FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended December 31,			Years Ended December 31,		
	2014	2013	% Change	**2014**	2013	% Change
Financial highlights						
Oil and NGL sales	**99,431**	69,739	43 %	**456,967**	253,782	80 %
Natural gas sales	**6,831**	3,778	81 %	**28,719**	18,150	58 %
Total oil, natural gas, and NGL revenue	**106,262**	73,517	45 %	**485,686**	271,932	79 %
Funds from operations[1]	**54,670**	37,268	47 %	**245,264**	134,131	83 %
Per share basic ($)	**0.25**	0.26	(4)%	**1.22**	1.32	(8)%
Per share diluted ($)	**0.25**	0.26	(4)%	**1.22**	1.32	(8)%
Net loss	**(109,181)**	(2,848)	nm[4]	**(33,177)**	(9,886)	nm
Per share basic ($)	**(0.50)**	(0.02)	nm	**(0.17)**	(0.10)	nm
Per share diluted ($)	**(0.50)**	(0.02)	nm	**(0.17)**	(0.10)	nm
Capital expenditures - petroleum & gas properties[2]	**39,753**	40,318	(1)%	**149,551**	125,546	19 %
Capital expenditures - acquisitions & dispositions[2]	**85,098**	369,216	(77)%	**575,713**	571,471	1 %
Total capital expenditures[2]	**124,851**	409,534	(70)%	**725,264**	697,017	4 %
Net debt at end of period[3]	**590,168**	305,349	93 %	**590,168**	305,349	93 %
Operating highlights						
Production:						
Oil and NGL (bbls per day)	**17,223**	10,354	66 %	**15,353**	8,489	81 %
Natural gas (mcf per day)	**19,349**	9,958	94 %	**16,297**	13,679	19 %
Total (boe per day) (6:1)	**20,448**	12,014	70 %	**18,069**	10,769	68 %
Average realized price (excluding hedges):						
Oil and NGL ($ per bbl)	**62.75**	73.17	(14)%	**81.54**	81.87	—
Natural gas ($ per mcf)	**3.84**	4.12	(7)%	**4.83**	3.64	33 %
Realized gain (loss) on financial contracts ($ per boe)	**5.40**	(1.26)	nm	**(1.45)**	(2.13)	nm
Net back (excluding hedges) ($ per boe)						
Oil, natural gas and NGL sales	**56.49**	66.52	(15)%	**73.64**	69.18	6 %
Royalties	**(11.14)**	(12.13)	(8)%	**(13.18)**	(12.64)	4 %
Operating expenses	**(15.72)**	(12.66)	24 %	**(15.52)**	(12.57)	23 %
Transportation expenses	**(1.49)**	(2.03)	(27)%	**(1.72)**	(2.17)	(21)%
Operating netback	**28.14**	39.70	(29)%	**43.22**	41.80	3 %
G&A expense	**(1.72)**	(2.19)	(21)%	**(1.96)**	(3.10)	(37)%
Interest expense	**(2.76)**	(2.53)	9 %	**(2.56)**	(2.45)	4 %
Corporate netback	**23.66**	34.98	(32)%	**38.70**	36.25	7 %
Common shares outstanding, end of period	**220,060**	166,543	32 %	**220,060**	166,543	32 %
Weighted average basic shares outstanding	**219,834**	142,981	54 %	**200,317**	101,606	97 %
Stock option dilution	**—**	—	—	**—**	—	—
Weighted average diluted shares outstanding	**219,834**	142,981	54 %	**200,317**	101,606	97 %

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”.

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 months and years ended December 31, 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.

Surge's year-end financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

DESCRIPTION OF BUSINESS

Surge is an E&P company positioned to provide shareholders with attractive long term sustainability by exploiting the Company's assets in a financially disciplined manner and by acquiring additional long life oil and gas assets of a similar nature. Surge's assets are comprised primarily of operated oil-weighted properties characterized by large OOIP crude oil reservoirs with low recovery factors and an extensive inventory of more than nine hundred gross low risk development drilling locations and several high quality waterflood projects. Surge will continue to identify and actively pursue strategic acquisitions with synergistic characteristics such as existing long life producing assets or opportunities with significant, low risk upside potential.

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

($000s)	**Q4 2014**	Q3 2014	Q2 2014	Q1 2014	Q4 2013
Cash flow from operating activities	**$ 36,099**	$ 72,888	$ 42,879	$ 55,614	$ 46,230
Change in non-cash working capital	**18,099**	(5,510)	15,271	(2,789)	(13,623)
Decommissioning expenditures	**183**	1,971	1,214	512	607
Transaction costs	**289**	454	6,161	433	4,001
Cash settled stock-based compensation	**—**	1,495	—	—	—
Current tax on disposition	**—**	—	—	—	53
Funds from operations	**$ 54,670**	$ 71,298	$ 65,525	$ 53,770	$ 37,268

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. Share based consideration included in acquisition capital has been calculated using the share price on the date of announcement.

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 March 19, 2015.

OPERATIONS

Drilling

	Drilling		Success rate (%) net	Working interest (%)
	Gross	Net		
Q1 2014	20.0	14.0	100%	70%
Q2 2014	7.0	4.6	96%	66%
Q3 2014	23.0	10.3	100%	45%
Q4 2014	23.0	14.1	98%	61%
Total	**73.0**	**43.0**	**99%**	**59%**

Surge achieved a 99 percent success rate during the year ended December 31, 2014, drilling 73 gross (43.0 net) wells. During the fourth quarter of 2014, 11 (2.8 net) of the 23 gross wells drilled were Viking farmout wells which required no capital spending by Surge. The remaining 12 gross wells drilled during the quarter include one well at Wainwright, one well at Eyehill, five wells at Shaunavon, one well at Valhalla, one well at Nipisi, and three wells in Southeast Saskatchewan. The one unsuccessful well in the fourth quarter of 2014 was a partner-drilled farmout well drilled at no cost to Surge.

