Management is responsible for the integrity and objectivity of the information contained in these consolidated financial statements. In the preparation of these consolidated financial statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected with all information available up to March 14, 2018. The consolidated financial statements have been prepared using policies and procedures established by management in accordance with International Financial Reporting Standards and reflect fairly Surge's financial position, results of operations and cash flows.

KPMG LLP, independent auditors appointed by the shareholders, have examined the consolidated financial statements, and Sproule Associates Limited have reviewed the corporate reserves. Their examinations provide independent views as to the amounts and disclosures in the consolidated financial statements.

The Audit Committee, consisting exclusively of independent directors, has reviewed in detail the consolidated financial statements with management and the external auditors and has recommended their approval to the Board of Directors.

The Board of Directors has approved the consolidated financial statements.

(Signed)

Paul Colborne

President and Chief Executive Officer

(Signed)

Paul Ferguson

Chief Financial Officer

March 14, 2018

To the Shareholders of Surge Energy Inc.

We have audited the accompanying consolidated financial statements of Surge Energy Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Surge Energy Inc. as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed)

KPMG LLP

Chartered Professional Accountants
Calgary, Canada

March 14, 2018

Consolidated Statements of Financial Position

Stated in thousand of dollars

As at	December 31, 2017	December 31, 2016
Assets		
Current Assets		
Accounts receivable	**$ 36,291**	$ 29,511
Fair value of financial contracts (note 8)	**1,350**	—
Prepaid expenses and deposits	**2,889**	2,888
Assets held for sale (note 18)	**8,680**	—
	49,210	32,399
Fair value of financial contracts (note 8)	**237**	—
Exploration and evaluation assets (note 5)	**—**	7,828
Petroleum and natural gas properties (note 6)	**1,148,928**	1,041,151
Deferred income taxes (note 15)	**33,715**	33,879
	$ 1,232,090	$ 1,115,257
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 31,107**	$ 32,039
Dividends payable	**1,845**	1,411
Fair value of financial contracts (note 8)	**4,191**	12,129
Current portion of other long term obligations	**1,591**	1,406
Liabilities associated with assets held for sale (note 18)	**1,966**	—
	40,700	46,985
Fair value of financial contracts (note 8)	**336**	922
Bank debt (note 9)	**209,231**	160,684
Convertible debentures (note 10)	**36,715**	—
Decommissioning obligations (note 11)	**162,308**	120,025
Other long term obligations	**6,647**	7,464
Shareholders' equity		
Share capital	**1,295,961**	1,274,195
Equity component of convertible debentures (note 10)	**3,551**	—
Contributed surplus	**40,198**	41,110
Warrants	**3,522**	3,522
Deficit	**(567,079)**	(539,650)
	776,153	779,177
Commitments (note 19)		
	$ 1,232,090	$ 1,115,257

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

Approved on behalf of the Board:

(Signed)
Keith MacDonald, Director

(Signed)
Paul Colborne, Director

Consolidated Statements of Loss and Comprehensive Loss

Stated in thousands of dollars, except per share amounts

	Years Ended December 31, 2017	2016
Revenues		
Petroleum and natural gas (note 13)	**$ 240,908**	$ 165,568
Royalties	**(30,099)**	(19,197)
Realized gain (loss) on financial contracts	**(4,013)**	3,963
Unrealized gain (loss) on financial contracts (note 8)	**10,112**	(4,529)
	216,908	145,805
Expenses		
Operating	**74,195**	57,630
Transportation	**7,670**	7,302
General and administrative	**10,575**	8,708
Bad debt provision	**104**	612
Transaction costs (note 6)	**1,155**	245
Stock-based compensation (note 12)	**4,326**	9,827
Depletion and depreciation (note 6)	**88,556**	83,872
Impairment (note 7)	**24,124**	3,459
Finance expense (note 14)	**14,518**	9,526
Loss (gain) on disposal of petroleum and natural gas properties (note 6)	**34**	(3,847)
	225,257	177,334
Loss before income taxes	**(8,349)**	(31,529)
Deferred income tax recovery (note 15)	**(1,676)**	(1,108)
Net loss and comprehensive loss for the year	**$ (6,673)**	$ (30,421)
Loss per share (note 12)		
Basic	**$ (0.03)**	$ (0.14)
Diluted	**$ (0.03)**	$ (0.14)

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

Consolidated Statements of Changes in Shareholders' Equity

Stated in thousands of dollars, except share amounts

	Number of common shares	Share capital	Convertible debentures - equity portion	Contributed surplus	Warrants	Deficit	Total equity
Balance at December 31, 2015	221,032,888	$ 1,256,630	—	$ 40,391	$ 3,522	$ (488,402)	$ 812,141
Net loss for the year	—	—	—	—	—	(30,421)	(30,421)
Share issue costs, net of tax of $29	—	(77)	—	—	—	—	(77)
Flow-through shares issued	1,476,475	4,503	—	—	—	—	4,503
Premium on flow-through shares	—	(291)	—	—	—	—	(291)
Transfer on exercise of RSAs and PSAs [1]	3,245,302	13,430	—	(13,430)	—	—	—
Stock-based compensation	—	—	—	14,149	—	—	14,149
Dividends	—	—	—	—	—	(20,827)	(20,827)
Balance at December 31, 2016	225,754,665	$ 1,274,195	$ —	$ 41,110	$ 3,522	$ (539,650)	$ 779,177
Net loss for the year	—	—	—	—	—	(6,673)	(6,673)
Share issue costs, net of tax of $33	—	(128)	—	—	—	—	(128)
Flow-through shares issued	4,211,794	9,200	—	—	—	—	9,200
Premium on flow-through shares	—	(734)	—	—	—	—	(734)
Convertible debentures issued, net of tax of $1,313	—	—	3,551	—	—	—	3,551
Transfer on exercise of RSAs and PSAs [1]	3,023,040	13,428	—	(13,428)	—	—	—
Stock-based compensation	—	—	—	12,516	—	—	12,516
Dividends	—	—	—	—	—	(20,756)	(20,756)
Balance at December 31, 2017	**232,989,499**	**$ 1,295,961**	**$ 3,551**	**$ 40,198**	**$ 3,522**	**$ (567,079)**	**$ 776,153**

