

Extractive Sector Transparency Measures Act Report

Reporting Year

From: 2016-01-01

To: 2016-12-31

Reporting Entity Name

Surge Energy Inc

Reporting Entity ESTMA Identification Number

E406421

Subsidiary Reporting Entities (if necessary)

Surge Energy Partnership (E690506), 1413942 Alberta Ltd. (E374811)

Attestation: Please check one of the the boxes below and provide the required information

Attestation (by Reporting Entity)

In accordance with the requirements of the ESTMA, and in particular section 9 thereof, I attest I have reviewed the information contained in the ESTMA report for the entity(ies) listed above. Based on my knowledge, and having exercised reasonable diligence, the information in the ESTMA report is true, accurate and complete in all material respects for the purposes of the Act, for the reporting year listed above.

Attestation (through independent audit)

In accordance with the requirements of the ESTMA, and in particular section 9 thereof, I attest that I engaged an independent auditor to undertake an audit of the ESTMA report for the entity(ies) and reporting year listed above. Such an audit was conducted in accordance with the Technical Reporting Specifications issued by Natural Resources Canada for independent attestation of ESTMA reports.

*The auditor expressed an unmodified opinion, dated **[ENTER DATE: YYYY-MM-DD]**, on the ESTMA report for the entity(ies) and period listed above.*

*The independent auditor's report can be found at **[INSERT WEBLINK TO AUDIT OPINION POSTED ONLINE – link should be on same page as report link]***

Director or Officer of Reporting Entity Full Name:

Paul Ferguson

Position Title:

Chief Financial Officer

Date: 2017-05-26

Extractive Sector Transparency Measures Act - Annual Report

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necessary)

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Payments by Payee

Country	Payee Name	Taxes	Royalties	Fees	Production Entitlements	Bonuses	Dividends	Infrastructure Improvement Payments	Total Amount paid to Payee	Notes
Canada	BIG LAKES COUNTY	\$ 260,000							\$ 260,000	
Canada	COUNTY OF GRANDE PRAIRIE	\$ 480,000		\$ 150,000					\$ 630,000	
Canada	COUNTY OF NORTHERN LIGHTS	\$ 310,000							\$ 310,000	
Canada	COUNTY OF STETTLER NO. 6	\$ 400,000							\$ 400,000	
Canada	COUNTY OF WETASKIWIN NO 10	\$ 230,000							\$ 230,000	
Canada	GOVERNMENT OF ALBERTA	\$ 260,000	\$ 14,670,000	\$ 1,630,000					\$ 16,560,000	Royalties paid in-kind total \$11,460,000 and are valued at the Alberta Par Price of the volume taken in-kind. Payee includes recipients: ABSA-PRESSURE EQUIPMENT SAFETY AUTHORITY ALBERTA ENERGY ALBERTA ENERGY REGULATOR ALBERTA PETROLEUM MARKETING COMMISSION (APMC) GOVERNMENT OF ALBERTA GOVERNMENT OF ALBERTA (GAS CROWN ROY) MINISTER OF FINANCE (ALBERTA) ALBERTA MUNICIPAL AFFAIRS SPECIAL AREAS BOARD
Canada	GOVERNMENT OF SASKATCHEWAN	\$ 520,000	\$ 2,010,000	\$ 160,000					\$ 2,690,000	Payee includes recipients: MINISTER OF FINANCE PROV OF SASKATCHEWAN SASKATCHEWAN AGRICULTURE AND FOOD, LANDS SASKATCHEWAN MINISTRY OF THE ECONOMY SASKATCHEWAN MINISTRY OF THE ECONOMY PROVINCE OF SK, ENERGY & RESOURCES THE MINISTRY OF AGRICULTURE
Canada	MUNICIPAL DISTRICT OF PROVOST NO. 52	\$ 480,000							\$ 480,000	
Canada	MUNICIPAL DISTRICT OF WAINWRIGHT NO. 61	\$ 1,020,000							\$ 1,020,000	
Canada	R.M. OF SENLAC NO. 411	\$ 160,000							\$ 160,000	
Canada	R.M. OF WHITE VALLEY NO. 49	\$ 650,000							\$ 650,000	
Canada	RED DEER COUNTY	\$ 200,000							\$ 200,000	
Canada	SADDLE HILLS COUNTY	\$ 230,000							\$ 230,000	
Canada	VULCAN COUNTY	\$ 190,000							\$ 190,000	
Canada	WOODLANDS COUNTY	\$ 140,000							\$ 140,000	
Total		\$ 5,530,000	\$ 16,680,000	\$ 1,940,000	\$ -	\$ -	\$ -	\$ -	\$ 24,150,000	All payments were made in Canadian dollars

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Payments by Project

Country	Project Name	Taxes	Royalties	Fees	Production Entitlements	Bonuses	Dividends	Infrastructure Improvement Payments	Total Amount paid by Project	Notes
Canada	Central Alberta	\$ 1,690,000	\$ 990,000	\$ 630,000					\$ 3,310,000	Royalties paid in-kind total \$400,000 and are valued at the Alberta Par Price of the volume taken in-kind.
Canada	Northeast Alberta	\$ 260,000	\$ 2,800,000	\$ 100,000					\$ 3,160,000	Royalties paid in-kind total \$2,800,000 and are valued at the Alberta Par Price of the volume taken in-kind.
Canada	Northwest Alberta	\$ 710,000	\$ 9,050,000	\$ 470,000					\$ 10,230,000	Royalties paid in-kind total \$6,570,000 and are valued at the Alberta Par Price of the volume taken in-kind.
Canada	Southeast Alberta	\$ 1,740,000	\$ 1,930,000	\$ 440,000					\$ 4,110,000	Royalties paid in-kind total \$1,690,000 and are valued at the Alberta Par Price of the volume taken in-kind.
Canada	Southwest Saskatchewan	\$ 1,130,000	\$ 1,910,000	\$ 150,000					\$ 3,190,000	
Canada	Corporate	\$ -	\$ -	\$ 150,000					\$ 150,000	
Total		\$ 5,530,000	\$ 16,680,000	\$ 1,940,000	\$ -	\$ -	\$ -	\$ -	\$ 24,150,000	All payments were made in Canadian dollars

