FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended June 30,			Six Months Ended June 30		
	2012	2011	% change	**2012**	2011	% change
Financials highlights						
Oil and NGL sales	**45,610**	**25,172**	81%	**92,977**	**46,822**	99%
Natural gas sales	**3,308**	**4,637**	(29%)	**6,986**	**8,794**	(21%)
Other revenue	**9**	**(14)**	(164%)	**24**	**52**	(54%)
Total oil, natural gas, and NGL revenue	**48,927**	29,796	64%	**99,987**	55,668	80%
Funds from Operations[1]	**24,315**	**11,898**	104%	**48,322**	**21,670**	123%
Per share basic ($)	**0.34**	0.21	62%	**0.68**	0.39	74%
Per share diluted ($)	**0.34**	0.21	62%	**0.67**	0.38	76%
Net income (loss)	**13,273**	3,317	300%	**15,930**	2,815	466%
Per share basic ($)	**0.19**	0.06	217%	**0.23**	0.05	360%
Per share diluted ($)	**0.18**	0.06	200%	**0.22**	0.05	340%
Capital expenditures - petroleum & gas properties[2]	**27,707**	11,420	143%	**82,605**	47,317	75%
Capital expenditures - acquisitions & dispositions[2]	**9,347**	10,016	nm	**113,745**	19,119	495%
Total capital expenditures[2]	**37,054**	21,436	73%	**196,350**	66,436	196%
Net debt at end of period[3]	**171,692**	90,954	89%	**171,692**	90,954	89%
Operating highlights						
Production:						
Oil and NGL (bbls per day)	**6,568**	2,995	119%	**6,339**	3,042	108%
Natural gas (mcf per day)	**16,246**	12,334	32%	**16,822**	12,126	39%
Total (boe per day) (6:1)	**9,275**	5,051	84%	**9,142**	5,063	81%
Average realized price (excluding hedges):						
Oil and NGL ($per bbl)	**76.31**	92.36	(17%)	**80.59**	85.04	(5%)
Natural gas ($ per mcf)	**2.24**	4.13	(46%)	**2.28**	4.01	(43%)
Realized loss on financial contracts ($ per boe)	**(0.29)**	(2.58)	(89%)	**(0.61)**	(2.10)	(71%)
Netback (excluding hedges) ($ per boe)						
Oil, natural gas and NGL sales	**57.97**	64.83	(11%)	**60.09**	60.75	(1%)
Royalties	**(9.69)**	(9.24)	5%	**(10.94)**	(8.63)	27%
Operating expenses	**(10.63)**	(16.39)	(35%)	**(11.14)**	(16.56)	(33%)
Transportation expenses	**(2.59)**	(3.25)	(20%)	**(2.19)**	(2.90)	(24%)
Operating netback	**35.06**	35.95	(2%)	**35.82**	32.66	10%
G&A expenses	**(3.50)**	(5.44)	(36%)	**(3.56)**	(5.10)	(30%)
Interest expense	**(1.87)**	(1.75)	7%	**(1.81)**	(1.36)	33%
Corporate netback	**29.69**	28.76	3%	**30.45**	26.20	16%
Common shares (000s)						
Common shares outstanding, end of period	**71,065**	**56,102**	27%	**71,065**	**56,102**	27%
Weighted average basic shares outstanding	**71,058**	**56,098**	27%	**70,766**	**56,096**	26%
Stock option dilution (treasury method)	**1,080**	**1,188**	(9%)	**1,403**	**1,041**	35%
Weighted average diluted shares outstanding	**72,138**	**57,286**	26%	**72,169**	**57,137**	26%

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 has achieved excellent growth year to date in 2012, achieving record production and funds flow in the second quarter. The Corporation is well positioned with a strong balance sheet and risk management program, three core areas with an expanded oil drilling inventory of 570 gross (435 net) locations, internally estimated gross DPIIP[1] of 550 million barrels of oil and multiple waterflood opportunities and exploration initiatives.

The Corporation has achieved operational efficiencies in each of its core areas, resulting in significant reductions in operating costs since inception. Surge continues to strive to become one of the lowest cost oil producers among its oil weighted peer group.

During the second quarter of 2012, Surge achieved a 100 percent success rate drilling six gross (5.37 net) wells. As a result of the Corporation's successful drilling results, combined with the Pradera acquisition, Surge more than doubled funds from operations and increased production by 84 percent over the second quarter of 2011. Highlights for the quarter include:

ACHIEVEMENTS AND HIGHLIGHTS

- **Achieved record quarterly funds from operations of $24.3 million which increased 104 percent** from $11.9 million during the same period of 2011.
- **Funds from operations per share increased 62 percent** to $0.34 during the second quarter of 2012 from $0.21 during the same period of 2011.
- **Achieved record quarterly production of 9,275 boe per day which increased 84 percent** from an average of 5,051 boe per day during the second quarter of 2011. This production increase was offset by approximately 150 boe per day in newly shut in natural gas production during the second quarter of 2012.
- **Increased production per basic share by 45 percent** during the second quarter of 2012 as compared to the second quarter of 2011.
- **Reduced operating costs by 35 percent and transportation costs per boe by 20 percent** in the second quarter of 2012 as compared to the second quarter of 2011 with combined operating and transportation costs decreasing by 33 percent from $19.64 per boe in the second quarter of 2011 to $13.22 per boe in the second quarter of 2012.
- **Increased Surge's operating netback by 10 percent** to $35.82 per boe for the first half of 2012 as compared to $32.66 in the first half of 2011, despite a five percent drop in realized oil & NGL prices and a 43 percent drop in realized natural gas prices.
- **Achieved a 100 percent success rate** drilling 6 gross (5.37 net) wells in the second quarter of 2012. Only one of the six wells drilled in the second quarter was on production at quarter end, with the remainder to be completed and brought on production during the third quarter of 2012.
- The continued success of Surge's 2012 drilling program drove the increase in **oil and natural gas liquids production weighting to 71 percent in the second 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.

[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

	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011
Average production (boe per day)	**9,275**	9,009	7,514	6,166	5,051
Revenue	**$ 57.97**	$ 62.28	$ 61.93	$ 58.19	$ 64.83
Royalties	**(9.69)**	(12.22)	(7.05)	(8.38)	(9.24)
Operating costs	**(10.63)**	(11.66)	(14.92)	(14.79)	(16.39)
Transportation costs	**(2.59)**	(1.78)	(1.41)	(2.16)	(3.25)
Operating netback	**$ 35.06**	$ 36.62	$ 38.55	$ 32.86	$ 35.95

OUTLOOK

In just 30 months, management has positioned Surge with a strong balance sheet and risk management program, assembled more than 570 gross (435 net) oil drilling locations, made significant progress in reducing its cost structure and increasing netbacks and gained exposure to an internally estimated DPIIP of more than 550 gross million barrels of oil, with multiple waterflood opportunities and exploration initiatives.

With the achievement of record production and funds flow in the second quarter, Surge forecasts continued growth organically by drilling in each of its core areas, the implementation of waterflood and continuing 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.

Even with the unscheduled well servicing and facility upgrades at Nipisi, Silver Lake and Valhalla South, which will impact production by approximately 350 boe per day during the third quarter, Surge is positioned to meet its 2012 average production rate of 9,750 boe per day (72 percent oil and NGLs), and its 2012 exit production rate of 11,000 boe per day (77 percent oil and NGLs).

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 71.1 million basic and 78.0 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 and six months ended June 30, 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 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 Operations

($000s)	**Q2 2012**	Q1 2012	Q4 2011	Q3 2011	Q2 2011
Cash flow from operating activities	**$ 23,391**	$ 21,871	$ 19,073	$ 17,272	$ 11,338
Change in non-cash working capital	**924**	2,134	3,015	(3,270)	560
Funds from operations	**$ 24,315**	$ 24,005	$ 22,088	$ 14,002	$ 11,898

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 August 7, 2012.

OPERATIONS

Drilling

	Drilling		Success rate	Working
	Gross	Net	(%) gross	interest (%)
Q1 2012	18.00	13.89	100%	77%
Q2 2012	6.00	5.37	100%	90%
Total	**24.00**	**19.26**	**100%**	**80%**

Surge achieved a 100 percent success rate during the quarter ended June 30, 2012, drilling 6 gross (5.37 net) wells. The six gross wells drilled during the quarter include a well at Valhalla South, four wells at Sounding Lake, and a well in the newly acquired Nipisi area. Only one of the six wells drilled in the second quarter was on production at quarter end, with the remainder to be completed and brought on production during the third quarter of 2012.

Production

	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011
Oil and NGL (bbls per day)	**6,568**	6,110	4,534	3,781	2,995
Natural gas (mcf per day)	**16,246**	17,398	17,885	14,313	12,334
Total (boe per day) (6:1)	**9,275**	9,009	7,514	6,166	5,051
% Oil and NGL	**71%**	68%	60%	61%	59%

Surge achieved an average production rate of 9,275 boe per day in the second quarter of 2012, an 84 percent increase from the second quarter of 2011 average production rate of 5,051 boe per day. The increase in the production volumes as compared to the second quarter of 2011 was primarily due to the results of the 2011 and 2012 drilling programs, as well as the Pradera Acquisition. Production increases due to drilling were offset by approximately 150 boe per day in newly shut in natural gas production during the second quarter of 2012.

Surge realized a 71 percent oil and natural gas liquids production weighting in the second quarter of 2012. Surge realized average oil and natural gas liquids production of 6,568 bbls per day for the second quarter of 2012.

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

In the second 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.

An 11 percent decrease in revenue per boe, combined with an 84 percent increase in production, resulted in revenues of $48.9 million in the second quarter of 2012, up 64 percent from $29.8 million in the same period of 2011.