Production

	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013
Oil and NGL (bbls per day)	**17,223**	17,180	14,246	12,694	10,354
Natural gas (mcf per day)	**19,349**	18,879	12,893	13,980	9,958
Total (boe per day) (6:1)	**20,448**	20,327	16,395	15,024	12,014
% Oil and NGL	**84%**	85%	87%	84%	86%

Surge achieved an average production rate of 20,448 boe per day in the fourth quarter of 2014 (84 percent oil and NGLs), a 70 percent increase from an average production rate of 12,014 boe per day (86 percent oil and NGLs) in the same period of 2013, and a one percent increase over an average production rate of 20,327 boe per day for the third quarter of 2014 (85 percent oil and NGLs).

During the year ended December 31, 2014, Surge achieved an average production rate of 18,069 boe per day (85 percent oil and NGLs), a 68 percent increase from an average production rate of 10,769 boe per day in the same period of 2013 (79 percent oil and NGLs).

The increase in production volumes for the three months and year ended December 31, 2014 as compared to the same periods in 2013 is primarily due to the results of the 2014 drilling program, the strategic business combination with Longview, a full quarter of production contribution from the acquisitions of the Wainwright, Manson and Macoun properties which closed on December 3 and November 13, 2013 respectively and the Southeast Saskatchewan asset acquisition completed midway through the first quarter of 2014. The most significant driver in increasing the average production rate in the third and fourth quarters of 2014 was the strategic business combination with Longview, which closed on June 5, 2014 and added approximately 5,500 boe per day for the second half of the year or approximately 3,100 boe per day for the year ended December 31, 2014.

The Company's strategic acquisition and property development focusing on higher value oil production is evidenced by the increase in oil and NGL production as a percentage of total production during the year ended December 31, 2014 compared to the same period of 2013.

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

In the fourth 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 70 percent increase in production, offset by a 15 percent decrease in revenue per boe, resulted in revenues of $106.3 million in the fourth quarter of 2014, up 45 percent from $73.5 million in the same period of 2013.

Surge had certain financial contracts in place as of December 31, 2014. Surge recognized an unrealized gain of $46.3 million on its financial contracts for the three months ended December 31, 2014, primarily due to a significant decrease in forward strip prices on oil throughout the fourth quarter of 2014. Surge recognized a realized gain of $10.2 million on its financial contracts for the three months ended December 31, 2014, again due to lower strip prices on oil during the period. This compares to an unrealized loss of $5.9 million and a realized loss of $1.4 million on its financial contracts for the three months ended December 31, 2013.

For the year ended December 31, 2014, approximately 94 percent of Surge's revenue resulted from oil and natural gas liquids production, with approximately six percent derived from natural gas.

A 68 percent increase in production, combined with a six percent increase in revenue per boe, resulted in revenues of $485.7 million for the year ended December 31, 2014, up 79 percent from $271.9 million in the same period of 2013.

Surge recognized an unrealized gain of $54.3 million and a realized loss of $9.5 million on its financial contracts in the year ended December 31, 2014. This compares to an unrealized loss of $13.9 million and a realized loss of $8.4 million on its financial contracts in the same period of 2013.

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 $56.49 per boe in the fourth quarter of 2014, before realized financial contract gains, a decrease of 15 percent from the $66.52 per boe recorded in the same period of 2013, primarily due to the decrease in commodity prices.

The Company realized an average price of $62.75 per bbl of oil and natural gas liquids in the fourth quarter of 2014, a decrease of 14 percent from the $73.17 per bbl realized in the same period of 2013. This compares to an average Edmonton Light Sweet price of $75.55 per bbl for the quarter, which decreased 13 percent per barrel from the $86.38 per bbl during the same period of 2013.

The Company realized an average natural gas price of $3.84 per mcf in the fourth quarter of 2014, a seven percent decrease from the $4.12 per mcf averaged in the same period of 2013. This compares to an average AECO Daily Index reference price of $3.60 per mcf in the quarter, which increased by two percent from the $3.53 per mcf in the same period of 2013. The decrease in realized natural gas prices is due to slightly lower heat content associated with natural gas acquired in the Longview business combination, making up approximately 33 percent of total natural gas production during the fourth quarter of 2014. 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 $73.64 per boe for the year ended December 31, 2014, before realized financial contract losses, an increase of six percent from the $69.18 per boe recorded in the same period of 2013.

The Corporation realized an average price of $81.54 per bbl of oil and natural gas liquids for the year ended December 31, 2014, comparable to the $81.87 per bbl realized in the same period of 2013. This compares to an average Edmonton Light Sweet price of $94.44 per bbl during the year ended December 31, 2014, which increased two percent per barrel from the $92.96 per bbl during the same period of 2013.

The Corporation realized an average natural gas price of $4.83 per mcf for the year ended December 31, 2014, a 33 percent increase from the $3.64 per mcf averaged in the same period of 2013. This compares to an average AECO Daily Index reference price of $4.49 per mcf for the year ended December 31, 2014, which increased by 41 percent from the $3.18 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 $1.45 per boe to the average revenue per boe for the year ended December 31, 2014. The realized gains on financial contracts resulted in an increase of $5.40 per boe to average revenue per boe during the three months ended December 31, 2014.