[1] RSA and PSA defined as restricted share and performance share awards

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

Consolidated Statements of Cash Flows

Stated in thousands of dollars

	Years Ended December 31, 2017	Years Ended December 31, 2016
Cash provided by (used in)		
Operating		
Net loss	**$ (6,673)**	$ (30,421)
Loss (gain) on disposal of petroleum and natural gas properties	**34**	(3,847)
Unrealized loss (gain) on financial contracts	**(10,112)**	4,529
Finance expense	**14,518**	9,526
Interest expense	**(10,540)**	(6,468)
Depletion and depreciation	**88,556**	83,872
Impairment	**24,124**	3,459
Decommissioning expenditures	**(2,457)**	(1,271)
Bad debt provision	**104**	612
Stock-based compensation	**2,448**	7,665
Deferred income tax recovery	**(1,676)**	(1,108)
Change in non-cash working capital (note 17)	**(4,644)**	(11,228)
Cash flow from operating activities	**93,682**	55,320
Financing		
Bank debt	**48,547**	11,656
Dividends paid	**(20,323)**	(22,179)
Issuance of flow-through shares	**9,200**	4,503
Share issue costs	**(161)**	(106)
Issuance of convertible debentures	**41,425**	—
Cash flow from (used in) financing activities	**78,688**	(6,126)
Investing		
Petroleum and natural gas properties	**(98,466)**	(73,962)
Disposition of petroleum and natural gas properties	**545**	43,178
Acquisitions	**(73,010)**	(16,958)
Change in non-cash working capital (note 17)	**(1,439)**	(1,452)
Cash flow used in investing activities	**(172,370)**	(49,194)
Change in cash	**—**	—
Cash, beginning of the year	**—**	—
Cash, end of the year	**$ —**	$ —

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

NOTES TO CONSOLIDATED 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 is a dividend paying entity. The address of Surge's registered office is 2100, 635-8th Avenue SW, Calgary, Alberta, Canada, T2P 3M3. The consolidated financial statements include the accounts of the Corporation, its wholly-owned subsidiaries and partnerships.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

The consolidated financial statements were authorized for issuance by the Board of Directors on March 14, 2018.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments which are measured at fair value.

The methods used to measure fair values are discussed in note 4.

(c) Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the Corporation's and its subsidiaries' functional currency.

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially from these estimates.

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and for any future years affected.

Critical Judgments in Applying Accounting Policies

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

The Corporation's assets are aggregated into cash-generating units for the purpose of calculating impairment. Cash generating units ("CGU" or "CGUs") are based on an assessment of the unit's ability to generate independent cash inflows. The determination of these CGUs was based on management's judgment in regards to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality.

Judgments are required to assess when impairment indicators exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

The application of the Corporation's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found in assessing if technical feasibility and commercial reserves have been achieved.

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

Key Sources of Estimation Uncertainty

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in these consolidated financial statements.

Estimation of recoverable quantities of proved and probable reserves include estimates and assumptions regarding future commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows as well as the interpretation of complex geological and geophysical models and data. Changes in reported reserves can affect the impairment of assets, the decommissioning obligations, the economic feasibility of exploration and evaluation assets and the amounts reported for depletion, depreciation and amortization of property, plant and equipment. These reserve estimates are verified by third party professional engineers, who work with information provided by the Corporation to establish reserve determinations in accordance with National Instrument 51-101.

The Corporation estimates the decommissioning obligations for oil and natural gas wells and their associated production facilities and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning obligations and related accretion expense require assumptions regarding removal date, environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, inflation estimates, removal technologies in determining the removal cost, and the estimate of the liability specific discount rates to determine the present value of these cash flows.

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proved and probable reserves being acquired.

The Corporation's estimate of stock-based compensation is dependent upon estimates of historic volatility and forfeiture rates.

The Corporation's estimate of the fair value of derivative financial instruments is dependent on estimated forward prices and volatility in those prices.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, and have been applied consistently to the Corporation and its subsidiaries.

Operating expenses in profit or loss are presented as a combination of function and nature to conform with industry practice. Depletion and depreciation is presented on a separate line by its nature, while operating expenses and general and administrative expenses are presented on a functional basis. Significant expenses such as key management personnel's short-term employee benefits and stock-based compensation are presented by their nature in the notes to the financial statements.

Subsidiaries

Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, substantive potential voting rights are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the statement of income.

Jointly owned assets

Many of the Corporation’s oil and natural gas activities involve jointly owned assets. The consolidated financial statements include the Corporation’s share of these jointly owned assets and a proportionate share of the relevant revenue and related costs.

The relationships with jointly owned asset partners have been referred to as joint ventures in the remainder of these financial statements as is common in the Canadian oil and gas industry.

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

Transactions in foreign currencies are translated to the functional currencies of each entity at exchange rates prevailing on the date of each transaction. Monetary assets and liabilities denominated in foreign currencies are translated to each entity’s functional currency at the period-end exchange rate. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Foreign currency differences arising on translation are recognized in profit or loss. Foreign currency gains and losses are reported on a net basis.

(c) Cash and cash equivalents

Cash and cash equivalents are comprised of cash and all investments that are highly liquid in nature and have a original maturity date of three months or less.

(d) Assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale. Non-current assets and disposal groups classified as held for sale are measured at the lower of the carrying amount and fair value less costs of disposal, and depletion & depreciation ceases at the time this designation is made.

If a non-current asset or disposal group has been classified as held for sale, but subsequently ceases to meet the criteria to be classified as held for sale, the Corporation ceases to classify the asset or disposal group as held for sale. Non-current assets and disposal groups that cease to be classified as held for sale are measured at the lower of carrying amount before the asset or disposal group was classified as held for sale (adjusted for any depreciation, amortization or revaluation that would have been recognized had the asset or disposal group not been classified as held for sale) and its recoverable amount at the date of the subsequent decision not to sell. Any adjustment to the carrying amount is recognized in profit or loss in the period in which the asset ceases to be classified as held for sale.

(e) Petroleum and natural gas properties

Exploration and evaluation expenditures

Pre-license costs are recognized in profit or loss as incurred.

Exploration and evaluation costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalized as exploration and evaluation assets. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting a mineral resource is generally considered to be determinable when proved and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved and/or probable reserves have been discovered. Upon determination of technical feasibility and commercial viability, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to petroleum and natural gas properties.

Development and production costs

Petroleum and natural gas properties, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. The cost of development and production assets includes; transfers from exploration and evaluation assets, which generally include the cost to drill the well and the cost of the associated land upon determination of technical feasibility and commercial viability; the cost to complete and tie-in the wells; facility costs; the cost of recognizing provisions for future restoration and decommissioning; geological and geophysical costs; and directly attributable overheads.

When significant parts of an item of petroleum and natural gas properties have different useful lives, then they are accounted for as separate components.

Gains and losses on disposal of petroleum and natural gas properties, property swaps and farm-outs are determined by comparing the proceeds from disposal, or fair value of the asset received or given up, with the carrying amount of petroleum and natural gas properties and are recognized net in profit or loss.

Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of petroleum and natural gas properties are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of petroleum and natural gas properties are recognized in profit or loss as incurred.

Depletion and Depreciation

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives.

Proved plus probable reserves are estimated annually by independent qualified reserve evaluators and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. For financial statements, internal estimates of changes in reserves and future development costs are used for determining depletion for the period. For purposes of this calculation, petroleum and gas reserves are converted to a common unit of measure on the basis of their relative energy content, where six thousand cubic feet of gas equals one barrel of oil or liquids.

Surge has deemed the estimated useful lives for gas processing plants, pipeline facilities, and compression facilities to be consistent with the reserve lives of the areas for which they serve. As a result, Surge includes the cost of these assets within their associated major component (area or group of areas) for the purpose of depletion using the unit of production method.

Office equipment is depreciated using a declining balance method using rates from 20% to 100% dependent on the type of equipment.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(f) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the statement of income.

Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than exploration and evaluation (E&E) assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are tested at the operating segment level.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use ("VIU") and its fair value less costs to sell ("FVLCS").

In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. VIU is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves.

FVLCS is the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The FVLCS is generally determined as the net present value of the estimated future cash flows expected to arise from a CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted using a rate that would be applied by a market participant to arrive at a net present value of the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

In respect of petroleum and natural gas properties and exploration and evaluation assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

Impairment charges are recognized in profit or loss.

(g) Convertible debentures

The Debentures are a non-derivative financial instrument that creates a financial liability of the entity and grants an option to the holder of the instrument to convert it into common shares of the Corporation. The liability component of the Debentures is initially recorded at the fair value of a similar liability that does not have a conversion option. The equity component is recognized initially, net of deferred income taxes, as the difference between gross proceeds and the fair value of the liability component. Transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds. Subsequent to initial recognition, the liability component of the Debentures is measured at amortized cost using the effective interest method and is accreted each period, such that the carrying value will equal the principal amount outstanding at maturity. The equity component is not re-measured. The carrying amounts of the liability and equity components of the Debentures are reclassified to shareholders' capital on conversion to common shares.

(h) Decommissioning obligations

The Corporation's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of abandonment and site restoration and capitalized in the relevant asset category. Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation as at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

The increase in the provision due to the passage of time is recognized as accretion (within finance expense) whereas increases/ decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

(i) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(j) Stock-based compensation and warrant valuation

The Corporation uses the fair value method for valuing stock options, restricted and performance share awards, performance warrants and warrants. Under the fair value method, compensation costs attributable to all stock options, restricted and performance share awards, performance warrants and warrants granted are measured at fair value at the date of grant and expensed over the vesting period with a corresponding increase to contributed surplus or warrants. A forfeiture rate is estimated on the date of grant and is adjusted to reflect the actual number of awards that vest. Performance share awards are also subject to a performance multiplier that is adjusted to reflect the final number of awards. The fair value of each option, performance warrant or warrant granted is estimated using the Black-Scholes option pricing model that takes into account the grant date, the exercise price and expected life of the option, performance warrant or warrant, the price of the underlying security, the expected volatility, the risk-free interest rate and dividends, if any, on the underlying security. The fair value of each restricted and performance share award is determined with reference to the trading price of the Corporation's common shares on the date of grant. Upon the exercise of the stock options, restricted and performance share awards, performance warrants and warrants, consideration received together with the amount previously recognized in contributed surplus or warrants is recorded as an increase to share capital and the contributed surplus or warrants balance is reduced.

Stock appreciation rights which are cash settled are expensed over the vesting period and revalued and recognized in accounts payable at each reporting date until their settlement using a Black-Scholes option pricing model.

(k) Revenue recognition

Revenue from the sale of petroleum and natural gas is recorded on a gross basis when title passes to an external party and collection is reasonably assured based on volumes delivered to customers at contractual delivery points and rates and when collection is reasonably assured. The costs associated with the delivery, including production costs, transportation and production based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

(l) Finance income and expenses

Finance expense comprises interest expense on borrowings and accretion of the discount on provisions.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in profit or loss using the effective interest method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Corporation's outstanding borrowings during the period.

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

(m) Per share information

Per share amounts are calculated based on the weighted average number of common shares outstanding during the year. The diluted weighted average number of shares is adjusted for the dilutive effect of options, restricted and performance share awards, performance warrants and warrants. Under the treasury stock method, only "in the money" dilutive instruments are included in the weighted average diluted number of shares. It is also assumed that any proceeds obtained upon the exercise of options, performance warrants and warrants plus the unamortized portion of stock-based compensation would be used to purchase common shares at the average price during the period. The weighted average number of shares is then reduced by the number of shares acquired.

(n) Flow-through shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. On issuance the premium received on the flow-through shares, being the difference in price over a common share with no tax attributes, is recognized on the statement of financial position. As expenditures are incurred, the deferred tax liability associated with the renounced tax deductions are recognized through profit and loss along with a pro-rata portion of the deferred premium.

(o) Leased assets

Leases where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expenses and the reduction of the outstanding liability. The finance expenses are allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases, which are not recognized on the Corporation's statement of financial position.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(p) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognized on the statement of financial position at the time the Corporation becomes a party to the contractual provisions. Upon initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods is dependent on the classification of the financial instrument. The Corporation has made the following classifications:

- Cash and cash equivalents and accounts receivable are classified as loans and receivables and are initially measured at fair value plus directly attributable transaction costs. Subsequently, they are recorded at amortized cost using the effective interest method.
- Bank debt, the liability portion of the convertible debentures, accounts payable, accrued liabilities and dividends payable are classified as other liabilities and are initially measured at fair value less directly attributable transaction costs. Subsequently, they are recorded at amortized cost using the effective interest method.
- Derivative financial instruments that do not qualify as hedges, or are not designated as hedges on the statement of financial position, including risk management commodity and interest rate contracts, are classified as fair value through profit or loss and are recorded and carried at fair value. The Corporation may use derivative financial instruments to manage economic exposure to market risks relating to commodity prices and interest rates. The Corporation does not utilize derivative financial instruments for speculative purposes.

Transaction costs related to financial instruments classified as fair value through profit or loss are expensed as incurred. All other transaction costs related to financial instruments are recorded as part of the instrument and are amortized using the effective interest method.

Contracts that are entered into for the purpose of the receipt or delivery of a non-financial item in accordance with the Corporation's expected purchase, sale or usage requirements (such as physical delivery commodity contracts) do not qualify as financial instruments and thus, are accounted for as executory contracts. These contracts are not fair valued on the statement of financial position. Settlements are recognized in the statement of income as they occur.

