Condensed Consolidated Interim Statements of Financial Position

Stated in thousand of dollars

(Unaudited)

As at	September 30, 2014	December 31, 2013
Assets		
Current Assets		
Accounts receivable	**$ 65,558**	$ 36,036
Fair value of financial contracts (note 6)	**763**	—
Prepaid expenses and deposits	**5,627**	3,258
	71,948	39,294
Exploration and evaluation assets (note 4)	**27,171**	25,149
Petroleum and natural gas properties (note 5)	**1,964,749**	1,312,282
	$ 2,063,868	$ 1,376,725
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 110,209**	$ 57,808
Dividends payable	**10,886**	7,216
Fair value of financial contracts (note 6)	**3,841**	12,604
Current portion of other long term obligations	**3,046**	1,915
	127,982	79,543
Fair value of financial contracts (note 6)	**2,478**	982
Bank debt (note 7)	**453,094**	279,619
Decommissioning obligations (note 8)	**195,561**	85,172
Other long term obligations	**3,444**	4,303
Deferred income taxes	**79,556**	72,912
Shareholders' equity		
Share capital	**1,236,957**	884,676
Contributed surplus	**30,543**	27,123
Warrants	**5,907**	7,284
Deficit	**(71,654)**	(64,889)
	1,201,753	854,194
Commitments (note 11)		
	$ 2,063,868	$ 1,376,725

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

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

Stated in thousands of dollars, except per share amounts

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	2013
Revenues				
Petroleum and natural gas	**$ 143,709**	$ 86,828	**$ 379,424**	$ 198,414
Royalties	**(25,458)**	(16,070)	**(65,980)**	(36,262)
Realized loss on financial contracts	**(4,621)**	(4,775)	**(19,705)**	(6,984)
Unrealized gain (loss) on financial contracts (note 6)	**18,896**	(190)	**8,030**	(7,946)
	132,526	65,793	**301,769**	147,222
Expenses				
Operating	**29,950**	14,292	**72,803**	35,417
Transportation	**3,409**	2,220	**8,563**	6,270
General and administrative	**3,713**	2,829	**9,688**	9,763
Legal settlement	**—**	—	**—**	3,550
Bad debt provision	**—**	—	**—**	317
Transaction costs (note 3)	**454**	4,751	**7,048**	4,890
Stock-based compensation (note 9)	**2,175**	2,454	**7,318**	7,645
Depletion and depreciation (note 5)	**44,573**	23,104	**116,077**	53,842
Impairment	**—**	—	**—**	24,000
Finance expense	**6,708**	2,687	**15,621**	7,932
Gain on disposal of petroleum and natural gas properties and farm-outs (note 5)	**(8,629)**	—	**(9,468)**	(1,531)
Gain on investment (note 10)	**—**	—	**(23,622)**	—
	82,353	52,337	**204,028**	152,095
Income (loss) before income taxes	**50,173**	13,456	**97,741**	(4,873)
Current tax expense on disposal	**—**	—	**—**	1,439
Deferred income tax expense	**15,518**	4,137	**21,737**	727
Total tax expense	**15,518**	4,137	**21,737**	2,166
Net income (loss) for the period	**$ 34,655**	$ 9,319	**$ 76,004**	$ (7,039)
Other comprehensive income:				
Currency translation adjustment	**—**	—	—	1,359
Gain on investment (note 10)	**—**	—	**20,669**	(1,316)
Transfer of gain on investment to earnings	**—**	—	**(20,669)**	—
Other comprehensive income for the period	**—**	—	**—**	43
Total comprehensive income (loss) for the period	**$ 34,655**	$ 9,319	**$ 76,004**	$ (6,996)
Income (loss) per share (note 9)				
Basic	**$ 0.16**	$ 0.08	**$ 0.39**	$ (0.08)
Diluted	**$ 0.16**	$ 0.08	**$ 0.39**	$ (0.08)

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

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

Stated in thousands of dollars, except share amounts

(Unaudited)