Revenue and Realized Prices

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per amount)	**2014**	2013	% Change	**2014**	2013	% Change
Oil and NGL	**99,431**	69,739	43 %	**456,967**	253,782	80 %
Natural gas	**6,831**	3,778	81 %	**28,719**	18,150	58 %
Total oil, natural gas and NGL revenue	**106,262**	73,517	45 %	**485,686**	271,932	79 %
Oil and NGL ($ per bbl)	**62.75**	73.17	(14)%	**81.54**	81.87	—
Natural gas ($ per mcf)	**3.84**	4.12	(7)%	**4.83**	3.64	33 %
Total oil, natural gas and NGL revenue ($ per boe)	**56.49**	66.52	(15)%	**73.64**	69.18	6 %
Realized gain (loss) on commodity contracts ($ per boe)	**5.40**	(1.26)	nm	**(1.45)**	(2.13)	(32)%
Total oil, natural gas, and NGL revenue after realized commodity contracts ($ per boe)	**61.89**	65.26	(5)%	**72.19**	67.05	8 %
Reference Prices						
Edmonton Light Sweet ($ per bbl)	**75.55**	86.38	(13)%	**94.44**	92.96	2 %
AECO Daily Index ($ per mcf)	**3.60**	3.53	2 %	**4.49**	3.18	41 %

Benchmark Prices

	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013
($ per bbl)					
Benchmark - WTI (US$)	**73.15**	97.19	102.99	98.68	97.46
Difference - WTI realized to Edmonton Light Sweet (C$)	**2.40**	(0.21)	2.50	1.06	(11.08)
% Difference	**3 %**	—	2 %	1 %	(11)%
Benchmark - Edmonton Light Sweet (C$)	**75.55**	96.98	105.49	99.74	86.38
Difference - Edmonton Light Sweet to Surge realized (C$)	**(12.80)**	(11.22)	(11.24)	(12.42)	(13.21)
% Difference	**(17)%**	(12)%	(11)%	(12)%	(15)%
Surge realized prices (C$)	**62.75**	85.76	94.25	87.32	73.17
(C$ per mcf)					
Benchmark - AECO Daily Index	**3.60**	3.98	4.68	5.72	3.53
Surge realized prices	**3.84**	4.70	5.06	6.19	4.12
Difference	**0.24**	0.72	0.38	0.47	0.59
% Difference	**7 %**	18 %	8 %	8 %	17 %

ROYALTIES

Surge realized royalty expenses of $20.9 million or 20 percent of revenue in the fourth quarter of 2014, as compared to $13.4 million or 18 percent of revenue in the same period of 2013. During the year ended December 31, 2014, Surge realized royalty expenses of $86.9 million or 18 percent of revenue, as compared to $49.7 million or 18 percent of revenue in the same period of 2013. Royalties as a percentage of revenue for the three months and year ended December 31, 2014 did not change significantly as a result of the Longview acquisition as Longview's corporate royalty rate of between 18% and 20% 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

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per boe)	**2014**	2013	% Change	**2014**	2013	% Change
Royalties	**20,949**	13,412	56 %	**86,929**	49,674	75%
% of Revenue	**20%**	18%	11 %	**18%**	18%	—
$ per boe	**11.14**	12.13	(8)%	**13.18**	12.64	4%

OPERATING EXPENSES

Operating expenses per boe for the fourth quarter of 2014 were 24 percent higher than the same period in 2013, at $15.72 per boe as compared to $12.66 per boe, however, two percent lower compared to $16.02 per boe in the third quarter of 2014.

Operating expenses per boe for the year ended December 31, 2014 were 23 percent higher than the same period in 2013, at $15.52 per boe as compared to $12.57 per boe.

Operating expenses per boe for the three months and year ended December 31, 2014 increased mainly due to higher operating costs associated with recent acquisitions as compared to the same periods of the prior year. Excluding the strategic business combination with Longview, Surge realized operating expenses of approximately $15.00 per boe during the year ended December 31, 2014. Based on production from acquired Longview properties of approximately 5,500 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 $0.95 per boe for the year ended December 31, 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 the expected increases following the acquisition, realizing a $0.52 per boe increase in operating expenses instead of more than $0.95 per boe, a 46 percent reduction in operating expenses per boe on the acquired properties. Surge also managed to further decrease operating expenses from $16.02 per boe in the third quarter of 2014 to $15.72 per boe in the fourth quarter of 2014. Surge expects to achieve further synergies over the next several quarters.

Operating Expenses

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per boe)	**2014**	2013	% Change	**2014**	2013	% Change
Operating expenses	**29,571**	13,988	111%	**102,374**	49,405	107%
$ per boe	**15.72**	12.66	24%	**15.52**	12.57	23%

TRANSPORTATION EXPENSES

Transportation expenses per boe decreased by 27 percent to $1.49 per boe in the fourth quarter of 2014, as compared to $2.03 per boe in the same period of 2013.

Transportation expenses per boe decreased by 21 percent for the year ended December 31, 2014, to $1.72 per boe, as compared to $2.17 per boe in the same period of 2013.

The decrease in transportation expense for the three months and year ended December 31, 2014 is primarily due to production volumes acquired during the past twelve months located in low-cost pipeline connected areas, specifically southeast Saskatchewan acquired from Longview, leading to further cost savings on a per boe basis as Surge has leveraged the additional pipeline infrastructure for pre-acquisition production transportation. A further decrease in transportation expense for the three months and year ended December 31, 2014 is 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 and fourth quarters 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 periods of 2013, equating to a per boe cost savings of approximately $0.12 or six percent for the fourth quarter of 2014 and $0.07 or three percent for the year ended December 31, 2014, using Surge's historical transportation expense of $2.00 per boe.