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(q) Future accounting policies

In future accounting periods, the Corporation will adopt the following IFRS:

- IFRS 15 "Revenue From Contracts with Customers" - IFRS 15 was issued in May 2014 and replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The standard is required to be adopted either retrospectively or using a modified transaction approach. In September 2015, the IASB amended IFRS 15, deferring the effective date of the standard by one year to annual periods beginning on or after January 1, 2018 with early adoption still permitted. IFRS 15 will be adopted by the Corporation on January 1, 2018. The Corporation has completed its review of sales contracts with customers and has determined that there will be no material change to the consolidated financial statements other than enhanced disclosures.
- IFRS 9 "Financial Instruments"- IFRS 9 was amended in July 2014 to include guidance to assess and recognize impairment losses on financial assets based on an expected loss model. The amendments are effective for fiscal years beginning on or after January 1, 2018 with earlier adoption permitted. This amendment will be adopted by the Corporation on January 1, 2018 and the Corporation has completed its review of financial instruments has determined that there will be no material change to the consolidated financial statements other than enhanced disclosures.
- IFRS 16 "Leases" - IFRS 16 was issued January 2016 and replaces IAS 17 Leases. The standard introduces a single lessee accounting model for leases with required recognition of assets and liabilities for most leases. The standard is effective for fiscal years beginning on or after January 1, 2019 with early adoption permitted if the Corporation is also applying IFRS 15 Revenue from Contracts with Customers. IFRS 16 will be adopted by the Corporation on January 1, 2019 and the Corporation is currently reviewing contracts that are currently identified as leases and evaluating the impact of the standard on the consolidated financial statements.

4. DETERMINATION OF FAIR VALUES

A number of the Corporation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Petroleum and natural gas properties

The fair value of petroleum and natural gas properties recognized on an acquisition or for use in an impairment test 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.

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

(b) Cash and cash equivalents, accounts receivable, bank debt and accounts and dividends payable

The fair value of cash and cash equivalents, accounts receivable, bank debt and accounts and dividends payable is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2017 and December 31, 2016, the fair value of accounts receivable, accounts payable, and dividends payable approximated their carrying value due to their short term to maturity. Bank debt bears a floating rate of interest and the margins charged by the lenders are indicative of current credit spreads and therefore carrying values approximate fair value. The fair value of the convertible debentures is estimated using quoted market prices on the TSX as of the Consolidated Statement of Financial Position date.

(c) Derivatives

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 amounts and discounted using an appropriate risk-free interest rate (based on published government rates and considering counter-party credit risk). 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.

(d) Stock options, stock appreciation rights and performance warrants

The fair value of employee stock options, stock appreciation rights and performance warrants are measured using a Black Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

5. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets consist of the Corporation's exploration projects which are pending the determination of proved 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, 2015	$	11,287
Impairment		(3,459)
Balance at December 31, 2016	**$**	**7,828**
Impairment		(481)
Transfer to Assets held for sale		(7,347)
Balance at December 31, 2017	**$**	**—**

For the year ended December 31, 2017 the Corporation recorded a $0.5 million impairment (December 31, 2016 - $3.5 million) on exploration and evaluation assets due to expired acreage. The Corporation's exploration and evaluation assets were included in the assets held for sale as at December 31, 2017 (see note 18).

6. PETROLEUM AND NATURAL GAS PROPERTIES

Petroleum and Natural Gas Properties

		Total
Balance at December 31, 2015	$	1,899,671
Acquisitions		20,465
Dispositions		(87,686)
Additions		73,962
Assets under finance lease		6,161
Change in decommissioning obligations		(6,766)
Capitalized stock-based compensation		8,297
Balance at December 31, 2016	$	1,914,104
Acquisitions		88,703
Dispositions		(1,897)
Additions		98,466
Change in decommissioning obligations		27,873
Capitalized stock-based compensation		7,387
Transfer to Assets held for sale (note 18)		(112,798)
Balance at December 31, 2017	**$**	**2,021,838**

		Total
Accumulated depletion and depreciation		
Balance at December 31, 2015	$	(829,360)
Depletion and depreciation expense		(83,872)
Dispositions		40,279
Balance at December 31, 2016	$	(872,953)
Depletion and depreciation expense		(88,556)
Impairment (note 7)		(10,276)
Dispositions		777
Transfer to Assets held for sale (note 18)		98,098
Balance at December 31, 2017	**$**	**(872,910)**

		Total
Carrying amounts		
At December 31, 2016	$	1,041,151
At December 31, 2017	**$**	**1,148,928**

The calculation of depletion and depreciation expense for the year ended December 31, 2017 included an estimated $485.5 million (December 31, 2016 - $435.8 million) for future development costs associated with proved plus probable reserves and deducted $125.3 million (December 31, 2016 - $103.8 million) for the estimated salvage value of production equipment and facilities.

During the year ended December 31, 2017 the Corporation acquired certain petroleum and natural gas properties in Southeast Alberta for cash consideration of $73.0 million. The Corporation also assumed decommissioning obligations of $15.7 million.

During the year ended December 31, 2017 the Corporation disposed of certain non-core assets and facilities in Central Alberta for cash proceeds of $0.5 million. The assets had a carrying value of $1.1 million at the time of disposition and an associated decommissioning liability of $0.5 million, resulting in a loss on disposal of $0.1 million.

During the year ended December 31, 2016 the Corporation disposed of certain non-core assets and facilities in Northern Alberta for cash proceeds of $43.2 million. The assets had a carrying value of $47.5 million at the time of disposition and an associated decommissioning liability of $8.1 million, resulting in a gain on disposal of $3.8 million. Surge incurred transaction costs of $0.2 million on the disposition which were expensed through the statement of loss.

During the year ended December 31, 2016 the Corporation acquired certain petroleum and natural gas properties in Northern Alberta for cash consideration of $17.0 million. The Corporation also assumed decommissioning obligations of $3.5 million.

During the year ended December 31, 2016, the Corporation entered into finance lease agreements totaling $6.2 million with 20 year terms. The leased assets have been recognized in petroleum and natural gas properties with an associated liability recognized in other obligations. Annual lease payments, paid monthly during the 20 year term total $0.6 million and are apportioned between finance expense and a reduction of the outstanding liability.

7. IMPAIRMENT

For the years ended		December 31, 2017		December 31, 2016
Exploration and evaluation assets	**$**	**481**	$	3,459
Impairment on Assets held for sale	**$**	**13,367**	$	—
Petroleum and natural gas properties	**$**	**10,276**	$	—
Impairment Expense	**$**	**24,124**	$	3,459

The Corporation identified five cash generating units as of December 31, 2017 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 asset acquisitions in the current year were integrated into existing CGUs based on geographic location. The Corporation's CGUs at December 31, 2017 were geographically labeled Northwest Alberta, Northeast Alberta, Central Alberta, Southeast Alberta and Southwest Saskatchewan.