Surge had certain financial contracts in place as of June 30, 2012. Surge recognized an unrealized gain of $12.9 million and a realized loss of $0.2 million on its financial contracts in the second quarter of 2012. This compares to an unrealized gain of $2.8 million and a realized loss of $1.2 million on its financial contracts in the second quarter of 2011.

The realized losses on financial contracts resulted in a decrease of $0.29 per boe to average revenue per boe during the second quarter of 2012.

During the first half 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 one percent decrease in revenue per boe, combined with an 81 percent increase in production, resulted in revenues of $100.0 million in the first half of 2012, up 80 percent from $55.7 million in the same period of 2011.

Surge had certain financial contracts in place as of June 30, 2012. Surge recognized an unrealized gain of $10.1 million and a realized loss of $1.0 million on its financial contracts in the first half of 2012. This compares to an unrealized gain of $0.2 million and a realized loss of $1.9 million on its financial contracts in the first half of 2011.

The realized losses on financial contracts resulted in a decrease of $0.61 per boe to average revenue per boe during the first half of 2012.

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

Prices

The Corporation realized average revenue of $57.97 per boe in the second quarter of 2012, before realized financial contract losses, a decrease of 11 percent from the $64.83 per boe recorded in the same period of 2011.

The Corporation realized an average of $76.31 per bbl of oil and natural gas liquids in the second quarter of 2012, a decrease of 17 percent from the $92.36 per bbl realized in the same period of 2011. This compares to an average Edmonton Light Sweet price of $83.94 per bbl during the second quarter of 2012, which decreased 19 percent per barrel from the $103.07 per bbl during the same period of 2011. The decrease in Surge's realized oil and natural gas liquids price is consistent with the decrease in benchmark prices.

The Corporation realized an average natural gas price of $2.24 per mcf in the second quarter of 2012, a 46 percent decrease from the $4.13 per mcf averaged in the same period of 2011. This compares to an average Alberta Plant Gate reference price of $1.95 per mcf in the second quarter of 2012, which decreased by 49 percent from the $3.80 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 $0.29 per boe to the average revenue per boe in the second quarter of 2012.

The Corporation realized average revenue of $60.09 per boe in the first half of 2012, before realized financial contract losses, a decrease of one percent from the $60.75 per boe recorded in the same period of 2011.

The Corporation realized an average of $80.59 per bbl of oil and natural gas liquids in the first half of 2012, a decrease of 5 percent from the $85.04 per bbl realized in the same period of 2011. This compares to an average Edmonton Light Sweet price of $88.09 per bbl during the first half of 2012, which decreased 7 percent per barrel from the $95.11 per bbl during the same period of 2011. The decrease in Surge's realized oil and natural gas liquids price is consistent with the decrease in benchmark prices.

The Corporation realized an average natural gas price of $2.28 per mcf in the first half of 2012, a 43 percent decrease from the $4.01 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 half of 2012, which decreased by 44 percent from the $3.62 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 $0.61 per boe to the average revenue per boe in the first half of 2012.

Revenue and Realized Prices

($000s except per amount)	Three Months Ended June 30, 2012	2011	% Change	Six Months Ended June 30, 2012	2011	% Change
Oil and NGL	**45,610**	25,172	81%	**92,977**	46,822	99%
Natural gas	**3,308**	4,637	(29%)	**6,986**	8,794	(21%)
Processing and other	**9**	(14)	(164%)	**24**	52	(54%)
Total oil, natural gas and NGL revenue	**48,927**	29,796	64%	**99,987**	55,668	80%
Oil and NGL ($ per bbl)	**76.31**	92.36	(17%)	**80.59**	85.04	(5%)
Natural gas ($ per mcf)	**2.24**	4.13	(46%)	**2.28**	4.01	(43%)
Total oil, natural gas and NGL revenue ($ per boe)	**57.97**	64.83	(11%)	**60.09**	60.75	(1%)
Realized gain (loss) on commodity contracts ($ per boe)	**(0.29)**	(2.58)	(89%)	**(0.61)**	(2.10)	(71%)
Total oil, natural gas, and NGL revenue after realized commodity contracts ($ per boe)	**57.68**	62.25	(7%)	**59.48**	58.65	1%
Reference Prices						
Edmonton Light Sweet ($ per bbl)	**83.94**	103.07	(19%)	**88.09**	95.11	(7%)
Alberta Plant Gate ($ per mcf)	**1.95**	3.80	(49%)	**2.03**	3.62	(44%)