Transportation Expenses

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per boe)	**2014**	2013	% Change	**2014**	2013	% Change
Transportation expenses	**2,812**	2,241	25 %	**11,375**	8,511	34 %
$ per boe	**1.49**	2.03	(27)%	**1.72**	2.17	(21)%

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

Net G&A expenses per boe for the fourth quarter of 2014 decreased 21 percent to $1.72 per boe as compared to $2.19 per boe in the same period of 2013. G&A expenses for the fourth quarter of 2014, net of recoveries and capitalized amounts of $1.8 million, were $3.2 million, compared to $2.4 million in the same period of 2013, after recoveries and capitalized amounts of $1.1 million.

Net G&A expenses per boe for year ended December 31, 2014 decreased 37 percent to $1.96 per boe as compared to $3.10 for the same period of 2013. G&A expenses for the twelve months of 2014, net of recoveries and capitalized amounts of $6.4 million, were $12.9 million, compared to $12.2 million in the same period of 2013, after recoveries and capitalized amounts of $6.8 million.

Surge implemented a company wide G&A cost reduction initiative in the fourth quarter of 2013 the results of which have been realized throughout 2014. Although Surge incurred additional gross G&A costs throughout 2014 as a result of several significant acquisitions, the Company has had appropriate staff and systems in place to absorb the vast majority of additional general and administrative capacities relative to the associated acquired production, leading to a decrease in net G&A expenses per boe.

G&A Expenses

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per boe)	**2014**	2013	% Change	**2014**	2013	% Change
G&A expenses	**5,025**	3,544	42 %	**19,306**	18,995	2 %
Recoveries and capitalized amounts	**(1,798)**	(1,120)	61 %	**(6,391)**	(6,809)	(6)%
Net G&A expenses	**3,227**	2,424	33 %	**12,915**	12,186	6 %
Net G&A expenses $ per boe	**1.72**	2.19	(21)%	**1.96**	3.10	(37)%

TRANSACTION COSTS

In the fourth quarter of 2014, the Company incurred transaction costs of $0.3 million or $0.15 per boe, primarily related to the North Valhalla acquisition. Comparatively, during the fourth quarter of 2013 The Company incurred $4.0 million or $3.62 per boe primarily related to Wainwright, Manson and Macoun property acquisitions.

For the year ended December 31, 2014, the Corporation incurred transaction costs of $7.3 million or $1.11 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 $8.9 million or $2.26 per boe during the same period of 2013, primarily related to the Shaunavon, Wainwright, Macoun and Manson property acquisitions.

Transaction Costs

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per boe)	**2014**	2013	% Change	**2014**	2013	% Change
Transaction costs	**289**	4,001	(93)%	**7,337**	8,891	(17)%
$ per boe	**0.15**	3.62	(96)%	**1.11**	2.26	(51)%

FINANCE EXPENSES

During the quarter ended December 31, 2014, Surge incurred interest expense of $5.2 million or $2.76 per boe as compared to $2.8 million or $2.53 per boe in the same period of 2013. Surge incurred interest expense of $16.9 million or $2.56 per boe for the year ended December 31, 2014 as compared to $9.6 million or $2.45 per boe in the same period of 2013. The increased interest expense during the three months and year ended December 31, 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 twelve months ended December 31, 2014 as compared to the same periods of 2013 primarily due to acquisitions. 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

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per boe)	**2014**	2013	% Change	**2014**	2013	% Change
Interest expense	**5,192**	2,793	86 %	**16,895**	9,648	75%
$ per boe	**2.76**	2.53	9 %	**2.56**	2.45	4%
Accretion expense	**1,317**	920	43 %	**5,235**	1,997	162%
$ per boe	**0.70**	0.83	(16)%	**0.80**	0.51	57%
Finance expenses	**6,509**	3,714	75 %	**22,130**	11,645	90%
$ per boe	**3.46**	3.36	3 %	**3.36**	2.96	14%

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 $28.14 for the fourth quarter of 2014, a 29 percent decrease from the $39.70 recorded during the same period of 2013. The decrease in operating netback was attributable to a 15 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 27 percent decrease in transportation costs per boe and an eight percent decrease in royalties per boe. The decrease in corporate netback was further impacted by a nine percent increase in interest expense per boe, partially offset by a 21 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 $43.22 for the year ended December 31, 2014, a three percent increase from the $41.80 recorded during the same period of 2013. The increase in operating netback was attributable to a six percent increase in revenue per boe and a 21 percent decrease in transportation costs per boe, partially offset by a four percent increase in royalties per boe and a 23 percent increase in operating costs per boe. The increase in corporate netback was further impacted by a 37 percent decrease in G&A expense per boe and a slight four percent increase in interest expense per boe, as compared to the same period of 2013.

Netbacks, Excluding Hedging Activity

	Three Months Ended December 31,			Years Ended December 31,		
($ per boe, except production)	**2014**	2013	% Change	**2014**	2013	% Change
Average production (boe per day)	**20,448**	12,014	70 %	**18,069**	10,769	68 %
Revenue	**56.49**	66.52	(15)%	**73.64**	69.18	6 %
Royalties	**(11.14)**	(12.13)	(8)%	**(13.18)**	(12.64)	4 %
Operating costs	**(15.72)**	(12.66)	24 %	**(15.52)**	(12.57)	23 %
Transportation costs	**(1.49)**	(2.03)	(27)%	**(1.72)**	(2.17)	(21)%
Operating netback	**28.14**	39.70	(29)%	**43.22**	41.80	3 %
G&A expense	**(1.72)**	(2.19)	(21)%	**(1.96)**	(3.10)	(37)%
Interest expense	**(2.76)**	(2.53)	9 %	**(2.56)**	(2.45)	4 %
Corporate netback	**23.66**	34.98	(32)%	**38.70**	36.25	7 %