For the year ended December 31, 2017, due to declines in forward oil and natural gas prices and poor economic performance of certain assets, the Corporation determined an indication of potential impairment was present in its Central Alberta CGU. As a result, the Corporation completed an impairment test. Recoverable value was estimated at value in use based on before tax discounted cash flows from oil and gas proved plus probable reserves estimated by the Corporation's third party reserve evaluators. It was determined that the carrying value of the Central Alberta CGU exceeded the recoverable amount and a $36.7 million impairment was recognized.

Due to positive drilling results throughout 2017 and an associated increase in reserves, a test for impairment reversal was completed on the Southeast Alberta CGU. It was determined that the recoverable amount of the Southeast Alberta CGU exceeded the carrying value and previous impairment, net of depletion, of $26.4 million was reversed. The before tax discount rate applied in the value in use calculations as at December 31, 2017 ranged from 14 percent to 16 percent.

As at December 31, 2017, the Corporation had assets held for sale (see note 18) and used fair value less costs to sell to measure impairment expense for the year ended December 31, 2017.

The following table outlines forecast commodity prices and exchange rates used in the Corporation's CGU impairment tests at December 31, 2017. 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 ($/ MMBtu)	Edmonton Condensate ($/bbl)	Edmonton Butane ($/bbl)	Edmonton Propane ($/ bbl)		
2018	65.44	51.05	2.85	67.72	48.73	26.06	—	0.79
2019	74.51	59.61	3.11	75.61	55.49	32.84	—	0.82
2020	78.24	64.94	3.65	78.82	57.65	35.41	1.5	0.85
2021	82.45	68.43	3.80	82.35	60.12	37.85	1.5	0.85
2022	84.10	69.80	3.95	84.07	61.32	39.29	1.5	0.85
2023	85.78	71.20	4.05	85.82	62.55	40.25	1.5	0.85
2024	87.49	72.62	4.15	87.61	63.80	41.23	1.5	0.85
2025	89.24	74.07	4.25	89.43	65.07	42.23	1.5	0.85
2026	91.03	75.55	4.36	91.29	66.37	43.26	1.5	0.85
2027	92.85	77.06	4.46	93.19	67.70	44.30	1.5	0.85
2028	94.71	78.61	4.57	95.12	69.06	45.36	1.5	0.85

As at December 31, 2016, the Corporation determined there were no indicators of impairment in any of the five cash generating units and no indications that impairment losses recognized in prior years no longer exist or have decreased.

8. RISK MANAGEMENT

The Corporation has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives, policies and processes for measuring and managing risk, and the Corporation's management of capital. Further quantitative disclosures are included throughout these financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Board has implemented and monitors compliance with risk management policies. The Corporation's risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Corporation's activities.

(a) Credit Risk

Credit risk is the risk of financial loss to the Corporation if a customer or counter-party to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's receivables from joint venture partners and petroleum and natural gas marketers. As at December 31, 2017, the Corporation's receivables consisted of $30.3 million ($23.8 million - December 31, 2016) due from petroleum and natural gas marketers, $5.1 million ($3.4 million - December 31, 2016) due from joint venture partners, and $0.9 million ($2.3 million - December 31, 2016) of other receivables consisting primarily of settlements receivable on commodity contracts. These amounts are presented net of the allowance for doubtful accounts.

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Corporation attempts to mitigate credit risk by establishing marketing relationships with a variety of purchasers.

Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Corporation attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to the expenditure. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint venture partners as disagreements occasionally arise that increase the potential for non-collection. The Corporation obtains collateral from significant petroleum and natural gas marketers on an as needed basis, typically in the form of a letter of credit and the Corporation does have the ability to withhold production from joint venture partners in the event of non-payment.

The carrying value of accounts receivable and fair value of financial contracts when outstanding represent the maximum credit exposure. The Corporation has an allowance for doubtful accounts of $0.4 million ($0.4 million - December 31, 2016) at December 31, 2017, which is being applied against outstanding receivables.

The Corporation's most significant customers are three oil and natural gas marketers, accounting for approximately 83 percent of the Corporation's 2017 revenue.

As at December 31, 2017, the Corporation estimates its total accounts receivables, net of the allowance for doubtful accounts, to be aged as follows:

Years ended	Total receivables	Current	Past due > 90 days
December 31, 2017	**$ 36,291**	**$ 33,249**	**$ 3,042**
	100%	**92%**	**8%**
December 31, 2016	$ 29,511	$ 24,650	$ 4,861
	100%	84%	16%

(b) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation actively manages its liquidity through cost control, debt and equity management policies. Such strategies include continuously monitoring forecast and actual cash flows, financing activities and available credit under existing banking arrangements. The nature of the oil and gas industry is very capital intensive. As a result, the Corporation prepares annual capital expenditure budgets and utilizes authorizations for expenditures for projects to manage capital expenditures. Management believes that future cash flows generated in the ordinary course of business will be adequate to settle the Corporation's liabilities as they come due.

Accounts payable and dividends payable are considered due to suppliers in one year or less while bank debt, which is subject to a renewal on or before May 28, 2018, could be potentially due in May 2019 if the facility is not renewed for a further 364-day period. Financial contracts are also due to be settled with the counter-parties at the estimated fair value on the statement of financial position.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Corporation's net income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Corporation utilizes financial derivative contracts to manage market risks. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

i. Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices.

The nature of the Corporation's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices and initiates instruments to manage exposure to these risks when it deems appropriate. As a means of managing commodity price volatility, the Corporation enters into various derivative financial instrument agreements and physical contracts.

As a means of managing commodity price 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 and considering counter-party credit risk). 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. Surge's financial derivative contracts are classified as level two in the fair value hierarchy.