Benchmark prices

	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011
($ per bbl)					
Benchmark - WTI (US$)	**93.49**	**102.93**	94.06	89.76	102.56
Difference - WTI realized to Edmonton Light Sweet (C$)	**(9.55)**	**(10.84)**	3.29	1.98	0.51
% Difference	**(10%)**	**(11%)**	3%	2%	0%
Benchmark - Edmonton Light Sweet (C$)	**83.94**	**92.09**	97.35	91.74	103.07
Difference - Surge realized to Edmonton Light Sweet (C$)	**(7.63)**	**(6.90)**	(8.75)	(11.45)	(10.71)
% Difference	**(9%)**	**(7%)**	(9%)	(12%)	(10%)
Surge realized prices (C$)	**76.31**	**85.19**	88.60	80.29	92.36
(C$ per mcf)					
Benchmark - Alberta Plant Gate	**1.95**	**2.03**	3.18	3.53	3.80
Surge realized prices	**2.24**	**2.32**	3.49	3.81	4.13
Difference	**0.29**	**0.29**	0.31	0.28	0.33
% Difference	**15%**	**14%**	10%	8%	9%

ROYALTIES

Surge realized royalty expenses of $8.2 million or 17 percent of revenue in the second quarter of 2012, compared to $4.2 million or 14 percent of revenue in the same period of 2011. During the first half of 2012, Surge realized royalty expenses of $18.2 million or 18 percent of revenue, as compared to $7.9 million or 14 percent of revenue in the same period of 2011. This increase in royalties as a percentage of revenue during the three and six months ended June 30, 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 well as mineral extraction taxes in North Dakota.

As royalties under the Alberta Royalty Framework (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 June 30,			Six Months Ended June 30,		
($000s except per boe)	**2012**	2011	% Change	**2012**	2011	% Change
Royalties	**8,182**	4,245	93%	**18,199**	7,910	130%
% of Revenue	**17%**	14%	21%	**18%**	14%	29%
$ per boe	**9.69**	9.24	5%	**10.94**	8.63	27%

OPERATING EXPENSES

Operating expenses per boe in the second quarter of 2012 were 35 percent lower than the same period in 2011, at $10.63 per boe as compared to $16.39 per boe in the same period of 2011. Operating expenses per boe in the first half of 2012 were 33 percent lower than the same period in 2011, at $11.14 per boe as compared to $16.56 per boe in the same period of 2011.

Operating expenses per boe during the three and six months ended June 30, 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 June 30,			Six Months Ended June 30,		
($000s except per boe)	**2012**	2011	% Change	**2012**	2011	% Change
Operating expenses	**8,976**	7,531	19%	**18,532**	15,173	22%
$ per boe	**10.63**	16.39	(35%)	**11.14**	16.56	(33%)

TRANSPORTATION EXPENSES

Transportation expenses per boe decreased by 20 percent in the second quarter of 2012, to $2.59 per boe, as compared to $3.25 per boe in the second quarter of 2011. This decrease is primarily due to additional production volumes in the pipeline connected areas of Valhalla and Silver, partially offset by wet conditions which increased transportation expense during the spring.

Transportation expenses per boe decreased by 24 percent in the first half of 2012, to $2.19 per boe, as compared to $2.90 per boe in the first half 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. 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 June 30,			Six Months Ended June 30,		
($000s except per boe)	**2012**	2011	% Change	**2012**	2011	% Change
Transportation expenses	**2,188**	1,496	46%	**3,646**	2,658	37%
$ per boe	**2.59**	3.25	(20%)	**2.19**	2.90	(24%)

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

Net G&A expenses per boe for the second quarter of 2012 decreased 36 percent to $3.50 per boe as compared to $5.44 per boe in the same period of 2011. G&A expenses for the second quarter of 2012, net of recoveries and capitalized amounts of $2.3 million, were $3.0 million, compared to $2.5 million in the same period of 2011, after recoveries and capitalized amounts of $1.7 million. Net G&A expenses per boe for first half of 2012 decreased 30 percent to $3.56 per boe as compared to $5.10 per boe in the same period of 2011. G&A expenses for the first half of 2012, net of recoveries and capitalized amounts of $4.4 million, were $5.9 million, compared to $4.7 million in the same period of 2011, after recoveries and capitalized amounts of $3.2 million.

The decrease in G&A per boe is primarily due to the increased production levels in the first half 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 June 30,			Six Months Ended June 30,		
($000s except per boe)	**2012**	2011	% Change	**2012**	2011	% Change
G&A expenses	**5,246**	4,207	25%	**10,360**	7,859	32%
Recoveries and capitalized amounts	**(2,294)**	(1,736)	32%	**(4,436)**	(3,214)	38%
Net G&A expenses	**2,952**	2,471	19%	**5,924**	4,646	28%
Net G&A expenses $ per boe	**3.50**	5.44	(36%)	**3.56**	5.10	(30%)

TRANSACTION COSTS

Transaction costs of $0.2 million or $0.30 per boe during the second quarter of 2012 were related to evaluation and review of business and property acquisitions. This is compared to $0.0 million or $0.02 per boe during the same period of 2011.

Transaction costs of $0.6 million or $0.37 per boe during the first half of 2012 were related to evaluation and review of business and property acquisitions. This is compared to $0.1 million or $0.10 per boe during the same period of 2011.