Netbacks, Including Hedging Activity

	Three Months Ended December 31,			Years Ended December 31,		
($ per boe)	**2014**	2013	% Change	**2014**	2013	% Change
Operating netback	**28.14**	39.70	(29)%	**43.22**	41.80	3 %
Realized gain (loss) on commodity contracts	**5.40**	(1.26)	(529)%	**(1.45)**	(2.13)	(32)%
Operating netback, net of hedging activity	**33.54**	38.44	(13)%	**41.77**	39.67	5 %
G&A expense	**(1.72)**	(2.19)	(21)%	**(1.96)**	(3.10)	(37)%
Interest expense	**(2.76)**	(2.53)	9 %	**(2.56)**	(2.45)	4 %
Corporate netback, net of hedging activity	**29.06**	33.72	(14)%	**37.25**	34.12	9 %

FUNDS FROM OPERATIONS AND CASH FLOW FROM OPERATIONS

Funds from operations increased 47 percent to $54.7 million in the fourth quarter of 2014 compared to $37.3 million in the same period of 2013. On a per share basis, funds from operations decreased four percent, to $0.25 per basic share from $0.26 per basic share in the same period of 2013.

Funds from operations increased 83 percent to $245.3 million for the year ended December 31, 2014 compared to $134.1 million in the same period of 2013. On a per share basis, funds from operations decreased eight percent, to $1.22 per basic share from $1.32 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 $36.1 million and $207.5 million million for the three months and year ended December 31, 2014, respectively, as compared to $46.2 million and $113.0 million in the same periods of 2013.

Included in cash flow from operations is a decrease in non-cash working capital of $18.1 million in the fourth quarter of 2014 and a decrease of $25.1 million for the year ended December 31, 2014.

Funds from Operations

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per share and per boe)	**2014**	2013	% Change	**2014**	2013	% Change
Funds from operations	**54,670**	37,268	47 %	**245,264**	134,131	83 %
Per share - basic ($)	**0.25**	0.26	(4)%	**1.22**	1.32	(8)%
Per share - diluted ($)	**0.25**	0.26	(4)%	**1.22**	1.32	(8)%
$ per boe	**29.06**	33.72	(14)%	**37.19**	34.12	9 %
Cash flow from operating activities	**36,099**	46,228	(22)%	**207,480**	113,027	84 %

STOCK-BASED COMPENSATION

Surge recorded a net stock-based compensation recovery of $2.9 million during the fourth quarter of 2014, compared to stock-based compensation expense of $2.3 million for the same period of 2013. Surge recorded net stock-based compensation expense of $4.5 million for the year ended December 31, 2014, compared to $9.9 million for the same period of 2013. The stock-based compensation recorded in the three months and year ended December 31, 2014 primarily relates to the stock appreciation rights ("SARs"), restricted share awards ("RSAs") and performance share awards ("PSAs") grants.

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 December 31, 2014. The weighted average fair value of awards granted for the period ended December 31, 2014 is $7.88 per PSA and $7.73 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, 2014	854,425	908,625
Granted	1,404,588	754,080
Reinvested [1]	113,927	111,534
Exercised	(270,683)	—
Forfeited	(180,902)	(66,265)
Balance at December 31, 2014	**1,921,355**	**1,707,974**

[1] Per the terms of the plan, cash dividends paid by the Corporation are reinvested to purchase incremental awards.

Stock-based compensation

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per boe)	**2014**	2013	% Change	**2014**	2013	% Change
Stock-based compensation	**(1,447)**	2,811	nm	**7,635**	13,736	(44)%
Capitalized stock-based compensation	**(1,417)**	(530)	nm	**(3,181)**	(3,810)	(17)%
Net stock-based compensation	**(2,864)**	2,281	nm	**4,454**	9,926	(55)%
Net stock-based compensation $ per boe	**(1.52)**	2.06	nm	**0.68**	2.53	(73)%

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 $177.9 million. Future development costs for proved and probable reserves of $654.6 million have been included in the depletion calculation.

Surge recorded $45.6 million or $24.25 per boe in depletion and depreciation expense during the fourth quarter of 2014, as compared to $28.6 million or $25.84 per boe in depletion and depreciation expense in the same period of 2013. Surge recorded $161.7 million or $24.53 per boe in depletion and depreciation expense during the year ended December 31, 2014, as compared to $82.4 million or $20.98 per boe in the same period of 2013. The increase in total depletion expense for the three months and year ended December 31, 2014 is due primarily to the acquisitions in the fourth quarter of 2013 and throughout 2014.

The depletion and depreciation calculation is based on daily production volumes of 20,448 boe per day for the fourth quarter of 2014.

Depletion and Depreciation Expense

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per boe)	**2014**	2013	% Change	**2014**	2013	% Change
Depletion and depreciation expense	**$ 45,625**	$ 28,568	60 %	**$ 161,702**	$ 82,410	96 %
$ per boe	**24.25**	25.84	(6)%	**24.53**	20.98	17 %

IMPAIRMENT

The Corporation has identified seven cash generating units as of December 31, 2014 based on the lowest level at which properties generate cash inflows while applying judgment to consider factors such as shared infrastructure, geographic proximity, petroleum type and similar exposures to market risk and materiality. The acquisitions in the current year have resulted in the consolidation of some prior non-significant CGU's and the addition of others, while many acquired properties were integrated into existing CGU's. The Corporation's CGU's at December 31, 2014 were geographically labeled Northeast Alberta, Northwest Alberta, Central Alberta, Southeast Alberta, Central Saskatchewan, Southwest Saskatchewan and Southeast Saskatchewan.

