FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended March 31,		
	2012	2011	% change
Financials highlights			
Oil and NGL sales	**47,366**	21,650	119%
Natural gas sales	**3,678**	4,157	(12%)
Other revenue	**16**	65	(75%)
Total oil, natural gas, and NGL revenue	**51,060**	25,872	97%
Funds from Operations[1]	**24,007**	9,772	146%
Per share basic ($)	**0.34**	0.17	100%
Per share diluted ($)	**0.33**	0.17	94%
Net income (loss)	**2,657**	(502)	nm
Per share basic ($)	**0.04**	(0.01)	nm
Per share diluted ($)	**0.04**	(0.01)	nm
Capital expenditures - petroleum & natural gas properties[2]	**54,898**	35,538	54%
Capital expenditures - acquisitions & dispositions[2]	**104,398**	9,462	1,003%
Total capital expenditures[2]	**159,296**	45,000	254%
Net debt at end of period[3]	**158,769**	81,445	95%
Operating highlights			
Production:			
Oil and NGL (bbls per day)	**6,110**	3,090	98%
Natural gas (mcf per day)	**17,398**	11,915	46%
Total (boe per day) (6:1)	**9,009**	5,076	77%
Average realized price (excluding hedges):			
Oil and NGL ($per bbl)	**85.19**	77.86	9%
Natural gas ($ per mcf)	**2.32**	3.88	(40%)
Realized loss on financial contracts ($ per boe)	**(0.94)**	(1.62)	(42%)
Net back (excluding hedges) ($ per boe)			
Oil, natural gas and NGL sales	**62.28**	56.64	10%
Royalties	**(12.22)**	(8.02)	52%
Operating expenses	**(11.66)**	(16.73)	(30%)
Transportation expenses	**(1.78)**	(2.54)	(30%)
Operating netback	**36.62**	29.35	25%
G&A expenses	**(3.63)**	(4.76)	(24%)
Interest expense	**(1.75)**	(0.98)	79%
Corporate netback	**31.24**	23.61	32%
Common shares (000s)			
Common shares outstanding, end of period	**71,033**	56,097	27%
Weighted average basic shares outstanding	**70,474**	56,095	26%
Stock option dilution (treasury method)	**1,711**	-	nm
Weighted average diluted shares outstanding	**72,185**	56,095	29%

1 Management uses funds from operations (before changes in non-cash working capital) 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 Corporation defines net debt as outstanding bank debt plus or minus working capital excluding the fair value of financial contracts.

OVERVIEW, HIGHLIGHTS AND FORECAST

Surge was active in each of its three core areas during the first quarter of 2012. The Corporation achieved a 100 percent success rate, with 18 gross (13.9 net) wells drilled, averaging just over 9,000 boe per day in the quarter. Through a combination of encouraging well results, extensive technical review, increasing land position and increasing working interest Surge has expanded its oil drilling inventory from 490 gross (350 net) locations to 570 gross (435 net) locations and its internally estimated DPIIP from over 440 gross million barrels of oil to 550 gross million barrels of oil.

ACHIEVEMENTS AND HIGHLIGHTS

- **Funds from operations increased 146 percent** to $24.0 million during the first quarter of 2012 from $9.8 million during the same period of 2011.
- **Funds from operations per share doubled** to $0.34 during the first quarter of 2012 from $0.17 during the same period of 2011.
- **Increased production by 77 percent** to 9,009 boe per day during the first quarter of 2012 from an average of 5,076 boe per day during the first quarter of 2011.
- **Increased production per basic share by over 40 percent** during the first quarter of 2012 as compared to the first quarter of 2011.
- Subsequent to the first quarter, **Surge's bank line increased from $175 million to $250 million**, providing Surge **considerable financial flexibility** to execute its 2012 capital program. With net debt of $158.8 million at the end of the first quarter, Surge now has $91.2 million of borrowing capacity remaining. Surge forecasts a year end debt to cash flow ratio of approximately 1.1.
- **Reduced both operating costs and transportation costs per boe by 30 percent** in the first quarter of 2012 as compared to the first quarter of 2011 with combined operating and transportation costs decreasing from $19.27 per boe in the first quarter of 2011 to $13.44 per boe in the first quarter of 2012.
- **Increased Surge's operating netback by 25 percent** to $36.62 per boe for the first quarter of 2012 as compared to $29.35 in the first quarter of 2011.
- **Increased Surge's total oil drilling inventory to more than 570 gross (435 net)** and its internally estimated DPIIP[1] ("Discovered Petroleum Initially In Place") to 550 million barrels of oil.
- **Achieved a 100 percent success rate** drilling 18 gross (13.9 net) wells in the first quarter of 2012. Only 14 of the 18 wells drilled in the first quarter were producing at quarter end, with the remainder to be completed and brought on production during the second quarter of 2012.
- The combination of drilling in early 2012 and closing of the light oil acquisition in January 2012 drove the increase in Surge's **oil and natural gas liquids production weighting to 68 percent in the first quarter**.
- **Approximately 93 percent of Surge's revenue resulted from oil and natural gas liquids production**, with less than seven percent derived from natural gas production.
- During the first quarter of 2012, **Surge announced the accretive acquisition of a private company with 1,200 barrels per day of light oil production** in the Nipisi/Gift area of Western Alberta, targeting the Slave Point/Gilwood Formations.

