FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended September 30,			Nine Months Ended September 30		
	2012	2011	% change	**2012**	2011	% change
Financials highlights						
Oil and NGL sales	**39,481**	**27,929**	41%	**132,457**	**74,751**	77%
Natural gas sales	**3,733**	**5,013**	(26%)	**10,719**	**13,807**	(22%)
Other revenue	**29**	**70**	(59%)	**54**	**122**	(56%)
Total oil, natural gas, and NGL revenue	**43,243**	33,012	31%	**143,230**	88,680	62%
Funds from Operations[1]	**19,849**	**14,002**	42%	**68,171**	**35,701**	91%
Per share basic ($)	**0.28**	0.25	12%	**0.96**	0.64	50%
Per share diluted ($)	**0.28**	0.24	17%	**0.95**	0.62	53%
Net income (loss)	**(986)**	4,811	nm	**14,944**	7,626	96%
Per share basic ($)	**(0.01)**	0.09	nm	**0.21**	0.14	50%
Per share diluted ($)	**(0.01)**	0.08	nm	**0.21**	0.13	62%
Capital expenditures - petroleum & gas properties[2]	**53,133**	51,972	2%	**135,739**	124,933	9%
Capital expenditures - acquisitions & dispositions[2]	**1,354**	-	nm	**112,391**	(6,525)	nm
Total capital expenditures[2]	**54,487**	51,972	5%	**248,130**	118,408	110%
Net debt at end of period[3]	**202,746**	128,889	57%	**202,746**	128,889	57%
Operating highlights						
Production:						
Oil and NGL (bbls per day)	**5,651**	3,781	49%	**6,108**	3,291	86%
Natural gas (mcf per day)	**15,846**	14,313	11%	**16,494**	12,863	28%
Total (boe per day) (6:1)	**8,292**	6,166	34%	**8,857**	5,435	63%
Average realized price (excluding hedges):						
Oil and NGL ($per bbl)	**75.94**	80.29	(5%)	**79.15**	83.20	(5%)
Natural gas ($ per mcf)	**2.56**	3.81	(33%)	**2.37**	3.93	(40%)
Realized loss on financial contracts ($ per boe)	**(0.06)**	(0.84)	(93%)	**(0.44)**	(1.62)	(73%)
Net back (excluding hedges) ($ per boe)						
Oil, natural gas and NGL sales	**56.70**	58.19	(3%)	**59.02**	59.77	(1%)
Royalties	**(9.96)**	(8.38)	19%	**(10.63)**	(8.53)	25%
Operating expenses	**(11.48)**	(14.79)	(22%)	**(11.25)**	(15.88)	(29%)
Transportation expenses	**(2.07)**	(2.16)	(4%)	**(2.15)**	(2.62)	(18%)
Operating netback	**33.19**	32.86	1%	**34.99**	32.74	7%
G&A expenses	**(3.12)**	(4.92)	(37%)	**(3.42)**	(5.01)	(32%)
Interest expense	**(2.23)**	(1.91)	17%	**(1.94)**	(1.57)	24%
Corporate netback	**27.84**	26.03	7%	**29.63**	26.16	13%
Common shares (000s)						
Common shares outstanding, end of period	**71,143**	**56,122**	27%	**71,143**	**56,122**	27%
Weighted average basic shares outstanding	**71,117**	**56,119**	27%	**70,884**	**56,104**	26%
Stock option dilution (treasury method)	**-**	**1,349**	(100%)	**1,249**	**1,125**	11%
Weighted average diluted shares outstanding	**71,117**	**57,468**	24%	**72,133**	**57,229**	26%

1 Management uses funds from operations (cash flow 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, ACHIEVEMENTS AND HIGHLIGHTS

Surge has achieved excellent growth year to date in 2012. Funds from operations increased 91 percent for the first nine months of 2012 and 42 percent for the third quarter as compared to the same time period in 2011. Production grew 63 percent in the first nine months of 2012 and 34 percent in the third quarter both as compared to the same periods in 2011. Management continues to protect Surge's balance sheet with a strong risk management program. Surge remains well positioned with 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.