At December 31, 2014, due to declines in forward commodity prices, the Corporation determined a trigger to be present across all of it's CGU's. As a result, the Corporation undertook an impairment test. Recoverable value was estimated at fair value less costs to sell based on before tax cashflows from oil and gas proved plus probable reserves estimated by the Corporation's third party reserve evaluators at a 10 - 12 percent discount rate. In determining the appropriate discount rate, the Corporation referenced recent market transactions completed on assets similar to those in the CGU. At December 31, 2014 it was determined that the book value of certain CGU's exceeded the recoverable value and a $197.1 million impairment was recognized. The impairment specifically related to Northeast Alberta ($81.3 million), Central Alberta ($45.8 million) and Central Saskatchewan ($70.0 million) and was the direct result of a decrease in commodity prices.

At December 31, 2013, due to reserve revisions and adjustments to future costs, the Corporation tested certain natural gas and oil CGU's for impairment. The estimated recoverable amounts of the Corporation's CGU's were estimated at their fair value less costs to sell based on the net present value of before tax cash flows from oil and gas proved plus probable reserves estimated by the Corporation's third party reserve evaluators at a 12% discount rate. In determining the appropriate discount rate, the Corporation referenced recent market transactions completed on assets similar to those in the CGU. At December 31, 2013, it was determined that the net book value exceeded the recoverable amount and the Corporation recorded a $51.2 million impairment charge. The impairment specifically related to the Central Alberta ($14.6 million) and Waskada ($36.6 million). The Waskada CGU was effectively eliminated following this impairment.

For the year ended December 31, 2014 the Corporation recorded $14.4 million of impairment on exploration and evaluation assets due to expired acreage (2013 - nil).

Impairment

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per boe)	**2014**	2013	% Change	**2014**	2013	% Change
Impairment	**$ 211,480**	$ 27,189	678%	**$ 211,480**	$ 51,189	313%
$ per boe	**112.42**	24.60	357%	**32.07**	13.02	146%

The following table outlines forecast commodity prices and exchange rates used in the Corporation's CGU impairment tests at December 31, 2014. The forecast commodity prices are consistent with those used by the Corporation's external reserve evaluators and are a key assumption in assessing the recoverable amount. The reserve evaluators also include financial assumptions regarding royalty rates, operating costs, and future development capital that can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities by Management.

Year	Medium and Light Crude Oil		Natural Gas	NGL			Inflation rates (%/Yr)	Exchange rate ($US/$Cdn)
	Canadian Light Sweet Crude 40˚ API ($/bbl)	Western Canadian Select 20.5˚ API ($/bbl)	AECO Gas Price ($/MMBtu)	Edmonton Pentanes Plus ($/bbl)	Edmonton Butane ($/bbl)	Edmonton Propane ($/bbl)		
2015	70.35	60.5	3.32	78.60	50.34	34.77	1.5	0.85
2016	87.36	75.13	3.71	97.60	62.51	43.17	1.5	0.87
2017	98.28	84.52	3.90	109.80	70.32	48.57	1.5	0.87
2018	99.75	85.79	4.47	111.44	71.37	49.30	1.5	0.87
2019	101.25	87.07	5.05	113.12	72.44	50.04	1.5	0.87
2020	103.85	89.31	5.13	116.02	74.31	51.32	1.5	0.87
2021	105.40	90.65	5.22	117.76	75.42	52.09	1.5	0.87
2022	106.99	92.01	5.31	119.53	76.55	52.87	1.5	0.87
2023	108.59	93.39	5.40	121.32	77.70	53.67	1.5	0.87
2024	110.22	94.79	5.49	123.14	78.87	54.47	1.5	0.87
2025	111.87	96.21	5.58	124.99	80.05	55.29	1.5	0.87

The following table outlines forecast commodity prices and exchange rates used in the Corporation's CGU impairment tests at December 31, 2013.

Year	Medium and Light Crude Oil			Natural Gas	NGL		Inflation rates (%/Yr)	Exchange rate ($US/$Cdn)
	WTI Cushing Oklahoma 40˚ API (US$/bbl)	Edmonton Par Price 40˚ API ($/bbl)	Cromer Medium 29.3˚ API ($/bbl)	AECO Gas Price ($/MMBtu)	Pentanes plus FOB Field Gate ($/bbl)	Butanes FOB Field Gate ($/bbl)		
2014	94.65	92.64	90.64	4.00	103.50	69.05	1.5	0.94
2015	88.37	89.31	87.31	3.99	99.78	66.57	1.5	0.94
2016	84.25	89.63	87.63	4.00	100.14	66.81	1.5	0.94
2017	95.52	101.62	99.62	4.93	113.53	75.74	1.5	0.94
2018	96.96	103.14	101.14	5.01	115.24	76.88	1.5	0.94
2019	98.41	104.69	102.69	5.09	116.97	78.03	1.5	0.94
2020	99.89	106.26	104.26	5.18	118.72	79.20	1.5	0.94
2021	101.38	107.86	105.86	5.26	120.50	80.39	1.5	0.94
2022	102.91	109.47	107.47	5.35	122.31	81.60	1.5	0.94
2023	104.45	111.12	109.12	5.43	124.14	82.82	1.5	0.94

NET LOSS

The Company recorded a net loss of $109.2 million or $0.50 per basic share for the fourth quarter of 2014 compared to a net loss of $2.8 million or $0.02 per basic share for the same period of 2013. The cause for the change in net loss is in part due to an increase in funds from operations of $17.4 million compared to the same period of 2013 that was more than offset by impairment recognition of $211.5 million for the fourth quarter of 2014 (2013 - $27.2 million) as a result of depressed forecast commodity pricing at December 31, 2014.

For the year ended December 31, 2014, the Company recorded a net loss of $33.2 million or $0.17 per basic share compared to a net loss of $9.9 million or $0.10 per basic share for the same period of 2013. The cause for the change in net loss is in part due to an increase in funds from operations of $111.1 million compared to the same period of 2013 and a $23.6 million gain on investment (2013 - nil) that was more than offset by impairment recognition of $211.5 million for the year ended December 31, 2014 (2013 - $51.2 million).