INTRODUCTION

Surge Energy Inc. and its subsidiaries (collectively the “Company” or “Surge”) has prepared the following report (“the Report”) of payments made to government entities for the year ended December 31, 2016 as required by the Extractive Sector Transparency Measures Act S.C. 2014, c.39, s.376 (“ESTMA” or “the Act”).

Surge makes a broader socio-economic contribution to the local areas in which we operate in addition to the payments that are required to be reported under the Act.

BASIS OF PREPARATION

The Report has been prepared in accordance with the requirements of the Act and the Natural Resources Canada (“NRCan”) Technical Reporting Specifications. The Technical Reporting Specifications provides specifications with regards to the form and manner of reporting. The following is a summary of judgments and definitions that Surge has made for the purpose of preparing the Report.

Payee

For purposes of the Act, a payee is:

- a) Any government in Canada or in a foreign state.
- b) A body that is established by two or more governments.
- c) Any trust, board, commission, corporation or body or other authority that is established to exercise or perform, or that exercises or performs, a power, duty or function of a government for a government referred to in paragraph (a) above or a body referred to in paragraph (b) above.

Payees include governments at any level, including national, regional, state/provincial or local/municipal levels. Payees include Crown corporations and other state-owned enterprises that are exercising or performing a power, duty or function of government.

Aboriginal and indigenous groups and organizations within Canada and in other jurisdictions may be regarded as governments for purposes of qualifying as a payee under the Act. However, the Act defers the requirement to report on payments made to Aboriginal governments in Canada, with reporting on these payments beginning on June 1, 2017. For the year ended December 31, 2016, there were no reportable payments to an Aboriginal payee.

The individual department, agency or other body of the payee that received the payment is disclosed, where practical, in a supplementary note to the Report.

Activities within the scope of the Report

Payments made by Surge to payees relating to the commercial development of oil, gas and minerals (“commercial development”) are disclosed in this Report. Surge makes payments related to its initial processing activities which are integrated with its extraction operations and comprise commercial development. The Report excludes payments that are not related to Surge’s commercial development activities, as defined by the Act and in the associated Guidance document published by NRCan.

Project

Payments are reported at the project level except for payments that are not attributable to a specific project and are reported at the entity level. Corporate income taxes, which are typically not levied at a project level, are an example of this.

A “project” means the operational activities that are governed by a single contract, license, lease, concession or similar legal agreement and form the basis for payment liabilities with a government. However, if multiple such agreements are substantially interconnected, Surge has aggregated such interconnected agreements into a single “Project” for reporting purposes, as permitted under the Act and the associated Technical Reporting Specifications published by NRCan.

Cash and in-kind payments

Payments are reported on a cash basis, meaning they are reported in the period in which they are paid. In-kind payments are converted to an equivalent cash value based on cost or, if cost is not determinable, the in-kind payment is reported at the fair market value. The valuation method for each payment has been disclosed in a supplementary note to the Report.

All information is reported in Canadian dollars (“Cdn\$”). Payments to the “same payee” that meet or exceed \$100,000 Cdn in one category of payment are disclosed. Payments disclosed are rounded to the nearest \$10,000 Cdn.

Payments made in situations of joint control

Where Surge has itself made a reportable payment to a payee, regardless of whether Surge is the operator, the full amount paid has been disclosed; this is the case even where Surge as the operator has been proportionally reimbursed by its non-operating partners through a partner billing process.

Payment Categories

The information is reported under the following payment categories.

Taxes

This category may include taxes paid by Surge on its income, profits or production. Taxes reported include property taxes, business taxes and certain provincial resource surcharges. Consumption taxes and personal income taxes are excluded.

Royalties

These are payments for the rights to extract oil and gas resources, typically at a set percentage of revenue less any deductions that may be taken. Royalties paid in kind are also reported under this category.

Fees

This category may include rental fees, entry fees and regulatory charges as well as fees or other consideration for licenses, permits or concessions. Amounts paid in ordinary course commercial transactions in exchange for services provided by a payee are excluded.

Production entitlements

A payee's share of oil, gas or mineral production under a production sharing agreement or a similar contractual or legislated arrangement is reported under this category. For the year ended December 31, 2016, there were no reportable production entitlement payments to a payee.

Bonuses

Signing, discovery, production and any other type of bonuses paid to a payee are reported under this category. For the year ended December 31, 2016, there were no reportable bonus payments to a payee.

Dividends

These are dividend payments other than dividends paid to a payee as an ordinary shareholder of Surge. For the year ended December 31, 2016, there were no reportable dividend payments to a payee.

Infrastructure improvement payments

These are payments which relate to the construction of infrastructure that do not relate primarily to the operational purposes of Surge. For the year ended December 31, 2016, there were no reportable infrastructure improvement payments to a payee.