Surge has achieved operational efficiencies in each of its core areas, resulting in significant reductions in operating costs since inception. Significant reductions in general and administrative costs per boe have also been achieved. Surge continues to strive to become one of the lowest cost oil producers among its oil weighted peer group.

Highlights for the quarter include:

- **Funds from operations increased 91 and 42 percent** respectively from the same periods of 2011 to $68.2 million for the first nine months of 2012 and $19.8 million for the third quarter.
- **Funds from operations per fully diluted share increased 53 percent and 17 percent** respectively from the same periods of 2011 to $0.95 for the first nine months of 2012 and $0.28 for the third quarter.
- **Grew production by 63 and 34 percent** respectively from the same periods of 2011 to 8,857 boe per day for the first nine months of 2012 and 8,292 boe per day for the third quarter. Average production for the third quarter of 8,292 boe per day was lower than expected due to approximately 350 boe per day (270 barrels of oil per day) of unscheduled well servicing and facility upgrades at Nipisi, Silver Lake and Valhalla South, which was noted with Surge's second quarter results, approximately 525 barrels of oil per day as a result of change in completion techniques resulting in longer cleanup times at Nipisi and approximately 330 boe per day (265 barrels of oil per day) as a result of delayed drilling and production outages in Valhalla. In total these items impacted average third quarter production by more than 1,200 boe per day (1,060 barrels of oil per day).
- **Increased production per basic share by 29 and 9 percent** respectively for the first nine months and third quarter of 2012 as compared to the same period of 2011.
- **Reduced operating costs per boe by 29 percent, transportation costs per boe by 18 percent and G&A per boe by 32 percent** in the first nine months of 2012 as compared to the same period of 2011 with combined operating and transportation costs decreasing by 28 percent from $18.50 per boe in the first nine months of 2011 to $13.40 per boe in the same period of 2012.
- **Increased Surge's operating netback by seven percent** to $34.99 per boe for the first nine months of 2012 as compared to $32.74 in the first nine months of 2011, despite a five percent drop in realized oil & NGL prices and a 40 percent drop in realized natural gas prices.
- **Achieved a 98 percent success rate** drilling 42 gross (34.6 net) wells in the first nine months of 2012. Surge had nine gross (6.3 net) wells drilled but not on production at the end of the quarter.
- **Surge increased its oil and natural gas liquids production weighting by 13 percent to 69 percent** in the first nine months of 2012 from 61 percent in the same period of 2011.
- **Approximately 92 percent of Surge's revenue resulted from oil and natural gas liquids production**, in the first nine months of 2012 with approximately eight 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. 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

	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011
Average production (boe per day)	**8,292**	9,275	9,009	7,514	6,166
Revenue	**$ 56.70**	$ 57.97	$ 62.28	$ 61.93	$ 58.19
Royalties	**(9.96)**	(9.69)	(12.22)	(7.05)	(8.38)
Operating costs	**(11.48)**	(10.63)	(11.66)	(14.92)	(14.79)
Transportation costs	**(2.07)**	(2.59)	(1.78)	(1.41)	(2.16)
Operating netback	**$ 33.19**	$ 35.06	$ 36.62	$ 38.55	$ 32.86

OUTLOOK

Surge continues to make significant progress on expanding its opportunity base. During the third and fourth quarters of 2012, Surges' teams gained access to over 150 million barrels of internally estimated DPIIP through various land sales, purchases and farm-ins in the WCSB that have the potential add more than 100 gross (99 net) oil drilling locations to Surge's existing inventory**.** Follow up deals and land sales are still pending, and as such, Surge will be keeping further details on these initiatives confidential until 2013.

Management also continues to protect Surge's balance sheet with a strong risk management program. Surge has protected 61 percent of its forecast fourth quarter oil and NGL production (after royalties) with 70 percent participation in the upside above an average WTI floor price of C$89.84 per barrel. The Company has 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.