[1] Discovered Petroleum Initially In Place (DPIIP) is defined as quantity of hydrocarbons that are estimated to be in place within a known accumulation, plus those estimated quantities in accumulations yet to be discovered. There is no certainty that it will be commercially viable to produce any portion of the resources. There is no certainty that it will be commercially viable to produce any portion of the resources. A recovery project cannot be defined for this volume of DPIIP at this time, and as such it cannot be further sub-categorized.

Netback Comparison

	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Average production (boe per day)	**9,009**	7,514	6,166	5,051	5,076
Revenue	**$ 62.28**	$ 61.93	$ 58.19	$ 64.83	$ 56.64
Royalties	**(12.22)**	(7.05)	(8.38)	(9.24)	(8.02)
Operating costs	**(11.66)**	(14.92)	(14.79)	(16.39)	(16.73)
Transportation costs	**(1.78)**	(1.41)	(2.16)	(3.25)	(2.54)
Operating netback	**$ 36.62**	$ 38.55	$ 32.86	$ 35.95	$ 29.35

OUTLOOK

In just more than two years, Surge has positioned itself in three core areas, assembled more than 570 gross (435 net) oil drilling locations and gained exposure to an internally estimated DPIIP of more than 550 gross million barrels of oil. Surge continues to add light oil resource to its portfolio as shown with the accretive acquisition of a private company ("the Pradera Acquisition") in January 2012. Through the acquisition, Surge acquired 1,200 barrels per day of high quality, high netback, focused Slave Point/Gilwood light oil assets in the early stages of primary development in the Nipisi/Gift area of Western Alberta. Surge now estimates there to be 115 million barrels of DPIIP in the Slave Point pools with less than one percent of the oil recovered to date. Surge believes there is potential to grow production to 2,500 barrels per day of oil over the next two years under primary development and to more than 4,000 barrels per day of oil over the next few years with the implementation of a successful waterflood program.

Pro-forma the Pradera Acquisition that closed in early January, Surge has more than 36.7 million boe of proved plus probable reserves, of which, more than 23 million barrels are crude oil and NGLs. Additionally, the Corporation has the potential to recover more than 80 million barrels of light oil through its unbooked drilling inventory and the successful implementation of waterflood programs at Valhalla South, Windfall, Nipisi/Gift, Williston Basin and South East Alberta.

In 2012, Surge will continue to grow organically by drilling in each of its core areas and will continue to make accretive acquisitions that fit its business plan. Surge is committed to delivering top quartile corporate performance and creating value for shareholders by growing reserves, cash flow and production on a per share basis.

As a result of our successful development drilling results and strategic acquisitions, Surge is well positioned to meet or exceed its 2012 exit production rate of 11,000 boe per day (77 percent oil and NGLs). Surge is forecasting an annualized 2012 exit funds from operations of $155 million[2] ($2.19 per share) and a debt to cash flow ratio of 1.1 times.

Surge is an oil focused oil and gas company with operations throughout Alberta, Manitoba and North Dakota. Surge's common shares trade on the Toronto Stock Exchange under the symbol SGY. At quarter end, the Corporation had 71.0 million basic and 78.1 million fully diluted common shares outstanding.

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 "Corporation"), which includes its subsidiaries and partnership arrangements, is for the three months ended March 31, 2012 and 2011. For a full understanding of the financial position and results of operations of the Corporation, 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.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements.

More particularly, this MD&A contains statements concerning anticipated: (1) capital expenditures for 2012, (2) exploration, development, and acquisition activities, (3) average and exit oil, NGLs and natural gas production during 2012, (4) production weighting for 2012, (5) potential of waterflood projects to increase reserves, the proposed timing of the

[2] Based on US$104.50/bbl WTI, Edm Par C$94.68, $1.98/GJ AECO, US$/CDN$ exchange rate of $0.9989.

implementation of waterflood projects and the potential recovery rates therefrom, (6) funds from operations, (7) debt and bank facilities, (8) operating and transportation costs, (9) the availability and successful completion of acquisitions, (10) the timing of bringing on production from new wells, (11) year end 2012 debt and cash flow, (12) royalties, (13) decommissioning obligations, (14) netbacks, and (15) sufficiency of internally generated cash flow, divestitures and available credit facilities and/or equity financing to fund planned capital expenditures. 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 and prevailing commodity prices and economic conditions.

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 uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures. Certain of these risks are set out in more detail in Surge's Annual Information Form 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.

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.

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 Corporation'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 as follows:

Funds from Operation

($000s)	**Q1 2012**	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Cash flow from operating activities (per IFRS)	**$ 21,871**	$ 19,073	$ 17,272	$ 11,338	$ 9,007
Change in non-cash working capital	**2,136**	3,015	(3,270)	560	765
Funds from operations	**$ 24,007**	$ 22,088	$ 14,002	$ 11,898	$ 9,772

Funds from operations per share is calculated using the weighted average basic and diluted shares used in calculating income per share. Operating and corporate netbacks are also presented. Operating netbacks represent Surge's revenue, excluding realized and unrealized gains or losses on financial contracts, less royalties and operating and transportation expenses. 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.