	Number of common shares	Share capital	Contributed surplus	Performance warrants	Accumulated other comprehensive income (loss)	Deficit	Total equity
Balance at December 31, 2012	71,217,345	$ 351,957	$ 20,495	$ 7,059	$ (43)	$ (28,469)	$ 350,999
Net loss for the period	—	—	—	—	—	(7,039)	(7,039)
Other comprehensive income	—	—	—	—	1,359	—	1,359
Transfer of cumulative translation adjustment to earnings	—	—	—	—	(1,316)	—	(1,316)
Stock-based compensation	—	—	6,209	—	—	—	6,209
Transfer on exercise of options & warrants	—	1,574	(609)	(965)	—	—	—
Issued pursuant to private placement	700,280	2,500	—	3,522	—	—	6,022
Share issue costs, net of tax of $3.75 million	—	(9,750)	—	—	—	—	(9,750)
Options exercised	166,476	640	—	—	—	—	640
Warrants exercised	279,549	1,445	—	—	—	—	1,445
Issued pursuant to short form prospectus	49,500,000	247,500	—	—	—	—	247,500
Dividends	—	—	—	—	—	(8,517)	(8,517)
Balance at September 30, 2013	121,863,650	$ 595,866	$ 26,095	$ 9,616	$ —	$ (44,025)	$ 587,552
Balance at December 31, 2013	166,543,309	$ 884,676	$ 27,123	$ 7,284	$ —	$ (64,889)	$ 854,194
Net income for the period	—	—	—	—	—	76,004	76,004
Other comprehensive income	—	—	—	—	20,669		20,669
Issued pursuant to acquisition	37,975,332	271,904	—	—	—	—	271,904
Transfer of gain on investment to earnings	—	—	—	—	(20,669)		(20,669)
Stock-based compensation	—	—	3,450	—	—	—	3,450
Transfer on exercise of options & warrants	—	1,407	(30)	(1,377)	—	—	—
Warrants exercised	399,116	2,071	—	—	—	—	2,071
Options exercised	16,666	46	—	—	—	—	46
Issued pursuant to short form prospectus	12,778,800	80,506	—	—	—	—	80,506
Share issue costs, net of tax of $1.2 million	—	(3,653)	—	—	—	—	(3,653)
Dividends	—	—	—	—	—	(82,769)	(82,769)
Balance at September 30, 2014	**217,713,223**	**$1,236,957**	**$ 30,543**	**$ 5,907**	**$ —**	**$ (71,654)**	**$ 1,201,753**

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

Condensed Consolidated Interim Statements of Cash Flows

Stated in thousands of dollars

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	**2014**	2013
Cash provided by (used in)				
Operating				
Net income (loss)	**$ 34,655**	$ 9,319	**$ 76,004**	$ (7,039)
Gain on disposal of petroleum and natural gas properties and farm-outs	**(8,629)**	—	**(9,468)**	(1,531)
Unrealized (gain) loss on financial contracts	**(18,896)**	190	**(8,030)**	7,946
Gain on investment	**—**	—	**(23,622)**	—
Finance expense	**6,708**	2,687	**15,621**	7,932
Interest expense	**(5,260)**	(2,255)	**(11,703)**	(6,855)
Depletion and depreciation	**44,573**	23,104	**116,077**	53,842
Impairment	**—**	—	**—**	24,000
Decommissioning expenditures	**(1,971)**	68	**(3,697)**	(359)
Bad debt provision	**—**	—	**—**	317
Stock-based compensation	**680**	2,454	**5,434**	7,645
Deferred income tax expense	**15,518**	4,137	**21,737**	727
Change in non-cash working capital	**5,510**	(22,597)	**(6,972)**	(19,828)
Cash flow from operating activities	**72,888**	17,107	**171,381**	66,797
Financing				
Bank debt	**(66,656)**	(26,341)	**27,692**	(8,370)
Dividends paid	**(32,648)**	(4,252)	**(79,099)**	(4,252)
Issue of common shares, net of issue costs	**249**	236,669	**77,754**	239,085
Cash flow from (used in) financing activities	**(99,055)**	206,076	**26,347**	226,463
Investing				
Petroleum and natural gas properties	**(32,473)**	(19,163)	**(109,799)**	(78,011)
Exploration and evaluation assets	**—**	(834)	**—**	(7,217)
Disposition of petroleum and natural gas properties	**52,632**	—	**52,632**	40,184
Acquisitions (note 3)	**(6,061)**	(218,439)	**(154,592)**	(242,439)
Deposit on acquisition	**—**	—	**—**	—
Change in non-cash working capital	**12,069**	15,253	**14,031**	(5,777)
Cash flow from (used in) investing activities	**26,167**	(223,183)	**(197,728)**	(293,260)
Change in cash	**—**	—	**—**	—
Cash, beginning of the period	**—**	—	**—**	—
Cash, end of the period	**$ —**	$ —	**$ —**	$ —