Transaction Costs

	Three Months Ended June 30,			Six Months Ended June 30,		
($000s except per boe)	**2012**	2011	% Change	**2012**	2011	% Change
Transaction costs	**249**	8	3,013%	**612**	95	544%
$ per boe	**0.30**	0.02	1,400%	**0.37**	0.10	270%

FINANCE EXPENSES

Surge incurred interest expense of $1.6 million or $1.87 per boe in the second quarter of 2012 as compared to $0.8 million or $1.75 per boe in the same period of 2011. Surge incurred interest expense of $3.0 million or $1.81 per boe in the first half of 2012 as compared to $1.2 million or $1.36 per boe in the same period of 2011. The increased interest expense per boe during the three and six months ended June 30, 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 and six months ended June 31, 2012 compared to the same periods of 2011 due to property dispositions during the last six 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 June 30,			Six Months Ended June 30,		
($000s except per boe)	**2012**	2011	% Change	**2012**	2011	% Change
Interest expense	**1,576**	801	97%	**3,009**	1,249	141%
$ per boe	**1.87**	1.75	7%	**1.81**	1.36	33%
Accretion expense	**258**	263	(2%)	**514**	524	(2%)
$ per boe	**0.30**	0.57	(47%)	**0.31**	0.58	(47%)
Finance expenses	**1,835**	1,064	72%	**3,523**	1,773	99%
$ per boe	**2.17**	2.32	(6%)	**2.12**	1.94	9%

NETBACKS

During the second 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 $35.06, a two percent decrease from the $35.95 recorded during the same period of 2011. The decrease in operating netback was attributable to a 35 percent decrease in the operating costs per boe, a 20 percent decrease in the transportation costs per boe and offset by a five percent increase in royalties per boe and an 11 percent decrease in revenue per boe. The increase in corporate netback was impacted by a 36 percent decrease in G&A expense per boe in 2012 and offset by a seven percent increase in interest expense per boe, as compared to the same period of 2011.

During the first half 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 $35.82, a 10 percent increase from the $32.66 recorded during the same period of 2011. The increase in operating netback was attributable to, a 33 percent decrease in the operating costs per boe, a 24 percent decrease in the transportation costs per boe, partially offset by a 27 percent increase in royalties per boe and a one percent decrease in revenue per boe as compared to the same period of 2011. The increase in corporate netback was impacted by a 30 percent decrease in G&A expense per boe in 2012 and offset by a 33 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 June 30,			Six Months Ended June 30,		
($ per boe, except production)	**2012**	2011	% Change	**2012**	2011	% Change
Average production (boe per day)	**9,275**	5,051	84%	**9,142**	5,063	81%
Revenue	**57.97**	64.83	(11%)	**60.09**	60.75	(1%)
Royalties	**(9.69)**	(9.24)	5%	**(10.94)**	(8.63)	27%
Operating costs	**(10.63)**	(16.39)	(35%)	**(11.14)**	(16.56)	(33%)
Transportation costs	**(2.59)**	(3.25)	(20%)	**(2.19)**	(2.90)	(24%)
Operating netback	**35.06**	35.95	(2%)	**35.82**	32.66	10%
G&A expense	**(3.50)**	(5.44)	(36%)	**(3.56)**	(5.10)	(30%)
Interest expense	**(1.87)**	(1.75)	7%	**(1.81)**	(1.36)	33%
Corporate netback	**29.69**	28.76	3%	**30.45**	26.20	16%

FUNDS FROM OPERATIONS AND CASH FLOW FROM OPERATIONS

During the three months ended June 30, 2012, funds from operations increased 104 percent to $24.3 million compared to $11.9 million in the same period of 2011. On a per share basis, funds from operations increased 62 percent, to $0.34 per basic share in the second quarter of 2012 from $0.21 per basic share in the second quarter of 2011.

During the six months ended June 30, 2012, funds from operations increased 123 percent to $48.3 million compared to $21.7 million in the same period of 2011. On a per share basis, funds from operations increased 74 percent, to $0.68 per basic share in the first half of 2012 from $0.39 per basic share in the first half 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 June 30, 2012, was $23.4 million as compared to $11.3 million in the same period of 2011. Cash flow from operations for the six months ended June 30, 2012, was $45.3 million as compared to $20.3 million in the same period of 2011.

Included in cash flow from operations is a decrease in non-cash working capital of $0.9 million in the second quarter of 2012 and a decrease of $3.1 million for the six months ended June 30, 2012.

Funds from Operations

($000s except per share and per boe)	Three Months Ended June 30, 2012	2011	% Change	Six Months Ended June 30, 2012	2011	% Change
Funds from operations	**24,315**	11,898	104%	**48,322**	21,670	123%
Per share - basic ($)	**0.34**	0.21	62%	**0.68**	0.39	74%
Per share - diluted ($)	**0.34**	0.21	62%	**0.67**	0.38	76%
$ per boe	**28.81**	25.89	11%	**29.04**	23.65	23%
Cash flow from operations	**23,391**	11,338	106%	**45,262**	20,345	122%

STOCK-BASED COMPENSATION

Surge recorded net stock-based compensation expense of $0.7 million during the three months ended June 30, 2012, compared to $0.7 million for the same period of 2011, calculated using the Black-Scholes option-pricing model.