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.

Surge's Board of Directors and Audit Committee have reviewed and approved the financial statements and MD&A. This MD&A is dated May 8, 2012.

OPERATIONS

Drilling

	Drilling		Success rate	Working
	Gross	Net	(%) gross	interest (%)
Q1 2012	18.00	13.89	100%	77%
Total	**18.00**	**13.89**	**100%**	**77%**

Surge achieved a 100 percent success rate during the quarter ended March 31, 2012, drilling 18 gross (13.89 net) wells. The 18 gross wells drilled year to date include two wells at Valhalla South, three wells at Sounding Lake, six wells in the North Dakota area, three wells at Waskada and four wells in the newly acquired Nipisi area. Only 14 of the 18 wells drilled in the first quarter were producing at quarter end with the remainder to be completed and brought on production during the second quarter of 2012.

Production

	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Oil and NGL (bbls per day)	**6,110**	4,534	3,781	2,995	3,090
Natural gas (mcf per day)	**17,398**	17,885	14,313	12,334	11,915
Total (boe per day) (6:1)	**9,009**	7,514	6,166	5,051	5,076
% Oil and NGL	**68%**	60%	61%	59%	61%

Surge achieved an average production rate of 9,009 boe per day in the first quarter of 2012, a 77 percent increase from the first quarter of 2011 average production rate of 5,076 boe per day and a 20 percent increase from the fourth quarter of 2011 average production rate of 7,514 boe per day. The increase in the production volumes as compared to the first quarter of 2011 was primarily due to the results of the 2011 and 2012 drilling programs, as well as the Pradera Acquisition, which contributed an average of approximately 1,050 barrels per day in the quarter.

Surge realized a 68 percent oil and natural gas liquids production weighting in the first quarter of 2012. Surge realized average oil and natural gas liquids production of 6,110 bbls per day for the first quarter of 2012.

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

In the first quarter of 2012, approximately 93 percent of Surge's revenue resulted from oil and natural gas liquids production, with approximately seven percent derived from natural gas.

A 10 percent increase in revenue per boe, combined with a 77 percent increase in production, resulted in revenues of $51.1 million in the first quarter of 2012, up 97 percent from $25.9 million in the same period of 2011.

Surge had certain financial contracts in place as of March 31, 2012. Surge recognized an unrealized loss of $2.8 million and a realized loss of $0.8 million on its financial contracts in the first quarter of 2012. This compares to an unrealized loss of $2.6 million and a realized loss of $0.7 million on its financial contracts in the first quarter of 2011.

The realized losses on financial contracts resulted in a decrease of $0.94 per boe to average revenue per boe during the first quarter of 2012.

Please refer to the "Financial Instruments" section of this MD&A for further details on these oil and natural gas commodity contracts, and interest rate swaps.

Prices

The Corporation realized average revenue of $62.28 per boe in the first quarter of 2012, before realized financial contract losses, an increase of 10 percent from the $56.64 per boe recorded in the same period of 2011.

The Corporation realized an average of $85.19 per bbl of oil and natural gas liquids in the first quarter of 2012, an increase of nine percent from the $77.86 per bbl realized in the same period of 2011. This compares to an average Edmonton Light Sweet price of $92.09 per bbl during the first quarter of 2012, which increased five percent per barrel from the $87.77 per bbl during the same period of 2011. The increase in Surge's realized oil and natural gas liquids prices, as compared to the increase in benchmark prices, is due to the increased production of light oil, which has a smaller differential than heavier streams.

The Corporation realized an average natural gas price of $2.32 per mcf in the first quarter of 2012, a 40 percent decrease from the $3.88 per mcf averaged in the same period of 2011. This compares to an average Alberta Plant Gate reference price of $2.03 per mcf in the first quarter of 2012, which decreased by 43 percent from the $3.56 per mcf in the same period of 2011. The decrease in realized natural gas prices is relatively consistent when compared to the decrease in average Alberta Plant Gate reference pricing.

Realized losses on financial contract resulted in a decrease of $0.94 per boe to the average revenue per boe in the first quarter of 2012.

Revenue and Realized Prices

	Three Months Ended March 31,		
($000s except per amount)	**2012**	2011	% Change
Oil and NGL	**47,366**	21,650	119%
Natural gas	**3,678**	4,157	(12%)
Processing and other	**16**	65	(75%)
Total oil, natural gas and NGL revenue	**51,060**	25,872	97%
Oil and NGL ($ per bbl)	**85.19**	77.86	9%
Natural gas ($ per mcf)	**2.32**	3.88	(40%)
Total oil, natural gas and NGL revenue ($ per boe)	**62.28**	56.64	10%
Realized gain (loss) on commodity contracts ($ per boe)	**(0.94)**	(1.62)	(42%)
Total oil, natural gas, and NGL revenue after realized commodity contracts ($ per boe)	**61.34**	55.02	11%
Reference Prices			
Edmonton Light Sweet ($ per bbl)	**92.09**	87.77	5%
Alberta Plant Gate ($ per mcf)	**2.03**	3.56	(43%)