At December 31, 2017, the following risk management contracts were outstanding with an asset fair market value of $1.6 million and a liability fair market value of $4.5 million (December 31, 2016 – asset of $nil and liability of $13.1 million):

WTI Oil Hedges

Type	Term	bbl/d	Currency	Put Sold (per bbl)	Put Acquired (per bbl)	Call Sold (per bbl)	Call Acquired (per bbl)	Swap Price (per bbl)
WTI	1H 2018	1,000	USD	—	$47.50	—	—	—
WTI	1H 2018	600	USD	—	—	$63.19	—	—
WTI	2018	750	USD	—	$45.00	$58.00	—	—
WTI	2018	500	CAD	—	$60.00	$68.91	—	—
WTI	2018	500	USD	—	—	—	$57.45	—
WTI	1H 2018	1,500	USD	—	$50.00	$60.87	—	—
WTI	Q1 2018	1,000	USD	$47.75	$53.00	—	—	—
WTI	Q1 2018	1,000	USD	—	$53.00	—	—	—
WTI	Jan-Feb 2018	2,000	USD	—	—	—	—	$57.03
WTI	2H 2018	1,500	USD	—	$50.00	—	—	—
WTI	1H 2019	500	CAD	$50.00	$60.00	$73.34	—	—

Oil Differential Hedges

Type	Term	bbl/d	Currency	Floor (per bbl)	Ceiling (per bbl)
WCS Collar	1H 2018	1,500	USD	US$WTI less $13.00	US$WTI less $18.00

Natural Gas Hedges

Type	Term	GJ/d	Currency	Swap Price (per GJ)
AECO Swap	Nov 2017-Oct 2018	2,000	CAD	$2.30

ii. Foreign currency exchange risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange risks. All of the Corporation's petroleum and natural gas sales are denominated in Canadian dollars. However, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar.

CAD/USD FX Hedges

Type	Term	Monthly Notional Amount (US$)	Total Notional Amount (US $)	Swap Rate (CAD$ per USD$)
Avg Rate Forward	2018	$4,000,000	$48,000,000	$1.2879
Avg Rate Forward	2019	$1,000,000	$12,000,000	$1.2726

iii. Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate fluctuations on its bank loan which bears a floating rate of interest. Average bank debt outstanding during the year ending December 31, 2017 was $185.0 million (2016 - $154.9 million). For the year ended December 31, 2017, a 1.0 percent change to the effective interest rate would have a $1.4 million impact on net loss (2016 - $1.1 million).

The following table summarizes the sensitivity of the fair value of the Corporation's market risk management positions to fluctuations in natural gas prices, crude oil prices, and foreign exchange. All such fluctuations were evaluated independently, with all other variables held constant. Fluctuations in crude oil and natural gas prices would have had the following impact on the net loss:

Net earnings impact for the period end December 31, 2017	Price Increase	Price Decrease
Crude Oil - Change of +/- $1.00	(1,602)	1,602
Natural Gas - Change of +/- $0.10	(46)	46
Foreign Exchange - Change of +/- $0.01	(38)	38

(d) Capital management

The Corporation's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and sustain the future development of the business. The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Corporation considers its capital structure to include Shareholders' equity of $776.2 million (2016 - $779.2 million), bank debt of $209.2 million (2016 - $160.7 million), convertible debentures of $36.7 million (2016 - nil), and a working capital surplus of $8.5 million (2016 - $14.6 million). In order to maintain or adjust capital structure, the Corporation may from time to time issue shares and adjust its capital spending to manage current and projected debt levels.

The Corporation monitors its capital based on the ratio of forecast net debt to forecast adjusted funds flow. Net debt is defined as outstanding bank debt plus or minus working capital and dividends payable, and excluding the fair value of financial contracts, accrued share appreciation rights within accounts payable and other current obligations. Adjusted funds flow is defined as cash flow from operating activities before changes in non-cash working capital, decommissioning expenditures, legal settlement expenses, transaction costs, cash settled stock-based compensation and current tax on disposition. The Corporation's strategy is to maintain a one year forward looking forecast debt to forecast adjusted funds flow ratio of less than two to one. This ratio may increase at certain times as a result of acquisitions, changes in commodity prices, or capital spending. In order to facilitate the management of this ratio, the Corporation prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast prices, successful capital deployment and general industry conditions. The bi-annual and updated budgets are approved by the Board of Directors.

(e) Fair value of financial instruments

The Corporation's financial instruments as at December 31, 2017 and 2016 include accounts receivable, accounts payable and accrued liabilities, dividends payable, the fair value of financial contracts, convertible debentures and bank debt. The fair value of accounts receivable, accounts payable, accrued liabilities and dividends payable approximate their carrying amounts due to their short-terms to maturity.

Bank debt bears interest at a floating market rate and the margins charged by lenders are indicative of current credit spreads and accordingly the fair market value approximates the carrying value.

The Corporation classifies its financial instruments recorded at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

- Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The liability portion of the Corporation's convertible debentures are considered level 1 and the derivative contracts are considered level 2 in the fair value hierarchy.

9. BANK DEBT

As at December 31, 2017, the Corporation had an extendible, revolving term credit facility at $305 million with a syndicate of Canadian banks. The facility is available on a revolving basis until May 28, 2018. On May 28, 2018, 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 1.90 percent as at December 31, 2017 (December 31, 2016 – prime plus 1.75 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.

10. CONVERTIBLE DEBENTURES

Convertible Debentures

	Number of Convertible Debentures	Liability Component ($000s)	Equity Component ($000s)
Balance at December 31, 2016	—	—	—
Issuance of convertible debentures	44,500	39,273	5,227
Issue costs	—	(2,713)	(362)
Deferred income tax liability	—	—	(1,314)
Accretion of discount	—	155	—
Balance at December 31, 2017	**44,500**	**36,715**	**3,551**

On November 15, 2017, the Corporation entered into an agreement with a syndicate of underwriters (the "Underwriters"), led by NBF pursuant to which the Underwriters purchased $44.5 million principal amount of convertible subordinated unsecured debentures (the "Debentures") at a price of $1,000 per debenture ("the Offering"), on a "bought deal" basis.

Net proceeds of $41.4 million were used to pay down a portion of the outstanding indebtedness under the Corporation's revolving term credit facility.

The Debentures will mature and be repayable on December 31, 2022 ("the Maturity Date") and will accrue interest at the rate of 5.75 percent per annum payable semi annually in arrears on December 31 and June 30 of each year (each an "Interest Payment Date"), with the first such payment to be made June 30, 2018. At the holder's option, the Debentures may be converted into common shares of the Corporation at any time prior to the close of the business on the earlier of the business day immediately preceding (i) the Maturity Date; (ii) if called for redemption, the date fixed for redemption by the Corporation; or (iii) if called for repurchase in the event of a change of control, the payment date, at a conversion price of $2.75 per share, subject to adjustment in certain events ("the Conversion Price"). This represents a conversion rate of approximately 363.6364 common shares for each $1,000 principal amount of Debentures, subject to certain anti-dilution provisions. Holders who convert their Debentures will receive accrued and unpaid interest for the period from the date of the latest Interest Payment Date immediately prior to the date of conversion.

The Debentures will be direct, subordinated unsecured obligations of the Corporation, subordinated to any senior indebtedness of the Corporation and ranking equally with one another and with all other existing and future subordinated unsecured indebtedness of the Corporation to the extent subordinated on the same terms.