Surge recorded net stock-based compensation expense of $1.6 million during the six months ended June 30, 2012, compared to $1.4 million for the same period of 2011, calculated using the Black-Scholes option-pricing model.

During the second quarter of 2012, 95,000 options were issued at a weighted average exercise price of $8.05 per option, 10,166 options were exercised at a weighted average exercise price of $5.80 and 231,168 options were forfeited at a weighted average price of $7.66 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

($000s except per boe)	Three Months Ended June 30, 2012	2011	% Change	Six Months Ended June 30, 2012	2011	% Change
Stock-based compensation	**1,658**	1,669	(1%)	**4,078**	3,365	21%
Capitalized stock-based compensation	**(975)**	(959)	2%	**(2,429)**	(1,932)	26%
Net stock-based compensation	**683**	710	(4%)	**1,649**	1,433	15%
Net stock-based compensation $ per boe	**0.81**	1.54	(47%)	**0.99**	1.56	(37%)

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 $30.7 million. Future development costs for proved and probable reserves of $138.8 million have been included in the depletion calculation.

Surge recorded $18.4 million or $21.82 per boe in depletion and depreciation expense during the three months ended June 30, 2012, as compared to $18.07 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, as well as 2012 capital spending.

The depletion and depreciation calculation is based on daily production volumes of 9,275 boe for the quarter.

Surge recorded $35.3 million or $21.22 per boe in depletion and depreciation expense during the six months ended June 30, 2012, as compared to $18.12 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, as well as 2012 capital spending.

Depletion and Depreciation Expense

($000s except per boe)	Three Months Ended June 30, 2012	2011	% Change	Six Months Ended June 30, 2012	2011	% Change
Depletion and depreciation expense	**18,413**	8,305	122%	**35,303**	16,608	113%
$ per boe	**21.82**	18.07	21%	**21.22**	18.12	17%

NET INCOME

The Corporation recorded net income for the three months ended June 30, 2012 of $13.3 million or $0.19 per basic share, compared to a net income of $3.3 million or $0.06 per basic share for the same period of 2011. The cause for the change in net income is primarily due to a 64 percent increase in oil and natural gas revenue in the second quarter of 2012, versus the same period in 2011.

The Corporation recorded net income for the six months ended June 30, 2012 of $15.9 million or $0.23 per basic share, compared to a net income of $2.8 million or $0.05 per basic share for the same period of 2011. The cause for the change in net income is primarily due to an 80 percent increase in oil and natural gas revenue in the first half of 2012, versus the same period in 2011.

Net Income (Loss)

	Three Months Ended June 30,			Six Months Ended June 30,		
($000s except per share)	**2012**	2011	% Change	**2012**	2011	% Change
Total	**13,273**	3,317	300%	**15,930**	2,815	466%
Per share - basic ($)	**0.19**	0.06	217%	**0.23**	0.05	360%
Per share - diluted ($)	**0.18**	0.06	200%	**0.22**	0.05	340%

CAPITAL EXPENDITURES

During the second quarter of 2012, Surge invested a total of $27.7 million, net of acquisitions. Surge invested $13.5 million to drill 6 gross (5.37 net) wells.

In addition, Surge invested $6.0 million in facilities, pipeline, and equipment, $5.8 million in seismic and land acquisitions, and $2.5 million on other capital items.

Capital Expenditure Summary

($000s)	Q1 2012	Q2 2012	2012 YTD	2011 YTD	Change
Land	4,303	4,732	**9,032**	5,625	61%
Seismic	991	1,049	**2,040**	559	265%
Drilling and completions	38,534	13,461	**51,998**	25,838	101%
Facilities, equipment and pipelines	9,102	5,995	**15,097**	11,880	27%
Other	1,968	2,468	**4,436**	3,415	30%
Total exploration and development	54,898	27,707	**82,605**	47,317	75%
Acquisitions - cash consideration	18,500	9,347	**27,847**	25,644	9%
Acquisitions - debt acquired	14,623	-	**14,623**	-	nm
Acquisitions - share based consideration	71,275	-	**71,275**	-	nm
Property dispositions	-	-	**-**	(6,525)	nm
Total acquisitions & dispositions	104,398	9,347	**113,745**	19,119	495%
Total cash-based capital expenditures	159,296	37,054	**196,350**	66,436	196%