Cash is defined as cash and cash equivalents.

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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. The Corporation transitioned in the third quarter of 2013 to a dividend paying entity. The condensed consolidated interim financial statements include the accounts of the Corporation, its wholly-owned subsidiaries and partnerships.

2. BASIS OF PREPARATION

Statement of compliance

These condensed consolidated interim 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, 2013, except as identified below. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

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 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.

The condensed consolidated interim financial statements were authorized for issuance by the Board of Directors on November 5, 2014.

3. ACQUISITIONS

(a) Longview Oil Corp.

Effective June 5, 2014, the Corporation acquired all of the issued and outstanding common shares of Longview Oil Corp. ("Longview") in exchange for 37,975,332 common shares of Surge with an assigned value of $271.9 million. The common shares have been ascribed a fair value of $7.16 per common share issued, as determined based on the Corporation's closing share price at the date of closing, being June 5, 2014. In addition, the Corporation, in the first quarter of 2014, had acquired 9.3 million (19.8 percent) Longview common shares, paying cash of $41.4 million. These common shares were revalued on the date of closing to $65.0 million, based on Longview's closing share price at the date of closing, being June 5, 2014 of $6.99 per common share, reflecting a $23.6 million gain on the initial investment that has been recognized in income. The Longview acquisition fit within Surge's dividend-paying growth business model and defined operating strategy of investing capital to acquire high quality, operated, light and medium gravity crude oil reservoirs. The operations from the acquisition have been included in the results of Surge commencing June 5, 2014.

Surge incurred transaction costs of $6.6 million on the acquisition which were expensed through the statement of income.

The transaction was accounted for by the purchase method. This is a preliminary purchase equation and is subject to change.

The allocation the purchase price, based on management's estimates of fair values, is as follows:

Fair value of net assets acquired		Total
Petroleum and natural gas properties	$	525,362
Exploration and evaluation assets		2,335
Bank debt		(145,783)
Working capital		(9,703)
Decommissioning obligations		(49,177)
Deferred income tax		13,877
Net assets acquired	$	336,911
Consideration		
Cash (paid for initial 9,300,000 Longview common shares)	$	41,385
Revalue and gain on initial investment		23,622
Common shares (37,975,332 at $7.16 per share)		271,904
Total consideration paid	$	336,911

(b) Southeast Saskatchewan

Effective February 14, 2014 the Corporation acquired certain working interests in developed petroleum and natural gas properties in Southeast Saskatchewan for cash of $108.2 million from a Canadian oil and gas producer. The purpose of the acquisition was to expand the Corporation's exposure to certain light oil plays. The operations from the acquisition have been included in the results of Surge commencing February 14, 2014.

Surge incurred transaction costs of $0.4 million on the acquisition which were expensed through the statement of income.