The Debentures may not be redeemed by the Corporation prior to December 31, 2020. On and after December 31, 2020 and prior to December 31, 2021, the Debentures may be redeemed by the Corporation, in whole or in part, from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption, provided that the volume weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending five trading days prior to the date on which notice of redemption is provided is at least 125 percent of the Conversion Price. On or after December 31, 2021 and prior to the Maturity Date, the Debentures may be redeemed by the Corporation, in whole or in part, from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption.

The Corporation may, at its option, elect to satisfy its obligation to pay all or a portion of the aggregate principal amount of the Debentures, by issuing such number of freely tradeable common shares as is obtained by dividing the aggregate principal portion by 95% of the current market price on the date fixed for redemption.

The liability component of the Debentures was initially recognized at the fair value of a similar liability which does contain and equity conversion option, based on a market interest rate of 8.75%. The difference between the $44.5 million principal amount of the Debentures and the fair value of the liability component was recognized in Shareholders' equity, net of deferred income taxes. Total transaction costs directly attributable to the offering of $3.1 million were allocated proportionately to the liability and equity components of the Debentures.

Accretion of the liability component and accrued interest payable on the Debentures are included in financing expense in the Consolidated Statements of Loss and Comprehensive Loss (note 14).

The fair value of the convertible debentures at December 31, 2017 was $44.9 million using quoted market prices on the TSX (note 8).

11. 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 inflated and undiscounted amount of cash flows required to settle its decommissioning obligations is approximately $391.1 million (December 31, 2016 – $300.1 million). These payments are expected to be made over the next 50 years with the majority of costs to be incurred between 2023 and 2066. A risk free rate of 2.26 percent (December 31, 2016 – 2.31 percent) and an inflation rate of 1.50 percent (December 31, 2016 – 1.50 percent) was used to calculate the fair value of the decommissioning obligations.

A reconciliation of the decommissioning obligations is provided below:

	December 31, 2017	December 31, 2016
Balance, beginning of period	**$ 120,025**	$ 129,827
Liabilities related to acquisitions (note 6)	**15,693**	3,507
Liabilities related to dispositions (note 6)	**(542)**	(8,076)
Change in estimate	**26,070**	(8,943)
Liabilities incurred	**1,803**	2,177
Accretion expense	**3,682**	2,804
Decommissioning expenditures	**(2,457)**	(1,271)
Transfer to Decommissioning obligations held for sale	**(1,966)**	—
Balance, end of period	**$ 162,308**	$ 120,025

The decommissioning obligations acquired in the Southeast Alberta acquisitions (note 6) were initially recognized using a fair value discount rate. They were subsequently revalued using the risk-free rate noted above resulting in a change in estimate with the offset to petroleum and natural gas properties.

12. SHARE CAPITAL

(a) Authorized

Unlimited number of voting common shares.

Unlimited number of preferred shares, issuable in series.

(b) Flow-through Share Issuance

In September 2017, the Corporation issued 2.6 million flow-through shares related to Canadian development expenditures at a price of $2.15 per share for total gross proceeds of $5.6 million. The implied premium on the flow-through shares of $0.14 per share or $0.4 million was recorded as a flow-through share liability. As at December 31, 2017, the Corporation had incurred the entire $5.6 million of qualifying development expenditures and the commitment had been fulfilled. The implied premium had been released through the deferred tax recovery.

In September 2017, the Corporation issued 1.6 million flow-through shares related to Canadian exploration expenditures at a price of $2.24 per share for total gross proceeds of $3.6 million. The implied premium on the flow-through shares of $0.23 per share or $0.4 million was recorded as a flow-through share liability. As at December 31, 2017, the Corporation had incurred $1.9 million of qualifying exploration expenditures, with the remaining commitment to be spent in 2018. The implied premium related to expenditures made prior to December 31, 2017 had been released through the deferred tax recovery.

(c) Stock Options

The Corporation 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.

	December 31, 2017		December 31, 2016	
	Number of Options	**Weighted average exercise price**	Number of Options	Weighted average exercise price
Stock options outstanding, beginning of year	**67,000**	**$ 4.87**	129,200	$ 7.05
Forfeited	**(59,500)**	**$ 5.48**	—	$ —
Expired	**—**	**$ —**	(62,200)	$ 9.39
Stock options outstanding, end of year	**7,500**	**$ 3.63**	67,000	$ 4.87
Exercisable at year-end	**7,500**	**$ 3.63**	67,000	$ 4.87

The following table summarizes stock options outstanding and exercisable at December 31, 2017:

	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	7,500	$3.63	0.09	7,500	$3.63

(d) Warrants

The Corporation has 1,400,560 warrants exercisable at a price of $4.46. The exercise price is downward adjusted for dividends paid. 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 December 31, 2017, 1,400,560 warrants were exercisable.

(e) Stock Appreciation Rights

The Corporation had 2.0 million stock appreciation rights ("SARs") outstanding at December 31, 2017. 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 December 31, 2017 is $2.02 (December 31, 2016 - $2.11) and 2.0 million 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 year, the Corporation realized a decrease to the liability within accounts payable and an offsetting decrease to stock-based compensation of $2.7 million (2016 - $1.8 million increase). There is $0.4 million included in accounts payable at December 31, 2017 (December 31, 2016 - $3.1 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% (2016 - 15%) was used to value all awards granted for the period ended December 31, 2017. The weighted average fair value of awards granted for the year ended December 31, 2017 is $2.03 (2016 - $2.49) per PSA granted and $2.04 (2016 - $2.43) 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 granted during the period.

The total number of RSA and PSA units granted cannot exceed 4.5 percent of the issued and outstanding shares of the Corporation.

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, 2017	3,602,528	4,809,052
Granted	2,434,962	2,583,496
Reinvested [1]	149,855	220,646
Added by performance factor	—	535,847
Exercised	(1,772,729)	(1,250,311)
Forfeited	(405,773)	(734,748)
Balance at December 31, 2017	**4,008,843**	**6,163,982**

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

(g) Stock-based compensation

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

	Years Ended December 31,	
	2017	2016
Stock-based compensation on options	**$ —**	$ 5
Stock-based compensation on SARs	**(2,680)**	1,813
Stock-based compensation on PSAs and RSAs [(1)]	**14,393**	16,306
Capitalized stock-based compensation	**(7,387)**	(8,297)
Total stock-based compensation expense	**$ 4,326**	$ 9,827

[(1)] Included in stock-based compensation for the year ended December 31, 2017 is cash expenditures of $1.9 million paid to acquire shares offered to employees and service providers (2016 - $2.2 million).