Net Loss

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per share)	**2014**	2013	% Change	**2014**	2013	% Change
Net Loss	**(109,181)**	(2,848)	nm	**(33,177)**	(9,886)	nm
Per share - basic ($)	**(0.50)**	(0.02)	nm	**(0.17)**	(0.10)	nm
Per share - diluted ($)	**(0.50)**	(0.02)	nm	**(0.17)**	(0.10)	nm

CAPITAL EXPENDITURES

During the three months ended December 31, 2014, Surge invested a total of $39.8 million, excluding acquisitions and dispositions. Surge invested $27.7 million to drill 23 gross (14.1 net) wells.

In addition, the Company invested $9.8 million in facilities, equipment, and pipelines, and $2.2 million in land and seismic acquisitions and other capital items.

For the year ended December 31, 2014, Surge invested a total of $149.6 million, excluding acquisitions and dispositions. Surge invested $98.2 million to drill 73 gross (43.0 net) wells.

In addition, the Company invested $40.3 million in facilities, equipment, and pipelines, and $11.0 million in land and seismic acquisitions and other capital items.

During the fourth quarter of 2014 Surge acquired certain working interests in developed properties in northern Alberta in order to expand the Company's exposure to certain light oil plays for total cash consideration of $87.6 million.

Capital Expenditure Summary

($000s)	Q1 2014	Q2 2014	Q3 2014	**Q4 2014**	**2014 YTD**	2013 YTD	**Change**
Land	791	853	633	**593**	**2,870**	6,785	(58)%
Seismic	103	539	216	**(74)**	**784**	1,933	(59)%
Drilling and completions	38,766	9,915	21,834	**27,728**	**98,243**	83,691	17 %
Facilities, equipment and pipelines	15,346	5,573	9,593	**9,789**	**40,301**	26,266	53 %
Other	3,345	2,094	197	**1,717**	**7,353**	6,871	7 %
Total exploration and development	58,351	18,974	32,473	**39,753**	**149,551**	125,546	19 %
Acquisitions - cash consideration	108,712	39,819	6,061	**87,610**	**242,202**	371,150	(35)%
Acquisitions - debt acquired	—	161,388	(5,902)		**155,486**	22,376	595 %
Acquisitions - share based consideration	—	233,169	—		**233,169**	222,548	5 %
Property dispositions	—	—	(52,632)	**(2,512)**	**(55,144)**	(44,603)	24 %
Total acquisitions & dispositions	108,712	434,376	(52,473)	**85,098**	**575,713**	571,471	1 %
Total capital expenditures	167,063	453,350	(20,000)	**124,851**	**725,264**	697,017	4 %

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 first quarter of 2013 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

	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Weighted common shares	**219,834,286**	217,689,253	189,968,583	173,069,989
Dilutive instruments (treasury method)	—	1,718,354	1,383,899	828,174
Weighted average diluted shares outstanding	**219,834,286**	219,407,607	191,352,482	173,898,163

	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Weighted common shares	142,980,744	119,878,292	71,358,171	71,217,345
Dilutive instruments (treasury method)	—	248,162	—	—
Weighted average diluted shares outstanding	142,980,744	120,126,454	71,358,171	71,217,345

On March 19, 2015, Surge had 220,059,794 common shares, 2,086,292 warrants, 2,000,000 SAR's, 1,774,317 PSAs and 2,022,995 RSAs, and 232,533 stock options outstanding.

Quarterly Financial Information

	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Oil, Natural gas & NGL sales	**106,262**	143,709	128,148	107,567
Net earnings (loss)	**(109,181)**	34,655	37,927	3,422
Net earnings (loss) per share ($):				
Basic	**(0.50)**	0.16	0.20	0.02
Diluted	**(0.50)**	0.16	0.20	0.02
Funds from operations	**54,670**	71,298	65,525	53,770
Funds from operations per share ($):				
Basic	**0.25**	0.33	0.34	0.31
Diluted	**0.25**	0.32	0.34	0.31
Average daily sales				
Oil & NGL (bbls/d)	**17,223**	17,180	14,246	12,694
Natural gas (mcf/d)	**19,349**	18,879	12,893	13,980
Barrels of oil equivalent (boe per day) (6:1)	**20,448**	20,327	16,395	15,024
Average sales price				
Natural gas ($/mcf)	**3.84**	4.70	5.06	6.19
Oil & NGL ($/bbl)	**62.75**	85.76	94.25	87.32
Barrels of oil equivalent ($/boe)	**56.49**	76.85	85.89	79.55

Quarterly Financial Information

	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Oil, Natural gas & NGL sales	73,517	86,828	58,004	53,582
Net earnings (loss)	(2,848)	9,319	(15,004)	(1,354)
Net earnings (loss) per share ($):				
Basic	(0.02)	0.08	(0.21)	(0.02)
Diluted	(0.02)	0.08	(0.21)	(0.02)
Funds from operations	37,268	44,455	26,812	25,237
Funds from operations per share ($):			.	
Basic	0.26	0.37	0.38	0.35
Diluted	0.26	0.37	0.38	0.35
Average daily sales				
Oil & NGL (bbls/d)	10,354	9,725	6,966	6,854
Natural gas (mcf/d)	9,958	13,696	14,442	16,689
Barrels of oil equivalent (boe per day) (6:1)	12,014	12,008	9,373	9,636
Average sales price				
Natural gas ($/mcf)	4.12	2.92	4.06	3.57
Oil & NGL ($/bbl)	73.17	92.93	83.01	78.18
Barrels of oil equivalent ($/boe)	66.52	78.60	68.00	61.78