Benchmark prices

	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
($ per bbl)					
Benchmark - WTI (US$)	**102.93**	94.06	89.76	102.56	94.10
Benchmark - Edmonton Light Sweet (C$)	**92.09**	97.35	91.74	103.07	87.77
Surge realized prices (C$)	**85.19**	88.60	80.29	92.36	77.86
Difference - Surge realized to Edmonton Light Sweet (C$)	**(6.90)**	(8.75)	(11.45)	(10.71)	(9.91)
% Difference	**(7%)**	(9%)	(12%)	(10%)	(11%)
(C$ per mcf)					
Benchmark - Alberta Plant Gate	**2.03**	3.18	3.53	3.80	3.56
Surge realized prices	**2.32**	3.49	3.81	4.13	3.88
Difference	**0.29**	0.31	0.28	0.33	0.32
% Difference	**14%**	10%	8%	9%	9%

ROYALTIES

Surge realized royalty expense of $10.0 million in the first quarter of 2012, compared to $3.7 million in the same period of 2011. Included in royalty expense for the first quarter are prior period adjustments of $0.8 million. Had these prior period expenses not impacted the first quarter, royalty expense would have been $9.2 million or 18 per cent of revenue. The increase in royalties as a percentage of revenue during the three months ended March 31, 2012 is the result of oil production that has produced beyond the volumes provided within the Alberta government's royalty incentive program, which reduced royalties on newly drilled horizontal wells.

As royalties under the ARF are sensitive to both commodity prices and production levels, the estimated ARF and 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 March 31,		
($000s except per boe)	**2012**	2011	% Change
Royalties	**10,017**	3,665	173%
% of Revenue	**20%**	14%	6%
$ per boe	**12.22**	8.02	52%

OPERATING EXPENSES

Operating expenses per boe in the first quarter of 2012 were 30 percent lower than the same period in 2011, at $11.66 per boe as compared to $16.73 per boe in the same period of 2011.

Operating expenses per boe during the first quarter of 2012 decreased mainly due to production increases, as well as operational and processing efficiencies in Surge's core areas.

The management team continues to focus on finding efficiencies within existing operations and expects operating expenses per boe to remain relatively flat for the remainder of 2012. The management team is forecasting to reduce combined operating and transportation costs from $17.81 per boe in 2011 to less than $13.50 per boe during 2012.

Operating Expenses

	Three Months Ended March 31,		
($000s except per boe)	**2012**	2011	% Change
Operating expenses	**9,556**	7,642	25%
$ per boe	**11.66**	16.73	(30%)

TRANSPORTATION EXPENSES

Transportation expenses per boe decreased by 30 percent in the first quarter of 2012, to $1.78 per boe, as compared to $2.54 per boe in the first quarter of 2011. This decrease is primarily due to additional production volumes in the pipeline connected areas of Valhalla and Silver.

The management team continues to focus on finding efficiencies within existing operations and expects transportation expenses per boe to remain relatively flat for the remainder of 2012. The management team is forecasting to reduce combined operating and transportation costs from $17.81 per boe in 2011 to less than $13.50 per boe during 2012.

Transportation Expenses

	Three Months Ended March 31,		
($000s except per boe)	**2012**	2011	% Change
Transportation expenses	**1,458**	1,162	25%
$ per boe	**1.78**	2.54	(30%)

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

Net G&A expenses per boe for the first quarter of 2012 decreased 24 percent to $3.63 per boe as compared to $4.76 per boe in the same period of 2011. G&A expenses for the first quarter of 2012, net of recoveries and capitalized amounts of $2.1 million, were $3.0 million, compared to $2.2 million in the same period of 2011, after recoveries and capitalized amounts of $1.5 million. The decrease in G&A per boe is primarily due to the increased production levels in the first quarter of 2012, as compared to the same period in 2011.

The management team continues to focus on general and administrative expenditure efficiencies.

G&A Expenses

	Three Months Ended March 31,		
($000s except per boe)	**2012**	2011	% Change
G&A expenses	**5,116**	3,653	40%
Recoveries and capitalized amounts	**(2,144)**	(1,478)	45%
Net G&A expenses	**2,972**	2,175	37%
Net G&A expenses $ per boe	**3.63**	4.76	(24%)

TRANSACTION COSTS

Transaction costs of $0.4 million or $0.44 per boe during the first quarter of 2012 were related to evaluation and review of business and property acquisitions, primarily the Pradera Acquisition. This is compared to $0.1 million or $0.19 per boe during the same period of 2011.

Transaction Costs

	Three Months Ended March 31,		
($000s except per boe)	**2012**	2011	% Change
Transaction costs	**363**	87	317%
$ per boe	**0.44**	0.19	132%

FINANCE EXPENSES

Surge incurred interest expense of $1.4 million or $1.75 per boe in the first quarter of 2012 as compared to $0.4 million or $0.98 per boe in the same period of 2011. The increased interest expense per boe during the first quarter of 2012 is primarily due to higher debt levels as compared to the same period of 2011.