(h) Per share amounts

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

	Years Ended December 31,	
	2017	2016
Weighted average number of shares - basic and diluted	**228,212,068**	222,252,075

In computing diluted per share amounts at December 31, 2017, 7,500 options (December 31, 2016 – 67,000) and 1,400,560 warrants (December 31, 2016 – 1,400,560) were excluded from the calculation as their effect was anti-dilutive. The common shares potentially issuable on the conversion of the convertible debentures were also excluded as they were determined to be anti-dilutive.

(i) Dividends

The Board of Directors declared for the months of January through December 2017 cumulative dividends of $0.090826 per share (January - December 2016 - $0.09375 per share). Dividends of $0.007917 per share are declared and outstanding at December 31, 2017 and were paid in January 2018. Dividends for the month of January 2018 have been declared and paid at $0.007917 per share per month. Dividends for the month of February 2018 have been declared at $0.007917 per share.

13. PETROLEUM AND NATURAL GAS REVENUE, NET OF ROYALTIES

	Years ended December 31,	
	2017	2016
Oil	**$ 217,194**	$ 149,701
Natural gas liquids	**9,431**	4,675
Natural gas	**14,283**	11,192
Less: Royalties	**(30,099)**	(19,197)
Total petroleum and natural gas revenue, net of royalties	**$ 210,809**	$ 146,371

14. FINANCE EXPENSE

	Years ended December 31,	
	2017	2016
Interest on bank debt, convertible debentures and finance lease	**$ 10,540**	$ 6,468
Accretion of decommissioning obligations	**3,682**	2,804
Accretion of other long term liabilities	**142**	254
Accretion of convertible debentures	**154**	—
	$ 14,518	$ 9,526

15. INCOME TAXES

(a) Deferred income tax expense

The provision for income tax expense in the financial statements differs from the result which would have been obtained by applying the combined federal and provincial income tax rate to the Corporation’s loss before income taxes. This difference results from the following items:

	Years ended December 31,	
	2017	2016
Loss before income taxes	**$ (8,349)**	$ (31,529)
Combined federal and provincial statutory rate	**27.0%**	27.0%
Expected income tax recovery	**$ (2,254)**	$ (8,513)
Difference resulting from:		
Issuance of flow through shares	**1,464**	921
Non-deductible items, rate changes & other	**(886)**	6,484
Income tax recovery	**$ (1,676)**	$ (1,108)

(b) Deferred income tax liability

The components of the Corporation's net deferred income tax asset are as follows:

	Years ended December 31, 2017	2016
Property, plant and equipment	**$ (125,082)**	$ (103,929)
Decommissioning obligations	**44,354**	32,407
Convertible debentures	**(1,438)**	—
Fair value of financial contracts	**794**	3,562
Partnership deferral	**(21,393)**	(4,111)
Non-capital losses	**135,783**	103,749
Share issue costs	**316**	1,470
Other	**381**	731
	$ 33,715	$ 33,879

The Corporation has $494 million in non-capital losses that begin expiring in the year 2028.

The following table provides a continuity of the deferred income tax asset:

	January 1, 2017	Recognized in profit or loss	Recognized in equity	Other	December 31, 2017
Property, plant and equipment	$ (103,929)	$ (20,593)	$ —	$ (560)	**$ (125,082)**
Decommissioning obligations	32,407	11,947	—	—	**44,354**
Convertible debentures	—	(125)	(1,313)	—	**(1,438)**
Fair value of financial contracts	3,562	(2,768)	—	—	**794**
Partnership deferral	(4,111)	(17,282)	—	—	**(21,393)**
Non-capital losses	103,749	32,034	—	—	**135,783**
Share issue costs	1,470	(1,187)	33	—	**316**
Other	731	(350)	—	—	**381**
	$ 33,879	$ 1,676	$ (1,280)	$ (560)	**$ 33,715**

	January 1, 2016	Recognized in profit or loss	Recognized in equity	Other	December 31, 2016
Property, plant and equipment	$ (66,953)	$ (36,680)	$ —	$ (296)	**$ (103,929)**
Decommissioning obligations	35,053	(2,646)	—	—	**32,407**
Fair value of financial contracts	2,301	1,261	—	—	**3,562**
Partnership deferral	29,203	(33,314)	—	—	**(4,111)**
Non-capital losses	31,455	72,294	—	—	**103,749**
Share issue costs	2,627	(1,186)	29	—	**1,470**
Other	(648)	1,379	—	—	**731**
	$ 33,038	$ 1,108	$ 29	$ (296)	**$ 33,879**

16. KEY MANAGEMENT PERSONNEL COMPENSATION

Key Management Personnel includes the Board of Directors, President and Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Vice President Land, Vice President Production, and Vice President Geosciences.

	Years ended December 31,	
	2017	2016
Salaries and wages	**$ 2,546**	$ 2,878
Short-term employee benefits	**149**	152
Stock-based payments (i)	**5,674**	6,482
	$ 8,369	$ 9,512

(i) Represents the amortization of stock-based compensation associated with options granted to key management personnel as recorded in the financial statements.

17. CASHFLOW INFORMATION

	Years ended December 31,	
	2017	2016
Accounts receivable	**$ (6,780)**	$ (4,309)
Prepaid expenses and deposits	**(1)**	1,046
Accounts payable and accrued liabilities	**(932)**	(5,681)
Bad debt provision	**(104)**	(612)
Accounts payable - SARs	**2,680**	(1,813)
Flow through shares	**(175)**	—
Other long-term liabilities	**(771)**	(1,311)
Change in non-cash working capital	**$ (6,083)**	$ (12,680)
These changes relate to the following activities		
Operating	**$ (4,644)**	$ (11,228)
Investing	**(1,439)**	(1,452)
	$ (6,083)	$ (12,680)

18. ASSETS HELD FOR SALE

On December 22, 2017, the Corporation executed a letter of intent accepting a third party's offer to purchase petroleum and natural gas assets and rights located in the Windfall area of Alberta, for cash consideration of $6.7 million after adjustments. The disposition had an effective date of October 1, 2017 and closed on January 4, 2018.

The assets and liabilities disposed subsequent to the end of the reporting period were classified as held for sale as at December 31, 2017.

As at December 31, 2017, impairment of $13.4 million was recorded based on the carrying amount in excess of the fair value of consideration. Immediately prior to the initial classification as held for sale, the net carrying amount of petroleum and natural gas properties was $14.7 million, exploration and evaluation was $7.3 million, and the related decommissioning liability was $2.0 million.

19. COMMITMENTS

Future minimum payments relating to operating lease and firm transport commitments at December 31, 2017 are as follows:

($000s)		
2018	$	14,048
2019		9,543
2020		9,156
2021		7,573
2022		5,002
2023+		12,782
Total	**$**	**58,104**