anti-dilutive.

8. BANK DEBT

In connection with the closing of the Pradera Acquisition, as detailed in Note 3, the Corporation increased its revolving term credit facility from \$150 million to \$175 million. During the second quarter, the Corporation further increased its credit facility from \$175 million to \$250 million. The facility had an effective interest rate of prime plus 1.50 percent as at September 30, 2012 (September 30, 2011 – prime plus 1.50 percent). The facility's next scheduled review is required before May 31, 2013. Average debt for the three and nine months ended September 30, 2012 was \$160.7 million and \$120.5 million, respectively.

Surge's facility is secured by a general assignment of book debts, debentures of \$500.0 million with a floating charge over all assets of the Corporation with a negative pledge and undertaking to provide fixed charges on the major producing petroleum and natural gas properties at the request of the bank.

9. SUBSEQUENT EVENT

(a) Subsequent to the third quarter, Surge entered into the following financial natural gas commodity pricing contracts:

Term	Type	Volume	Price (C\$) (Surge Receives)	Index (Surge pays) (C\$)
1) Jan 1, 2013 - Dec 31, 2013	Swap	2,000 gj/d	3.25	AECO - Monthly
2) Jan 1, 2013 - Dec 31, 2013	Swap	2,000 gj/d	3.45	AECO - Monthly
3) Jan 1, 2014 - Dec 31, 2014	Swap	2,000 gj/d	3.60	AECO - Daily