The allocation of the purchase price for the above noted acquisition is as follows:

Fair value of net assets acquired		Total
Petroleum and natural gas properties	$	137,053
Decommissioning obligations		(28,847)
Net assets acquired	$	108,206
Consideration		
Cash	$	108,206
Total consideration	$	108,206

Pro forma estimates for the above noted acquisitions are as follows:

For the period ended September 30, 2014		As stated	Southeast Saskatchewan prior to February 14, 2014	Longview Oil Corp. prior to June 5, 2014		Pro Forma
Revenue	$	379,424	5,363	70,744	$	455,531
Income	$	76,004	1,303	16,302	$	93,609

Amounts since acquisition		Southeast Saskatchewan		Longview Oil Corp.
Revenue	$	20,625	$	43,848
Income	$	6,658	$	4,326

The fair value of petroleum and natural gas properties recognized on an acquisition is based on market values. The market value of petroleum and natural gas properties is the estimated amount for which petroleum and natural gas properties could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports which apply forward looking price decks as at the date of acquisition. Undeveloped land is valued using recent, third-party landsale prices in corresponding areas.

The market value of other items of petroleum and natural gas properties is based on the quoted market prices for similar items.

The above amounts are estimates, which were made by management at the time of the preparation of the financial statements, based on the information available. Amendments may be made to these amounts as values subject to estimates.

4. EXPLORATION AND EVALUATION ASSETS

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
Balance at December 31, 2012	$	70,726
Additions		8,051
Disposals		(11,831)
Change in foreign exchange rate		391
Transfer to petroleum and natural gas properties		(42,188)
Balance at December 31, 2013	$	25,149
Acquisitions		2,335
Transfer to petroleum and natural gas properties		(313)
Balance at September 30, 2014	**$**	**27,171**

5. PETROLEUM AND NATURAL GAS PROPERTIES

Petroleum and Natural Gas Properties

		Total
Balance at December 31, 2012	$	803,883
Acquisitions		729,719
Additions		117,495
Transfer from exploration and evaluation assets		42,188
Change in decommissioning obligations		6,357
Capitalized stock-based compensation		3,810
Change in foreign exchange rate		968
Dispositions		(35,524)
Balance at December 31, 2013	$	1,668,896
Acquisitions		667,416
Dispositions		(51,502)
Additions - including non-monetary exchange value of $2.4 million		112,244
Transfer from exploration and evaluation assets		313
Change in decommissioning obligations		35,031
Capitalized stock-based compensation		1,764
Balance at September 30, 2014	**$**	**2,434,162**

		Total
Accumulated depletion and depreciation		
Balance at December 31, 2012	$	(228,400)
Depletion and depreciation expense		(82,410)
Impairment		(51,189)
Dispositions		5,385
Balance at December 31, 2013	$	(356,614)
Depletion and depreciation expense		(116,077)
Dispositions		3,278
Balance at September 30, 2014	**$**	**(469,413)**

		Total
Carrying amounts		
At December 31, 2013	$	1,312,282
At September 30, 2014	**$**	**1,964,749**

The calculation of depletion and depreciation expense for the period ended September 30, 2014 included an estimated $685.3 million (December 31, 2013 - $453.6 million) for future development costs associated with proved plus probable reserves and deducted $151.8 million (December 31, 2013 - $86.4 million) for the estimated salvage value of production equipment and facilities.

During the nine months ended September 30, 2014 the Company completed a farm-out agreement. In this non-monetary exchange the Company received a well value of $3.5 million less a value of $1.1 million that was given up resulting in a gain on the farm-out of $2.4 million that has been included in petroleum and natural gas properties.

During the nine months ended September 30, 2014 the Company disposed of non-core assets and facilities in Southwest Saskatchewan and Alberta for cash proceeds of $52.6 million. The assets had a carrying value of $48.2 million at the time of disposition and an associated decommissioning liability of $2.6 million, resulting in a gain on disposal of $7.0 million.