Accretion represents the change in the time value of the decommissioning liability. Accretion expense per boe decreased for the three months ended March 31, 2012 compared to the same period of 2011 due to property dispositions during the last nine months of 2011. 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. Similarly, this future obligation can be reduced as a result of abandonment work undertaken.

Finance Expenses

	Three Months Ended March 31,		
($000s except per boe)	**2012**	2011	% Change
Interest expense	**1,433**	448	220%
$ per boe	**1.75**	0.98	79%
Accretion expense	**255**	261	(2%)
$ per boe	**0.31**	0.57	(45%)
Finance expenses	**1,688**	709	138%
$ per boe	**2.06**	1.55	33%

NETBACKS

During the first quarter of 2012, 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 $36.62, a 25 percent increase over the $29.35 recorded during the same period of 2011. The increase in operating netback was attributable to a 10 percent increase in revenue per boe and a 30 percent decrease in both the operating costs and transportation costs per boe, partially offset by a 52 percent increase in royalties per boe as compared to the same period of 2011. The increase in corporate netback was impacted by a 24 percent decrease in G&A expense per boe in 2012 and offset by a 79 percent increase in interest expense per boe, as compared to the same period of 2011.

The management team continues to focus on finding efficiencies within existing operations and expects its per boe costs to continue to improve.

Corporate Average Netbacks

	Three Months Ended March 31,		
($ per boe, except production)	**2012**	2011	% Change
Average production (boe per day)	**9,009**	5,076	77%
Revenue	**62.28**	56.64	10%
Royalties	**(12.22)**	(8.02)	52%
Operating costs	**(11.66)**	(16.73)	(30%)
Transportation costs	**(1.78)**	(2.54)	(30%)
Operating netback	**36.62**	29.35	25%
G&A expense	**(3.63)**	(4.76)	(24%)
Interest expense	**(1.75)**	(0.98)	79%
Corporate netback	**31.24**	23.61	32%

FUNDS FROM OPERATIONS AND CASH FLOW FROM OPERATIONS

During the three months ended March 31, 2012, funds from operations increased 146 percent to $24.0 million compared to $9.8 million in the same period of 2011. On a per share basis, funds from operations doubled to $0.34 per basic share in the first quarter of 2012 from $0.17 per basic share in the first quarter of 2011.

Funds from operations increased by nine percent to $24.0 million in the first quarter of 2012 from $22.1 million in the fourth quarter of 2011.

Cash flow from operations differs from funds from operations due to the inclusion of changes in non-cash working capital. Cash flow from operations for the three months ended March 31, 2012, was $21.9 million as compared to $9.0 million in the same period of 2011.

Included in cash flow from operations is a decrease in non-cash working capital of $2.1 million in the first quarter of 2012 and a decrease of $0.8 million from the same period in 2011.

Funds from Operations

	Three Months Ended March 31,		
($000s except per share and per boe)	**2012**	2011	% Change
Funds from operations	**24,007**	9,772	146%
Per share - basic ($)	**0.34**	0.17	100%
Per share - diluted ($)	**0.33**	0.17	94%
$ per boe	**29.28**	21.39	37%
Cash flow from operations	**21,871**	9,007	143%

STOCK-BASED COMPENSATION

Surge recorded net stock-based compensation expense of $1.0 million during the three months ended March 31, 2012, compared to $0.7 million for the same period of 2011, calculated using the Black-Scholes option-pricing model.

During the first quarter of 2012, 154,000 options were issued at a weighted average exercise price of $9.88 per option, 67,999 options were exercised at a weighted average exercise price of $5.86 and 27,500 options were forfeited at a weighted average price of $6.09 per option.

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

Stock-based compensation

	Three Months Ended March 31,		
($000s except per boe)	**2012**	2011	% Change
Stock-based compensation	**2,420**	1,696	43%
Capitalized stock-based compensation	**(1,454)**	(973)	49%
Net stock-based compensation	**966**	723	34%
Net stock-based compensation $ per boe	**1.18**	1.58	(25%)

DEPLETION AND DEPRECIATION

Depletion and depreciation are calculated based upon capital expenditures, production rates and proved plus probable reserves. Excluded from the Corporation’s depletion and depreciation calculation are costs associated with salvage values of $30.5 million. Future development costs for proved and probable reserves of $155.6 million have been included in the depletion calculation.

Surge recorded $16.9 million or $20.60 per boe in depletion and depreciation expense during the three months ended March 31, 2012, as compared to $18.17 per boe in depletion and depreciation expense in the same period of 2011. This increase is due primarily to the Pradera acquisition, which was booked at fair value.

The depletion and depreciation calculation is based on production volumes of 9,009 boe for the quarter.

Depletion and Depreciation Expense

	Three Months Ended March 31,		
($000s except per boe)	**2012**	2011	% Change
Depletion and depreciation expense	**16,890**	8,303	103%
$ per boe	**20.60**	18.17	13%

NET INCOME (LOSS)

The Corporation recorded net income for the three months ended March 31, 2012 of $2.7 million or $0.04 per basic share, compared to a net loss of $0.5 million or $0.01 per basic share for the same period of 2011. The cause for the change in net income (loss) is primarily due to a 97 percent increase in revenue in the first quarter of 2012, versus the same period in 2011.