Entering into the fourth quarter of 2012, Surge will be in the process of drilling, completing and placing on production 22 gross (17.9 net) wells. By area, there are three gross (1.96 net) wells at Valhalla, 10 gross (6.9 net) in North Dakota, seven gross (seven net) in the Sounding Lake area of Alberta and two gross (two net) at Nipisi. All of the recent seven gross (seven net) wells at Nipisi should have recovered their load water in November and be producing load free entering December of this year. As such, Surge is well positioned to meet its targeted exit production guidance of 11,000 boe per day.

Surge continues to make significant progress on its waterflood opportunities:

- The Company completed its waterflood expansion at Silver Lake in late July 2012. Although the shut-in of the facility during the expansion process impacted third quarter production negatively by approximately 100 barrels of oil per day, the field has seen a positive result from this initiative, as recent production has increased by 20 percent to approximately 1,200 barrels of oil per day.

- At Windfall, water has been injected into the Bluesky Formation for over a month at rates that are in-line with the Company's expectations. Surge expects to see a positive waterflood pilot response from the two offsetting horizontal multi-frac producers in the second quarter of 2013. Surge estimates that it will ultimately recover at least 25 percent of the estimated 60 million barrels of DPIIP in this pool.

- At Waskada, the Company submitted the Waskada Unit 15 waterflood progress report/amendment during the second quarter of 2012. The third party waterflood study is now complete and the results are encouraging. The results from the report have prompted Surge to plan construction of the infrastructure in January 2013 with injection into the Spearfish scheduled for February/March 2013.

- At Nipisi, the Company submitted its waterflood application early in the fourth quarter of 2012 and expects injection into the Slave Point Formation to commence in the second quarter of 2013, pending regulatory approvals. Based on successful waterflood implementation, Surge estimates that it will ultimately recover at least 20 percent of the estimated 85 million barrels of DPIIP in this pool.

Surge's board of directors has approved an increase in the Company's capital budget from $270 million to $290 million. Approximately half of the incremental capital will be used for operations that will position Surge for production additions in 2013, while the other half will be evenly split between capturing new early stage oil resource via land acquisitions and operational overruns that occurred in 2012.

Surge is now forecasting a 2012 average production rate of 9,100 boe per day (~70 percent oil and NGLs), and a 2012 exit production rate of 11,000 boe per day (~73 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 80.0 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 nine months ended September 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) additions to drilling locations, (4) average and exit oil, NGLs and natural gas production during 2012, (5) production weighting for 2012, (6) regulatory approvals for planned waterflood projects, potential of waterflood projects to increase reserves, the proposed timing of the implementation of waterflood projects and the potential recovery rates therefrom, (7) funds from operations, (8) debt and bank facilities, (9) operating and transportation costs, (10) the availability and successful completion of acquisitions, (11) the timing of bringing on production from new wells, (12) year end 2012 debt and cash flow, (13) royalties, (14) decommissioning obligations, (15) netbacks, and (16) 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

($000s)	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011
Cash flow from operating activities	**$ 24,483**	$ 23,391	$ 21,871	$ 19,073	$ 17,272
Change in non-cash working capital	**(4,634)**	924	2,134	3,015	(3,270)
Funds from operations	**$ 19,849**	$ 24,315	$ 24,005	$ 22,088	$ 14,002

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 November 12, 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%
Q3 2012	18.00	15.29	94%	85%
Total	**42.00**	**34.55**	**98%**	**82%**

In the first nine months of 2012 Surge achieved a 98 percent success rate drilling 42 gross (34.6 net) wells.

Surge achieved a 94 percent success rate during the quarter ended September 30, 2012, drilling 18 gross (15.29 net) wells. The 18 gross wells drilled during the quarter include five wells in North Dakota, one well at Waskada, six wells in South East Alberta, one well in Valhalla, and five wells in Nipisi. Nine of the 18 wells drilled in the third quarter were on production at quarter end, with the remainder to be brought on production during the fourth quarter of 2012. One well encountered drilling issues and had to be abandoned.