6. RISK MANAGEMENT

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

The following table outlines the fair value of foreign exchange contracts as at September 30, 2014:

					As at September 30, 2014
Remaining Term	**Type**	**Notional ($USD)**	**Swap Price (Surge receives) (C$)**	**Index (Surge pays) (C$)**	**Fair Value ($000s CDN)**
Oct 1, 2014 to Dec 31, 2014	Swap	$8,408,800	$1.005	Floating CAD	**$ (979)**

The following table outlines the fair value of interest rate contracts as at September 30, 2014:

					As at September 30, 2014
Remaining Term	**Type (floating to fixed)**	**Amount (C$)**	**Company Fixed Interest Rate (%) (1)**	**Counter party Floating Rate Index**	**Fair Value ($000s CDN)**
Oct 1, 2014 to Dec 31, 2014	Swap	$50,000,000	3.841%	CAD-BA-CDOR	**$ (448)**

(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 fair value of natural gas commodity contracts as at September 30, 2014:

					As at September 30, 2014
Remaining Term	**Type (floating to fixed)**	**Volume**	**Swap Price (Surge receives) (C$)**	**Index (Surge pays) (C$)**	**Fair Value ($000s CDN)**
Oct 1, 2014 to Dec 31, 2014	Swap	2,000 gj/d	$3.40	AECO	(152)
Oct 1, 2014 to Dec 31, 2014	Swap	2,000 gj/d	$3.60	AECO	(101)
Oct 1, 2014 to Dec 31, 2014	Swap	4,000 gj/d	$3.35	AECO	(330)
Oct 1, 2014 to Dec 31, 2015	Swap	3,000 gj/d	$4.30	AECO	610
Jan 1, 2015 to Dec 31, 2015	Swap	2,000 gj/d	$3.68	AECO	(105)
Jan 1, 2015 to Dec 31, 2015	Swap	2,000 gj/d	$3.66	AECO	(121)
Jan 1, 2015 to Dec 31, 2015	Swap	1,000 gj/d	$3.86	AECO	11
Total					**$ (188)**

The following table outlines the fair value of oil commodity contracts as at September 30, 2014:

Remaining Term	Type (floating to fixed)	Volume	Swap Price (Surge receives) (C$)	Index (Surge pays) (C$)	As at September 30, 2014 Fair Value ($000s CDN)
Oct 1, 2014 to Dec 31, 2014	Swap	500 bbls/d	$8.70 (USD)	MSW Basis	(177)
Oct 1, 2014 to Dec 31, 2014	Swap	500 bbls/d	$19.75	WCS Basis	(265)
Oct 1, 2014 to Dec 31, 2014	Swap	100 bbls/d	$98.00	WTI - NYMEX	(29)
Oct 1, 2014 to Dec 31, 2014	Swap	200 bbls/d	$96.45	WTI - NYMEX	(87)
Oct 1, 2014 to Dec 31, 2014	Swap	150 bbls/d	$100.10	WTI - NYMEX	(15)
Oct 1, 2014 to Dec 31, 2014	Swap	1,000 bbls/d	$91.40 (USD)	WTI - NYMEX	123
Oct 1, 2014 to Dec 31, 2014	Swap	500 bbls/d	$94.50	WTI - NYMEX	(304)
Oct 1, 2014 to Dec 31, 2014	Swap	200 bbls/d	$95.50	WTI - NYMEX	(104)
Oct 1, 2014 to Dec 31, 2014	Swap	500 bbls/d	$93.80	WTI - NYMEX	(337)
Oct 1, 2014 to Dec 31, 2014	Swap	150 bbls/d	$95.05	WTI - NYMEX	(84)
Oct 1, 2014 to Dec 31, 2014	Swap	200 bbls/d	$95.05	WTI - NYMEX	(112)
Oct 1, 2014 to Dec 31, 2014	Swap	500 bbls/d	$100.24	WTI - NYMEX	(42)
Oct 1, 2014 to Dec 31, 2014	Swap	500 bbls/d	$95.90	WTI - NYMEX	(240)
Oct 1, 2014 to Dec 31, 2014	Swap	100 bbls/d	$100.40	WTI - NYMEX	(7)
Oct 1, 2014 to Jun 30, 2015	Swap	1,000 bbls/d	$106.35	WTI - NYMEX	1,715
Oct 1, 2014 to Jun 30, 2015	Swap	375 bbls/d	$106.00	WTI - NYMEX	608
Oct 1, 2014 to Jun 30, 2015	Swap	375 bbls/d	$105.65	WTI - NYMEX	571
Oct 1, 2014 to Jun 30, 2015	Swap	1,000 bbls/d	$106.35	WTI - NYMEX	1,720
Jan 1, 2015 to Jun 30, 2015	Swap	500 bbls/d	$8.12 (USD)	EDM Basis	(172)
Oct 1, 2014 to Dec 31, 2015	Swap	500 bbls/d	$22.60 (USD)	WCS Basis	(1,278)
Oct 1, 2014 to Dec 31, 2015	Swap	250 bbls/d	$98.15	WTI - NYMEX	(138)
Jan 1, 2015 to Dec 31, 2015	Swap	1,000 bbls/d	$93.05	WTI - NYMEX	(2,144)
Jan 1, 2015 to Dec 31, 2015	Swap	250 bbls/d	$91.55	WTI - NYMEX	(666)
Jan 1, 2015 to Dec 31, 2015	Swap	250 bbls/d	$92.00	WTI - NYMEX	(625)
Jan 1, 2015 to Dec 31, 2015	Swap	250 bbls/d	$92.29	WTI - NYMEX	(597)
Jan 1, 2016 to Dec 31, 2016	Swap	1,000 bbls/d	$21.75 (USD)	WCS Basis	(1,255)
Total					**$ (3,941)**