Net Income (Loss)

	Three Months Ended March 31,		
($000s except per share)	**2012**	2011	% Change
Total	**2,657**	(502)	nm
Per share - basic ($)	**0.04**	(0.01)	nm
Per share - diluted ($)	**0.04**	(0.01)	nm

CAPITAL EXPENDITURES

During the first quarter of 2012, Surge invested a total of $54.9 million, net of acquisitions. Surge invested $38.5 million to drill and complete 18 gross (13.89 net) wells.

In addition, Surge invested $9.1 million in facilities, pipeline, and equipment, $5.3 million in seismic and land acquisitions, and $2.0 million on other capital items. The Pradera Acquisition is comprised of $18.5 million in cash-based consideration, acquired debt of $14.6 million and an additional $71.3 million in share-based consideration for total consideration of $104.4 million.

Capital Expenditure Summary

($000s)	Q1 2012	Q1 2011	Change
Land	**4,303**	5,138	(16%)
Seismic	**991**	56	1,670%
Drilling and completions	**38,534**	20,494	88%
Facilities, equipment and pipelines	**9,102**	8,354	9%
Other	**1,968**	1,496	32%
Total exploration and development	**54,898**	35,538	54%
Acquisitions - cash consideration	**18,500**	10,763	72%
Acquisitions - debt acquired	**14,623**	-	nm
Acquisitions - share based consideration	**71,275**	-	nm
Property dispositions	**-**	(1,301)	nm
Total acquisitions & dispositions	**104,398**	9,462	1,003%
Total cash-based capital expenditures	**159,296**	45,000	254%

Accounting Treatment of the Pradera Acquisition

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

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

Quarterly and Annual Financial Information

	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Oil, Natural gas & NGL sales	**51,060**	42,812	33,012	29,796	25,872
Net earnings (loss)	**2,657**	(5,531)	4,811	3,317	(502)
Net earnings (loss) per share ($):					
Basic	**0.04**	(0.09)	0.09	0.06	(0.01)
Diluted	**0.04**	(0.09)	0.08	0.06	(0.01)
Average daily sales					
Oil & NGL (bbls/d)	**6,110**	4,534	3,781	2,995	3,090
Natural gas (mcf/d)	**17,398**	17,885	14,313	12,334	11,915
Barrels of oil equivalent (boe per day) (6:1)	**9,009**	7,514	6,166	5,051	5,076
Average sales price					
Natural gas ($/mcf)	**2.32**	3.49	3.81	4.13	3.88
Oil & NGL ($/bbl)	**85.19**	88.60	80.29	92.36	77.86
Barrels of oil equivalent ($/boe)	**62.28**	61.93	58.19	64.83	56.64

Quarterly and Annual Financial Information

	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Oil, Natural gas & NGL sales	18,544	14,264	11,141	13,978
Net earnings (loss)	(3,999)	664	(7,109)	2,749
Net earnings (loss) per share ($):				
Basic	(0.08)	0.02	(0.26)	0.15
Diluted	(0.08)	0.02	(0.26)	0.14
Average daily sales				
Oil & NGL (bbls/d)	2,308	1,841	1,621	1,707
Natural gas (mcf/d)	10,182	7,783	3,823	5,874
Barrels of oil equivalent (boe per day) (6:1)	4,005	3,138	2,258	2,686
Average sales price				
Natural gas ($/mcf)	3.55	3.71	3.74	5.20
Oil & NGL ($/bbl)	70.70	69.33	66.57	72.35
Barrels of oil equivalent ($/boe)	50.33	49.41	54.22	57.83

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 decrease in production volumes in the second quarter of 2010 was primarily due to Surge voluntarily shutting in a portion of its gas production. The subsequent increases in production from the third quarter of 2010 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

	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010
Weighted Common Shares	**70,474,105**	62,124,542	56,118,838	56,098,181	56,094,747	53,065,155	30,874,642	27,589,374
Stock option dilution (treasury method)[1]	**1,711,244**	1,189,529	1,348,828	1,187,618	-	-	-	-
Weighted average dilution shares oustanding[1]	**72,185,349**	63,314,071	57,467,666	57,285,799	56,094,747	53,065,155	30,874,642	27,589,374

[1] In computing the net income per diluted share in the current period, 1,711,244 shares were added to the weighted average number of shares outstanding.

On May 8, 2012 Surge had 71,055,014 common shares, 2,047,272 performance warrants and 5,007,499 options outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Subsequent to March 31, 2012, Surge increased its bank line from $175 million to $250 million.

On March 31, 2012, Surge had net debt of $158.8 million. Surge has approximately $91.2 million of borrowing capacity in relation to the $250 million, giving Surge considerable financial flexibility through 2012.

Surge anticipates that 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 Corporation to meet its capital requirements.

The Corporation defines net debt as outstanding bank debt plus or minus cash-based working capital excluding the fair value of financial contracts as follows:

Net Debt

($000s)		
Bank debt	$	(121,665)
Accounts receivable		23,857
Prepaid expenses and deposits		3,419
Accounts payable and accrued liabilities		(64,380)
Total	**$**	**(158,769)**

As at May 8, 2012, the Corporation has a $250 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 5, 2013. On May 5, 2013, 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 1.25 percent as at March 31, 2012 (March 31, 2011 – prime plus 1.50 percent).