Quarterly Financial Information

	Q2 2012	Q1 2012	Q4 2011	Q3 2011
Oil, Natural gas & NGL sales	**48,927**	51,060	42,812	33,012
Net earnings (loss)	**13,273**	2,657	(5,531)	4,811
Net earnings (loss) per share ($):				
Basic	**0.19**	0.04	(0.09)	0.09
Diluted	**0.18**	0.04	(0.09)	0.08
Funds from operations	**24,315**	24,005	22,088	14,002
Funds from operations per share ($):				
Basic	**0.34**	0.34	0.36	0.25
Diluted	**0.34**	0.33	0.35	0.24
Average daily sales				
Oil & NGL (bbls/d)	**6,568**	6,110	4,534	3,781
Natural gas (mcf/d)	**16,246**	17,398	17,885	14,313
Barrels of oil equivalent (boe per day) (6:1)	**9,275**	9,009	7,514	6,166
Average sales price				
Natural gas ($/mcf)	**2.24**	2.32	3.49	3.81
Oil & NGL ($/bbl)	**76.31**	85.19	88.60	80.29
Barrels of oil equivalent ($/boe)	**57.97**	62.28	61.93	58.19

Quarterly Financial Information

	Q2 2011	Q1 2011	Q4 2010	Q3 2010
Oil, Natural gas & NGL sales	29,796	25,872	18,544	14,264
Net earnings (loss)	3,317	(502)	3,696	664
Net earnings (loss) per share ($):				
Basic	0.06	(0.01)	(0.08)	0.02
Diluted	0.06	(0.01)	(0.08)	0.02
Funds from operations	11,898	9,772	7,274	6,114
Funds from operations per share ($):				
Basic	0.21	0.17	0.14	0.13
Diluted	0.21	0.17	0.14	0.13
Average daily sales				
Oil & NGL (bbls/d)	2,995	3,090	2,308	1,841
Natural gas (mcf/d)	12,334	11,915	10,182	7,783
Barrels of oil equivalent (boe per day) (6:1)	5,051	5,076	4,005	3,138
Average sales price				
Natural gas ($/mcf)	4.13	3.88	3.55	3.71
Oil & NGL ($/bbl)	92.36	77.86	70.70	69.33
Barrels of oil equivalent ($/boe)	64.83	56.64	50.33	49.41

FACTORS THAT HAVE CAUSED VARIATIONS OVER THE QUARTERS

The fluctuations in Surge's revenue and net earnings from quarter to quarter are primarily caused by increases in production volumes, changes in realized commodity prices and the related impact on royalties, and realized and unrealized gains or losses on derivative instruments. The increases in production from the 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

	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010
Weighted Common Shares	**71,057,943**	70,474,105	62,124,542	56,118,838	56,098,181	56,094,747	53,065,155	30,874,642
Stock option dilution (treasury method)[1]	**1,080,348**	1,711,244	1,189,529	1,348,828	1,187,618	-	-	-
Weighted average dilution shares oustanding[1]	**72,138,291**	72,185,349	63,314,071	57,467,666	57,285,799	56,094,747	53,065,155	30,874,642

[1] In computing the net income per diluted share in the current period, 1,080,348 shares were added to the weighted average number of shares outstanding.

On August 7, 2012 Surge had 71,115,180 common shares, 2,047,272 performance warrants and 4,792,832 options outstanding.

LIQUIDITY AND CAPITAL RESOURCES

On June 30, 2012, Surge had net debt of $171.7 million. Surge has approximately $78.3 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	$	(152,643)
Accounts receivable		25,674
Prepaid expenses and deposits		4,876
Accounts payable and accrued liabilities		(49,599)
Total	**$**	**(171,692)**

As at June 30, 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 1.50 percent as at June 30, 2012 (June 30, 2011 – prime plus 1.25 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 and six months ended June 30, 2012.

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 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 differential contracts for the three and six months ended June 30, 2012:

					Three months ended June 30, 2012		Six months ended June 30, 2012	
Term	**Type (floating to fixed)**	**Volume**	**Differential (Surge receives) (C$)**	**Index (Surge pays) (C$)**	**Unrealized gains (losses) ($000s CDN)**	**Realized gains (losses) ($000s CDN)**	**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	-	12	(104)	385
Jan 1 to Jun 30, 2012	Swap	250 bbls/d	$ 14.85	Western Canadian Select	(339)	251	(36)	401
Jun 1 to Jun 30, 2012	Swap	750 bbls/d	$ 17.50	Western Canadian Select	-	(23)	-	(23)
Jul 1 to Sep 30, 2012	Swap	500 bbls/d	$ 20.25	Western Canadian Select	312	-	312	-
Total					**$ (27)**	**$ 240**	**$ 172**	**$ 763**

The following table outlines the realized and unrealized losses on interest rate contracts for three and six months ended June 30, 2012:

					Three months ended June 30, 2012		Six months ended June 30, 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)**	**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	(229)	(83)	263	(83)

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

The following table outlines the realized and unrealized gains (losses) on oil commodity contracts for the three and six months ended June 30, 2012:

					Three months ended June 30, 2012		Six months ended June 30, 2012	
Term	Type (floating to fixed)	Volume	Swap Price (Surge receives) (C$)	Index (Surge pays) (C$)	Unrealized gains (losses) ($000s CDN)	Realized gains (losses) ($000s CDN)	Unrealized gains (losses) ($000s CDN)	Realized gains (losses) ($000s CDN)
Jan 1 to Dec 31, 2012	Swap	250 bbls/d	$ 97.00	WTI - NYMEX	937	61	762	(76)
Jan 1 to Dec 31, 2012	Put	250 bbls/d	$ 80.00	WTI - NYMEX	25	-	595	-
Jan 1 to Dec 31, 2012	Call	62.5 bbls/d	$ 80.00	WTI - NYMEX	323	(81)	(316)	(212)
Jan 1 to Dec 31, 2012	Swap	250 bbls/d	$ 80.00	WTI - NYMEX	1,320	(325)	2,032	(850)
Jan 1 to Dec 31, 2012	Call	250 bbls/d	$ 89.95	WTI - NYMEX	(979)	138	(1,740)	436
Jan 1 to Dec 31, 2012	Put	250 bbls/d	$ 90.00	WTI - NYMEX	118	40	743	40
Jan 1 to Dec 31, 2012	Call	92.5 bbls/d	$ 90.00	WTI - NYMEX	361	(51)	(443)	(161)
Jan 1 to Dec 31, 2012	Put	500 bbls/d	$ 90.00	WTI - NYMEX	615	(87)	(871)	(274)
Jan 1 to Dec 31, 2012	Call	157.5 bbls/d	$ 90.00	WTI - NYMEX	236	-	1,334	-
Jan 1 to Dec 31, 2012	Swap	500 bbls/d	$ 85.00	WTI - NYMEX	2,424	(423)	2,613	(1,245)
Jan 1 to Dec 31, 2012	Call	500 bbls/d	$ 96.00	WTI - NYMEX	(2,697)	99	(1,679)	99
Apr 1 to Dec 31, 2012	Swap	500bbls/d	$ 90.00	WTI - NYMEX	2,268	328	272	328
Apr 1 to Dec 31, 2012	Call	500bbls/d	$ 96.00	WTI - NYMEX	(1,523)	99	-	420
Apr 1 to Dec 31, 2012	Swap	500bbls/d	$ 101.50	WTI - NYMEX	1,672	(196)	1,245	(196)
Jul 1 to Dec 31, 2012	Swap	500bbls/d	$ 95.00	WTI - NYMEX	650	-	650	-
Jul 1 to Dec 31, 2012	Call	500bbls/d	$ 99.80	WTI - NYMEX	98	-	98	-
Jan 1 to Mar 31, 2013	Swap	250bbls/d	$ 104.85	WTI - NYMEX	348	-	331	-
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	1,233	-	388	-
Jan 1 to Mar 31, 2013	Swap	500bbls/d	$ 95.00	WTI - NYMEX	191	-	420	-
Jan 1 to Mar 31, 2013	Call	185bbls/d	$ 95.00	WTI - NYMEX	185	-	(74)	-
Apr 1 to Jun 30, 2013	Swap	250bbls/d	$ 105.05	WTI - NYMEX	318	-	320	-
Apr 1 to Jun 30, 2013	Swap	500bbls/d	$ 95.00	WTI - NYMEX	633	-	188	-
Apr 1 to Jun 30, 2013	Call	300bbls/d	$ 95.00	WTI - NYMEX	(243)	-	179	-
Jan 1 to Dec 31, 2013	Swap	250 bbls/d	$ 85.00	WTI - NYMEX	1,893	-	423	-
Jan 1 to Dec 31, 2013	Call	250bbls/d	$ 95.00	WTI - NYMEX	614	-	614	-
Jan 1 to Mar 31, 2013	Swap	500bbls/d	$ 95.00	WTI - NYMEX	222	-	222	-
Jan 1 to Mar 31, 2013	Call	500bbls/d	$ 103.70	WTI - NYMEX	31	-	31	-
Jan 1 to Jun 30, 2013	Swap	500bbls/d	$ 95.00	WTI - NYMEX	(38)	-	(38)	-
Jan 1 to Jun 30, 2013	Call	380bbls/d	$ 95.00	WTI - NYMEX	573	-	573	-
Jan 1 to Jun 30, 2013	Swap	1,000 bbls/d	$ 90.00	WTI - NYMEX	(79)	-	(79)	-
Jan 1 to Jun 30, 2013	Call	1,000 bbls/d	$ 96.00	WTI - NYMEX	836	-	836	-
Total					**$ 13,141**	**$ (398)**	**$ 9,629**	**$ (1,691)**

SUBEQUENT EVENT

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

	Term	Type	Volume	Price (C$) (Surge Receives)	Index (Surge pays) (C$)
1)	Jan 1, 2013 - Dec 31, 2013	Swap	2,000GJ/d	3.10	AECO - Monthly

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.