The following table summarizes the sensitivity of the fair value of the Corporation's market risk management positions to fluctuations in interest rates, foreign exchange rates, and natural gas and crude oil prices. All 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, foreign exchange rates, and crude oil and natural gas prices would have had the following impact on the net earnings:

Net earnings impact for the period ended September 30, 2014	Price Increase	Price Decrease
Crude Oil - Change of +/- $1.00	(1,993)	1,993
Natural Gas - Change of +/- $0.10	(295)	295
Interest rate - Change of +/- 100 points	375	(375)
Foreign Exchange - Change of +/- $0.01	(63)	63

7. BANK DEBT

The Corporation at September 30, 2014, has 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 29, 2015. On May 29, 2015, at the Corporation's discretion, the facility is available on a non-revolving basis for a one-year period, at the end of which time the facility would be due and payable. Alternatively, the facilities may be extended for a further 364-day period at the request of the Corporation and subject to the approval of the syndicate. As the available lending limits of the facilities are based on the syndicate's interpretation of the Corporation's reserves and future commodity prices, there can be no assurance that the amount of the available facilities will not decrease at the next scheduled review. Interest rates vary depending on the ratio of net debt to cash flow. The facility had an effective interest rate of prime plus 1.50 percent as at September 30, 2014 (December 31, 2013 – prime plus 1.25 percent).

The facility is secured by a general assignment of book debts, debentures of $1.5 billion with a floating charge over all assets of the Corporation with a negative pledge and undertaking to provide fixed charges on the major producing petroleum and natural gas properties at the request of the bank. Under the terms of the agreement, the Corporation is required to meet certain financial and engineering reporting requirements.

8. DECOMMISSIONING OBLIGATIONS

The Corporation's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted amount of cash flows required to settle its decommissioning obligations is approximately $556.8 million (December 31, 2013 – $277.7 million). These payments are expected to be made over the next 50 years with the majority of costs to be incurred between 2037 and 2064. A risk free rate of 2.67 percent (December 31, 2013 – 3.24 percent) and an inflation rate of two percent (December 31, 2013 – two percent) was used to calculate the fair value of the decommissioning obligations.