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

RELATED-PARTY AND OFF-BALANCE-SHEET TRANSACTIONS

Surge was not involved in any off-balance-sheet transactions or related party transactions during the three months ended March 31, 2012.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The Corporation has entered into farm-in agreements in the normal course of its business. The Corporation has a committed revolving term facility with four Canadian chartered banks. The authorized borrowing amount under this facility as at May 8, 2012 was $250 million. The Corporation's other financial commitments are summarized below:

Commitments

($000s)	2012	2013	2014	2015	2016+	Total
Operating lease - office	$ 954	$ 840	$ 795	$ 782	$ 1,971	$ 5,342
Firm transport commitments	$ 1,008	$ 1,238	$ 912	$ 693	$ 246	$ 4,097
Total	**1,962**	**2,078**	**1,707**	**1,475**	**2,217**	**9,439**

FINANCIAL INSTRUMENTS

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

The following table outlines the realized and unrealized gains (losses) on oil and gas commodity contracts for the quarter ended March 31, 2012:

Term	Type (floating to fixed)	Volume	Swap Price (Surge receives) (C$)	Index (Surge pays) (C$)	Three months Mar 31, 2012 Unrealized gains (losses) ($000s CDN)	Realized gains (losses) ($000s CDN)
Jan 1 to Dec 31, 2012	Swap	250 bbls/d	$ 97.00	WTI - NYMEX	(176)	(138)
Jan 1 to Dec 31, 2012	Call	63 bbls/d	$ 80.00	WTI - NYMEX	570	-
Jan 1 to Dec 31, 2012	Put	250 bbls/d	$ 80.00	WTI - NYMEX	(638)	(131)
Jan 1 to Dec 31, 2012	Call	250 bbls/d	$ 89.95	WTI - NYMEX	(258)	298
Jan 1 to Dec 31, 2012	Swap	250 bbls/d	$ 80.00	WTI - NYMEX	207	(525)
Jan 1 to Dec 31, 2012	Put	250 bbls/d	$ 90.00	WTI - NYMEX	(804)	(110)
Jan 1 to Dec 31, 2012	Call	93 bbls/d	$ 90.00	WTI - NYMEX	624	-
Jan 1 to Dec 31, 2012	Put	500 bbls/d	$ 90.00	WTI - NYMEX	(1,486)	(187)
Jan 1 to Dec 31, 2012	Call	158 bbls/d	$ 90.00	WTI - NYMEX	1,098	-
Jan 1 to Dec 31, 2012	Call	500 bbls/d	$ 96.00	WTI - NYMEX	(242)	321
Jan 1 to Dec 31, 2012	Swap	500 bbls/d	$ 85.00	WTI - NYMEX	189	(822)
Jan 1 to Dec 31, 2013	Call	250 bbls/d	$ 98.00	WTI - NYMEX	1,260	-
Jan 1 to Dec 31, 2013	Swap	250 bbls/d	$ 85.00	WTI - NYMEX	(1,469)	-
Apr 1 to Dec 31, 2012	Swap	500bbls/d	$ 101.50	WTI - NYMEX	(427)	-
Apr 1 to Dec 31, 2012	Swap	500bbls/d	$ 90.00	WTI - NYMEX	(1,996)	-
Apr 1 to Dec 31, 2012	Call	500bbls/d	$ 96.00	WTI - NYMEX	1,523	-
Jan 1 to Dec 31, 2013	Swap	250bbls/d	$ 98.00	WTI - NYMEX	(576)	-
Jan 1 to Dec 31, 2013	Swap	250bbls/d	$ 95.00	WTI - NYMEX	(845)	-
Jan 1 to Mar 31, 2013	Swap	250bbls/d	$ 104.85	WTI - NYMEX	(17)	-
Jan 1 to Mar 31, 2013	Swap	500bbls/d	$ 95.00	WTI - NYMEX	230	-
Jan 1 to Mar 31, 2013	Call	315bbls/d	$ 95.00	WTI - NYMEX	(259)	-
Apr 1 to Jun 30, 2013	Swap	250bbls/d	$ 105.05	WTI - NYMEX	2	-
Apr 1 to Jun 30, 2013	Swap	500bbls/d	$ 95.00	WTI - NYMEX	(445)	-
Apr 1 to Jun 30, 2013	Call	300bbls/d	$ 95.00	WTI - NYMEX	422	-
Total					**$ (3,513)**	**$ (1,294)**

Term	Type (floating to fixed)	Volume	Differential (Surge receives) (C$)	Index (Surge pays) (C$)	Three months March 31, 2012 Unrealized gains (losses) ($000s CDN)	Realized gains (losses) ($000s CDN)
Jan 1 to Mar 31, 2012	Swap	500 bbls/d	$ 13.25	Western Canadian Select	(104)	$373
Jan 1 to Jun 30, 2012	Swap	250 bbls/d	$ 14.85	Western Canadian Select	303	151
Total					**$ 199**	**$ 524**

The following table outlines the realized and unrealized losses on interest rate contracts for quarter ended March 31, 2012:

					Three months ended March 31, 2012	
Term	Type (floating to fixed)	Amount (C$)	Company Fixed Interest Rate (%) (1)	Counter party Floating Rate Index	Unrealized gain (loss) ($000s CDN)	Realized gain (loss) ($000s CDN)
Jan 1, 2012 to Dec 31, 2014	Swap	$ 50,000,000	2.74%	CAD-BA-CDOR	493	-

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

SUBEQUENT EVENT

(a) Subsequent to the first quarter, Surge entered into the following financial oil pricing contracts:

	Term	Type	Volume	Price (C$) (Surge Receives)	Index (Surge pays) (C$)
1)	Jan 1, 2013 - Jun 30, 2013	Swap	500bbls/d	90.00	WTI - NYMEX
	Jan 1, 2013 - Jun 30, 2013	Call	380bbls/d	90.00	WTI - NYMEX
2)	Jul 1, 2012 - Dec 31, 2012	Swap	500bbls/d	95.00	WTI - NYMEX
	Jul 1, 2012 - Dec 31, 2012	Call	500bbls/d	99.80	WTI - NYMEX
3)	Jan 1, 2013 - Mar 31, 2013	Swap	500bbls/d	95.00	WTI - NYMEX
	Jan 1, 2013 - Mar 31, 2013	Call	500bbls/d	103.70	WTI - NYMEX
4)	Jan 1, 2013 - Jun 30, 2013	Swap	1,000bbls/d	90.00	WTI - NYMEX
	Jan 1, 2013 - Jun 30, 2013	Call	1,000bbls/d	96.00	WTI - NYMEX

(b) Subsequent to the first quarter, Surge entered into the following financial oil differential contracts:

	Term	Type	Volume	Differential (C$) (Surge Receives)	Index (Surge pays) (C$)
1)	Jun 1, 2012 - Sep 30, 2012	Swap	500bbls/d	20.25	Western Canadian Select
2)	Jun 1, 2012 - Jun 30, 2012	Swap	750bbls/d	17.50	Western Canadian Select

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 Corporation'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 Corporation is made known to the Corporation'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 Corporation 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 Commision (“COSO”) 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.

Disclosure Controls

Disclosure controls and procedures have been designed to ensure that information to be disclosed by the Corporation is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosures.

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 Corporation's financial statements for external purposes in accordance with IFRS.

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.

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

FUTURE ACCOUNTING POLICY CHANGES

In May 2011, the IASB issued four new standards and two amendments to existing standards. Five of these items relate to consolidation, while the remaining one addresses fair value measurement. All of the new standards are effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted.

IFRS 10 – Consolidated Financial Statements replaces IAS 27 – Consolidated Separate Financial Statements. It introduces a new principle-based definition of control, applicable to all investees to determine the scope of consolidation. The standard provides the framework for consolidated financial statements and their preparation based on the principle of control.

IFRS 11 – Joint Arrangements replaces IAS 31 – Interests in Joint Ventures. IFRS 11 divides joint arrangements into two types, each having its own accounting model. A "joint operation" continues to be accounted for using proportionate consolidation, where a "joint venture" must be accounted for using equity accounting. This differs from IAS 31, where

there was the choice to use proportionate consolidation or equity accounting for joint ventures. A "joint operation" is defined as the joint operators having rights to the assets, and obligations for the liabilities, relating to the arrangement. In a "joint venture", the joint ventures' have rights to the net assets of the arrangement, typically through their investment in a separate joint venture entity.

IFRS 12 – Disclosure of Interests in Other Entities is a new standard, which combines all of the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities.

IFRS 13 – Fair Value Measurement is a new standard meant to clarify the definition of fair value, provide guidance on measuring fair value and improve disclosure requirements related to fair value measurement.

IAS 28 – Investments in Associates and Joint Ventures has been amended as a result of the issuance of IFRS 11 and the withdrawal of IAS 31. The amended standard sets out the requirements for the application of the equity method when accounting for interest in joint ventures, in addition to interests in associates.

IAS 27 – Separate Financial Statements has been amended to focus solely on accounting and disclosure requirements when an entity presents separate financial statements, due to the issuance of the new IFRS 10 which is specific to consolidated financial statements.

In November 2009, the IASB published IFRS 9 – Financial Instruments, which covers the classification and measurement of financial assets as part of its project to replace IAS 39 – Financial Instruments: Recognition and Measurement. In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to a company's own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective for the Corporation on January 1, 2013. Early adoption is permitted and the standard is required to be applied retrospectively.

The Corporation is currently evaluating the impact of adopting all of the newly issued and amended standards

RISK FACTORS

Additional risk factors can be found under "Risk Factors" in the Corporation's 2010 Annual Information Form, which can be found on www.sedar.com. Many risks are discussed below and in the 2010 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.

On October 25, 2007, the Alberta Government announced the New Royalty Framework (NRF) which took 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 required to shift to the NRF on January 1, 2014. All wells drilled prior to November 19, 2008 will move to the NRF on January 1, 2009.

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 Corporation'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 Corporation'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 Corporation to meet its capital requirements. If any components of the Corporation's business plan are missing, the Corporation 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 Corporation 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.