Production

	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011
Oil and NGL (bbls per day)	**5,651**	6,568	6,110	4,534	3,781
Natural gas (mcf per day)	**15,846**	16,246	17,398	17,885	14,313
Total (boe per day) (6:1)	**8,292**	9,275	9,009	7,514	6,166
% Oil and NGL	**68%**	71%	68%	60%	61%

Surge achieved an average production rate of 8,857 boe per day in the first nine months of 2012, a 63 percent increase from an average production rate of 5,435 boe per day in the same period of 2011. The increase in the production volumes as compared to 2011 was primarily due to the results of the 2012 drilling programs, as well as the Pradera Acquisition.

Surge realized a 69 percent oil and natural gas liquids production weighting in the first nine months of 2012. Surge realized average oil and natural gas liquids production of 6,108 bbls per day for the first nine months of 2012.

Surge achieved an average production rate of 8,292 boe per day in the third quarter of 2012, a 34 percent increase from the third quarter of 2011 average production rate of 6,166 boe per day. The increase in the production volumes as compared to the third quarter of 2011 was primarily due to the results of the 2012 drilling programs, as well as the Pradera Acquisition. Average production for the third quarter was lower than expected due to approximately 350 boe per day a day of unscheduled well servicing and facility upgrades at Nipisi, Silver Lake and Valhalla South, which was noted with Surge's second quarter results; approximately 525 boe per day as a result of change in completion techniques at Nipisi and approximately 330 boe per day as a result of delayed drilling and production outages in Valhalla. In total these items impacted average third quarter production by approximately 1,200 boe per day.

Surge realized a 68 percent oil and natural gas liquids production weighting in the third quarter of 2012. Surge realized average oil and natural gas liquids production of 5,651 bbls per day for the third quarter of 2012.

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

During the nine months ended September 30, 2012, approximately 92 percent of Surge's revenue resulted from oil and natural gas liquids production, with approximately eight percent derived from natural gas.

A one percent decrease in revenue per boe, combined with a 63 percent increase in production, resulted in revenues of $143.2 million in the first three quarters of 2012, up 62 percent from $88.7 million in the same period of 2011.

During the nine months ended September 30, 2012, Surge recognized an unrealized gain of $5.1 million and a realized loss of $1.1 million on its financial contracts. This compares to an unrealized gain of $4.2 million and a realized loss of $2.4 million on its financial contracts for the nine months ended September 30, 2011.

The realized losses on financial contracts resulted in a decrease of $0.44 per boe to average revenue per boe during the nine months ended September 30, 2012.

In the third quarter of 2012, approximately 91 percent of Surge's revenue resulted from oil and natural gas liquids production, with approximately nine percent derived from natural gas.

A three percent decrease in revenue per boe, combined with a 34 percent increase in production, resulted in revenues of $43.2 million in the third quarter of 2012, up 31 percent from $33.0 million in the same period of 2011.

Surge had certain financial contracts in place as of September 30, 2012. Surge recognized an unrealized loss of $5.0 million and a realized loss of $0.05 million on its financial contracts in the third quarter of 2012. This compares to an unrealized gain of $4.0 million and a realized loss of $0.5 million on its financial contracts in the third quarter of 2011.

The realized losses on financial contracts resulted in a decrease of $0.06 per boe to average revenue per boe during the third quarter 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

In the nine months ended September 30, 2012, the Corporation realized average revenue of $59.02 per boe, before realized financial contract losses, a decrease of one percent from the $59.77 per boe recorded in the same period of 2011.

In the nine months ended September 30, 2012, the Corporation realized an average of $79.15 per bbl of oil and natural gas liquids, a decrease of five percent from the $83.20 per bbl realized in the same period of 2011. This compares to an average Edmonton Light Sweet price of $86.83 per bbl for the nine months ended September 30, 2012, which decreased eight percent per barrel from the $93.99 per bbl during the same period of 2011. The decrease in Surge's realized oil and natural gas liquids price is relatively consistent with the decrease in benchmark prices.

In the nine months ended September 30, 2012, the Corporation realized an average natural gas price of $2.37 per mcf, a 40 percent decrease from the $3.93 per mcf averaged in the same period of 2011. This compares to an average AECO Daily Index reference price of $2.11 per mcf in the nine months ended September 30, 2012, which decreased by 41 percent from the $3.59 per mcf in the same period of 2011. The decrease in realized natural gas prices is relatively consistent with the decrease in benchmark prices.