Annual Financial Information

	Years Ended December 31,		
($000s except per share)	**2014**	2013	2012
Total sales	**485,686**	271,932	192,660
Net loss	**(33,177)**	(9,886)	(53,243)
Net loss per share ($):			
Basic	**(0.17)**	(0.10)	(0.75)
Diluted	**(0.17)**	(0.10)	(0.75)
Total assets	**1,985,359**	1,376,725	681,444
Total long-term financial liabilities	**564,258**	279,619	194,523
Dividends declared	**115,777**	26,534	—

LIQUIDITY AND CAPITAL RESOURCES

On December 31, 2014, Surge had drawn $564.3 million on its credit facility with total net debt of $590.2 million, an increase in total net debt of 93 percent as compared to the same date in 2013. Surge has approximately $161 million of borrowing capacity in relation to the $725 million credit facility, providing Surge financial flexibility through 2015.

Surge monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives. Given the extreme volatility, significant downward pressure and uncertainty of world oil prices in the fourth quarter of 2014 and subsequent to December 31, 2014, the Company reduced drilling and capital spending late in the fourth quarter of 2014 and has adopted a conservative capital spending program for the first half of 2015 ($22 million), designed to protect the Company's financial position. Surge's management and Board have decided to project capital spending only until July 1, 2015, at which time the environment will be reassessed and a capital spending program for the second half of 2015 will be finalized. Surge anticipates that the conservative 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.

Additionally, Surge reduced the Company's dividend from $0.05 per share per month to $0.025 per share per month beginning with the January 2015 declared dividend as a further measure to protect the Company's financial position. Surge's management and Board will continue to assess market conditions regularly until a sustainable recovery in world crude oil prices is realized.

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	$ (564,258)
Accounts receivable	66,709
Prepaid expenses and deposits	5,697
Accounts payable and accrued liabilities	(87,313)
Dividends payable	(11,003)
Total	**$ (590,168)**

As at December 31, 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 December 31, 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 year ended December 31, 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 $32.4 million, as summarized below:

Commitments ($000s)		
2015	$	6,147
2016		5,739
2017		5,551
2018		4,782
2019		4,053
2020+		6,132
Total	**$**	**32,404**

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.

Subsequent to December 31, 2014 the Company reconfigured its hedged position as a result of the dramatic change in forward curve crude oil pricing in recent months. Surge monetized fixed swap positions for proceeds of $35.0 million and entered a costless collar commodity contract for approximately 45 percent of the Company's net crude oil production for calendar 2015.

The following table summarizes the Company's financial and physical derivatives as at December 31, 2014 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)
Q1 2015	2,000	$ 8.34
Q2 2015	1,000	$ 8.19

WCS Oil Differential Hedges

Period	Volume Hedged (bbl/d)	Avg Price (Surge receives) (US$ per bbl)
Q1 2015	3,000	$ 22.10
Q2 2015	3,000	$ 22.10
Q3 2015	1,000	$ 21.75
Q4 2015	1,000	$ 21.75
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 - C$

Period	Volume Hedged (bbl/d)	Avg Floor Price (Surge receives) (C$ per bbl)
Q1 2015	4,750	$ 100.76
Q2 2015	4,750	$ 100.76
Q3 2015	2,000	$ 93.7
Q4 2015	2,000	$ 93.7

AECO Gas Hedges

Period	Volume Hedged (mcf/d)	Avg Swap Price (Surge receives) (C$ per mcf)
Q1 2015	7,586	$ 4.14
Q2 2015	7,586	$ 4.14
Q3 2015	7,586	$ 4.14
Q4 2015	7,586	$ 4.14

SUBSEQUENT EVENTS

In the first quarter of 2015 the Corporation monetized all existing forward fixed swap oil positions at a realized gain of approximately $35 million in the period. The Corporation has now re-hedged, on a costless collar basis, approximately 45 percent of the Company's net crude oil production for the rest of 2015 - with a floor of over CAD $62 per barrel, and a ceiling of over CAD $82 per barrel, at no cost to Surge.

On February 11, 2015, the Corporation closed the sale of certain non-core producing oil assets in Southwest Saskatchewan for a purchase price of $35.6 million.

Including the reduction due to the non-core asset disposition and the crude oil swap reconfiguration, and based upon the Company's 2014 reserve addition results, Surge's 2015 annual bank line review has been completed and Surge's bank line confirmed at $675.0 million.

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”) 2013 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 December 31, 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 December 31, 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 December 31, 2014 based on the COSO framework. Based on this evaluation, the officers concluded that as of December 31, 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 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 December 31, 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 15 "Revenue From Contracts with Customers" replaces IAS 11 "Construction Contracts" and IAS 18 "Revenue" and establishes a single revenue recognition framework that applies to contracts with customers, effective date of January 1, 2017.
- IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement" and 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, 2014, which can be found on 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.

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.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements. The use of any of the words “anticipate”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “should”, “believe” and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

More particularly, this MD&A contains statements concerning: (i) Surge’s proposed capital spending budget for the first half of 2015; (ii) management’s reassessment of its capital spending program during the second half of 2015 and the results thereof; (iii) the availability of Surge’s bank line to fund Surge’s future capital requirements; (iv) Surge’s financial flexibility in 2015; (v) expectations on corporate royalty rates applicable to the Company; (vi) expected forfeiture rates of RSAs and PSAs granted under the Company’s Stock Incentive Plan; (vii) expectations as to the payout multiplier for PSAs granted under the Company’s Stock Incentive Plan; (viii) the expected sources of funding of future capital expenditures; (ix) expectations with respect to environmental legislation; and (x) 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 continued support of lenders under Surge’s bank line.

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.

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.