A reconciliation of the decommissioning obligations is provided below:

	September 30, 2014	December 31, 2013
Balance, beginning of period	**$ 85,172**	$ 39,339
Liabilities related to acquisitions (note 3)	**78,024**	39,965
Liabilities related to dispositions	**(2,615)**	(1,316)
Change in estimate	**33,546**	4,855
Liabilities incurred	**1,485**	1,502
Accretion expense	**3,646**	1,793
Decommissioning expenditures	**(3,697)**	(966)
Balance, end of period	**$ 195,561**	$ 85,172

The change in estimate was the result of decreasing the discount rate and upward adjustment of certain cost estimates based on experience.

9. SHARE CAPITAL

(a) Authorized

Unlimited number of voting common shares.

Unlimited number of preferred shares, issuable in series.

(b) Short Form Prospectus

In February 2014, the Corporation completed a short form prospectus for 12.8 million common shares for gross proceeds of $80.5 million.

(c) Stock Options

The Company has granted options to certain officers, directors, employees and consultants under the Corporation's stock option plan. 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, 2014			December 31, 2013		
	Number of Options		**Weighted average exercise price**	Number of Options		Weighted average exercise price
Stock options outstanding, beginning of period	**249,199**	**$**	**6.49**	6,580,701	$	7.53
Granted	**—**	**$**	**—**	74,500	$	4.05
Exercised	**(16,666)**	**$**	**2.74**	(251,667)	$	5.19
Forfeited	**—**	**$**	**—**	(1,529,608)	$	8.00
Cancelled	**—**	**$**	**—**	(4,624,727)	$	7.50
Stock options outstanding, end of period	**232,533**	**$**	**6.76**	249,199	$	6.49
Exercisable at period-end	**189,367**	**$**	**7.35**	159,632	$	7.03

The following table summarizes stock options outstanding and exercisable at September 30, 2014:

	Options Outstanding			**Options Exercisable**	
Range of exercise prices	**Number outstanding**	**Weighted average exercise price**	**Weighted average contractual life (years)**	**Number exercisable**	**Weighted average exercise price**
$3 to $4.99	42,500	$3.44	3.56	7,500	$3.48
$5 to $6.99	103,333	$6.40	0.60	103,333	$6.40
$7 to $8.99	24,500	$7.34	2.86	16,334	$7.34
$9 to $11.15	62,200	$9.39	1.74	62,200	$9.39
$3 to $11.15	232,533	$6.76	1.69	189,367	$7.35

(d) Warrants

The Corporation has 692,718 performance warrants outstanding (December 31, 2013 – 1,091,833) that expire on April 13, 2015. As at September 30, 2014, all 692,718 outstanding performance warrants were vested and exercisable at a price of $5.17. During the period ended September 30, 2014 399,116 performance warrants were exercised (December 31, 2013 - 955,439).

The Corporation has 1,400,560 warrants exercisable at a price of $4.46. The warrants become exercisable based on certain time based and performance based conditions. Specifically with respect to time they are exercisable up to one third on each anniversary from the date of the grant, and with respect to performance up to one half when the market price of the Corporation reaches $6.30 and the other half when it reaches $8.40. The warrants expire in June 2018. As at September 30, 2014, 466,853 warrants were vested and exercisable.

(e) Stock Appreciation Rights

For the period ended September 30, 2014, the Corporation had 2.0 million SAR's outstanding. The SARs vest up to one third on each anniversary from the date of grant and expire in June 2018. The exercise price is downward adjusted for dividends paid. As such the exercise price at September 30, 2014 is $2.63 (December 31, 2013 - $3.05) and 666,667 SARs were vested and exercisable. The SARs when exercised are to be cash settled based on the difference between the Corporation's common share price on the date of exercise and the adjusted exercise price. The Corporation has valued the SARs using a Black Scholes valuation model and will continue to revalue at each reporting period until ultimate cash settlement. During the period, the Corporation realized an increase to the liability within accounts payable and an offsetting increase to stock-based compensation of $3.7 million (2013 - $3.0 million). There is $6.7 million included in accounts payable at September 30, 2014 (December 31, 2013 - $3.0 million).