Realized losses on financial contracts resulted in a decrease of $0.44 per boe to the average revenue per boe in the nine months ended September 30, 2012.

The Corporation realized average revenue of $56.70 per boe in the third quarter of 2012, before realized financial contract losses, a decrease of three percent from the $58.19 per boe recorded in the same period of 2011.

The Corporation realized an average of $75.94 per bbl of oil and natural gas liquids in the third quarter of 2012, a decrease of five percent from the $80.29 per bbl realized in the same period of 2011. This compares to an average Edmonton Light Sweet price of $84.33 per bbl during the third quarter of 2012, which decreased eight percent per barrel from the $91.74 per bbl during the same period of 2011. The decrease in Surge's realized oil and natural gas liquids price is relatively consistent with the decrease in benchmark prices.

The Corporation realized an average natural gas price of $2.56 per mcf in the third quarter of 2012, a 33 percent decrease from the $3.81 per mcf averaged in the same period of 2011. This compares to an average AECO Daily Index reference price of $2.29 per mcf in the third quarter of 2012, which decreased by 35 percent from the $3.53 per mcf in the same period of 2011. The decrease in realized natural gas prices is relatively consistent with the decrease in benchmark prices.

Realized losses on financial contracts resulted in a decrease of $0.06 per boe to the average revenue per boe in the third quarter of 2012.

Revenue and Realized Prices

	Three Months Ended September 30,			Nine Months Ended September 30,		
($000s except per amount)	**2012**	2011	% Change	**2012**	2011	% Change
Oil and NGL	**39,481**	27,929	41%	**132,457**	74,751	77%
Natural gas	**3,733**	5,013	(26%)	**10,719**	13,807	(22%)
Processing and other	**29**	70	(59%)	**54**	122	(56%)
Total oil, natural gas and NGL revenue	**43,243**	33,012	31%	**143,230**	88,680	62%
Oil and NGL ($ per bbl)	**75.94**	80.29	(5%)	**79.15**	83.20	(5%)
Natural gas ($ per mcf)	**2.56**	3.81	(33%)	**2.37**	3.93	(40%)
Total oil, natural gas and NGL revenue ($ per boe)	**56.70**	58.19	(3%)	**59.02**	59.77	(1%)
Realized gain (loss) on commodity contracts ($ per boe)	**(0.06)**	(0.84)	(93%)	**(0.44)**	(1.62)	(73%)
Total oil, natural gas, and NGL revenue after realized commodity contracts ($ per boe)	**56.64**	57.35	(1%)	**58.58**	58.15	1%
Reference Prices						
Edmonton Light Sweet ($ per bbl)	**84.33**	91.74	(8%)	**86.83**	93.99	(8%)
AECO Daily Index ($ per mcf)	**2.29**	3.53	(35%)	**2.11**	3.59	(41%)

Benchmark prices

	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011
($ per bbl)					
Benchmark - WTI (US$)	**92.22**	93.49	102.93	94.06	89.76
Difference - WTI realized to Edmonton Light Sweet (C$)	**(7.89)**	(9.55)	(10.84)	3.29	1.98
% Difference	**(9%)**	(10%)	(11%)	3%	2%
Benchmark - Edmonton Light Sweet (C$)	**84.33**	83.94	92.09	97.35	91.74
Difference - Surge realized to Edmonton Light Sweet (C$)	**(8.39)**	(7.63)	(6.90)	(8.75)	(11.45)
% Difference	**(10%)**	(9%)	(7%)	(9%)	(12%)
Surge realized prices (C$)	**75.94**	76.31	85.19	88.60	80.29
(C$ per mcf)					
Benchmark - AECO Daily Index	**2.29**	1.95	2.03	3.18	3.53
Surge realized prices	**2.56**	2.24	2.32	3.49	3.81
Difference	**0.27**	0.29	0.29	0.31	0.28
% Difference	**12%**	15%	14%	10%	8%

ROYALTIES

In the nine months ended September 30, 2012, Surge realized royalty expenses of $25.8 million or 18 percent of revenue, as compared to $12.7 million or 14 percent of revenue in the same period of 2011. Surge realized royalty expenses of $7.6 million or 18 percent of revenue in the third quarter of 2012, compared to $4.8 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 nine months ended September 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 September 30,			Nine Months Ended September 30,		
($000s except per boe)	**2012**	2011	% Change	**2012**	2011	% Change
Royalties	**7,596**	4,752	60%	**25,795**	12,662	104%
% of Revenue	**18%**	14%	29%	**18%**	14%	29%
$ per boe	**9.96**	8.38	19%	**10.63**	8.53	25%

OPERATING EXPENSES

In the nine months ended September 30, 2012, operating expenses per boe were 29 percent lower than the same period in 2011, at $11.25 per boe as compared to $15.88 per boe in the same period of 2011. Operating expenses per boe in the third quarter of 2012 were 22 percent lower than the same period in 2011, at $11.48 per boe as compared to $14.79 per boe in the same period of 2011.

Operating expenses per boe during the three and nine months ended September 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

($000s except per boe)	Three Months Ended September 30, 2012	2011	% Change	Nine Months Ended September 30, 2012	2011	% Change
Operating expenses	**8,758**	8,393	4%	**27,290**	23,566	16%
$ per boe	**11.48**	14.79	(22%)	**11.25**	15.88	(29%)

TRANSPORTATION EXPENSES

In the nine months ended September 30, 2012, transportation expenses per boe decreased by 18 percent to $2.15 per boe, as compared to $2.62 per boe in the same period of 2011. This decrease is primarily due to additional production volumes in the pipeline connected areas of Valhalla and Silver, partially offset by additional volumes trucked in from areas that are not pipeline connected.

Transportation expenses per boe decreased by four percent in the third quarter of 2012, to $2.07 per boe, as compared to $2.16 per boe in the third quarter of 2011. This decrease is primarily due to additional production volumes in the pipeline connected areas of Valhalla and Silver, partially offset by additional volumes trucked in from areas that are not pipeline connected.

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

($000s except per boe)	Three Months Ended September 30, 2012	2011	% Change	Nine Months Ended September 30, 2012	2011	% Change
Transportation expenses	**1,582**	1,226	29%	**5,228**	3,884	35%
$ per boe	**2.07**	2.16	(4%)	**2.15**	2.62	(18%)

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

Net G&A expenses per boe for the first nine months of 2012 decreased 32 percent to $3.42 per boe as compared to $5.01 per boe in the same period of 2011. G&A expenses for the first nine months of 2012, net of recoveries and capitalized amounts of $5.8 million, were $8.3 million, compared to $7.4 million in the same period of 2011, after recoveries and capitalized amounts of $5.3 million.

Net G&A expenses per boe for the third quarter of 2012 decreased 37 percent to $3.12 per boe as compared to $4.92 per boe in the same period of 2011. G&A expenses for the third quarter of 2012, net of recoveries and capitalized amounts of $1.3 million, were $2.4 million, compared to $2.8 million in the same period of 2011, after recoveries and capitalized amounts of $2.1 million.

The decrease in G&A per boe is primarily due to the increased production levels in the nine and three months ended September 30, 2012, as compared to the same periods in 2011.

G&A Expenses

($000s except per boe)	Three Months Ended September 30, 2012	2011	% Change	Nine Months Ended September 30, 2012	2011	% Change
G&A expenses	**3,705**	4,889	(24%)	**14,066**	12,749	10%
Recoveries and capitalized amounts	**(1,322)**	(2,096)	(37%)	**(5,759)**	(5,310)	8%
Net G&A expenses	**2,383**	2,793	(15%)	**8,307**	7,439	12%
Net G&A expenses $ per boe	**3.12**	4.92	(37%)	**3.42**	5.01	(32%)

TRANSACTION COSTS

In the nine months ended September 30, 2012, the Company recorded transaction costs of $0.7 million or $0.27 per boe related to evaluation and review of business and property acquisitions. This is compared to $0.1 million or $0.06 per boe during the same period of 2011.