(f) Restricted and Performance Share Award Incentive Plan

The Corporation has a Stock Incentive Plan which authorizes the Board of Directors to grant restricted share awards ("RSAs") and performance share awards ("PSAs") to directors, officers, employees and certain consultants of Surge.

Subject to the terms and conditions of the plan, each RSA entitles the holder to an award value to be typically paid as to one-third on each of the first, second and third anniversaries from 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 Corporation relative to pre-defined corporate performance measures for a particular period. On the vesting dates, the Corporation has the option of settling the award value in cash or common shares of the Corporation. For purposes of stock-based compensation a payout multiple of 1.0 was assumed for the PSAs.

The total number of RSA and PSA units granted cannot exceed five percent of the issued and outstanding shares of the Corporation.

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)
Balance at September 30, 2014	**1,895,088**	**1,520,580**

(g) Stock-based compensation

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	**2014**	2013
Stock-based compensation on options	**$ 16**	$ 3,140	**$ 57**	$ 6,210
Stock-based compensation on SARs	**9**	1,193	**3,748**	1,193
Stock-based compensation on warrants	**—**	—	**—**	3,522
Stock-based compensation on PSAs and RSAs [(1)]	**2,945**	—	**5,277**	—
Capitalized stock-based compensation	**(795)**	(1,879)	**(1,764)**	(3,280)
Total stock-based compensation expense	**$ 2,175**	$ 2,454	**$ 7,318**	$ 7,645

The Corporation's stock-based compensation expense for the period ended September 30, 2014 was $7.3 million (September 30, 2013 - $7.6 million).

[(1)] Included in stock-based compensation is cash expenditures of $1.9 million paid to acquire shares offered to employees and service providers.

(h) 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,	
	2014	**2013**	**2014**	**2013**
Weighted average number of shares - basic	**217,689,253**	119,878,292	**193,739,379**	87,662,847
Effect of dilutive instruments	**1,718,354**	248,162	**1,278,964**	—
Weighted average number of shares - diluted	**219,407,607**	120,126,454	**195,018,343**	87,662,847

In computing diluted per share amounts at September 30, 2014, 86,700 options (September 30, 2013 – 60,666), nil performance warrants (September 30, 2013 – 1,767,723), nil warrants (September 30, 2013 – nil), 1,149,763 RSAs (September 30, 2013 – nil) and 662,705 PSAs (September 30, 2013 – nil) were excluded from the calculation as their effect was anti-dilutive.

(i) Dividends

The Board of Directors declared for the months of January through September dividends of $0.42166 per share. Dividends of $0.050 per share are declared and outstanding at September 30, 2014 and were paid in October 2014. Dividends for the month of October have also been declared at $0.050 per share per month.

10. INVESTMENT

On February 28, 2014, the Company acquired 9,300,000 common shares of Longview, representing 19.8 percent of the outstanding common shares, at a purchase price of $4.45 per Common Share for a total cost of $41,385,000.

The investment was initially accounted for as available for sale, which results in the investment being fair valued at the end of each reporting period, with any gains or losses recorded in accumulated other comprehensive income. On June 5, 2014 Surge announced the completion of the arrangement with Longview and purchased all the remaining issued and outstanding common shares of Longview. As such, the 9,300,000 common shares were revalued using the Longview common share closing price on June 5, 2014 with a final gain of $23,622,000 ($20,669,250 net of tax) determined. In conjunction with the closing, this gain was transferred from accumulated other comprehensive income to earnings. The total investment fair value of $65,007,000 at June 5, 2014 has been included as consideration in note 3.

11. COMMITMENTS

Future minimum payments relating to operating lease and firm transport commitments are as follows:

($000s)		
2014	$	1,483
2015		5,647
2016		5,493
2017		5,171
2018		4,410
2019+		9,628
Total	**$**	**31,832**