Transaction costs for the nine and three months ended September 30, 2012 were related to evaluation and review of business and property acquisitions.

Transaction Costs

	Three Months Ended September 30,			Nine Months Ended September 30,		
($000s except per boe)	**2012**	2011	% Change	**2012**	2011	% Change
Transaction costs	**46**	-	nm	**658**	95	593%
$ per boe	**0.06**	-	nm	**0.27**	0.06	350%

FINANCE EXPENSES

In the nine months ended September 30, 2012, Surge incurred interest expense of $4.7 million or $1.94 per boe as compared to $2.3 million or $1.57 per boe in the same period of 2011. Surge incurred interest expense of $1.7 million or $2.23 per boe in the third quarter of 2012 as compared to $1.1 million or $1.91 per boe in the same period of 2011. Average debt for the three and nine months ended September 30, 2012 was $160.7 million and $120.5 million, respectively. The increased interest expense per boe during the three and nine months ended September 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 nine months ended September 30, 2012 compared to the same periods of 2011 due to property dispositions during the last nine months of 2011 and increase in production. 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 September 30,			Nine Months Ended September 30,		
($000s except per boe)	**2012**	2011	% Change	**2012**	2011	% Change
Interest expense	**1,699**	1,084	57%	**4,708**	2,333	102%
$ per boe	**2.23**	1.91	17%	**1.94**	1.57	24%
Accretion expense	**261**	252	4%	**775**	776	(0%)
$ per boe	**0.34**	0.44	(23%)	**0.32**	0.53	(40%)
Finance expenses	**1,960**	1,336	47%	**5,483**	3,109	76%
$ per boe	**2.57**	2.35	9%	**2.26**	2.10	8%

NETBACKS

In the nine months ended September 30, 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 $34.99, a seven percent increase from the $32.74 recorded during the same period of 2011. The increase in operating netback was attributable to a 29 percent decrease in the operating costs per boe, an 18 percent decrease in the transportation costs per boe, partially offset by a one percent decrease in the revenue per boe and a 25 percent increase in royalties per boe. The increase in corporate netback was impacted by a 32 percent decrease in G&A expense per boe in 2012 and offset by a 24 percent increase in interest expense per boe, as compared to the same period of 2011.

During the third 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 $33.19, a one percent increase from the $32.86 recorded during the same period of 2011. The increase in operating netback was attributable to a 22 percent decrease in the operating costs per boe and a four percent decrease in transportation costs per boe, partially offset by a three percent decrease in revenue per boe and a 19 percent increase in royalties per boe. The increase in corporate netback was impacted by a 37 percent decrease in G&A expense per boe in 2012 and offset by a 17 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 September 30,			Nine Months Ended September 30,		
($ per boe, except production)	**2012**	2011	% Change	**2012**	2011	% Change
Average production (boe per day)	**8,292**	6,166	34%	**8,857**	5,435	63%
Revenue	**56.70**	58.19	(3%)	**59.02**	59.77	(1%)
Royalties	**(9.96)**	(8.38)	19%	**(10.63)**	(8.53)	25%
Operating costs	**(11.48)**	(14.79)	(22%)	**(11.25)**	(15.88)	(29%)
Transportation costs	**(2.07)**	(2.16)	(4%)	**(2.15)**	(2.62)	(18%)
Operating netback	**33.19**	32.86	1%	**34.99**	32.74	7%
G&A expense	**(3.12)**	(4.92)	(37%)	**(3.42)**	(5.01)	(32%)
Interest expense	**(2.23)**	(1.91)	17%	**(1.94)**	(1.57)	24%
Corporate netback	**27.84**	26.03	7%	**29.63**	26.16	13%

FUNDS FROM OPERATIONS AND CASH FLOW FROM OPERATIONS

During the nine months ended September 30, 2012, funds from operations increased 91% percent to $68.2 million compared to $35.7 million in the same period of 2011. On a per share basis, funds from operations increased 50 percent, to $0.96 per basic share from $0.64 per basic share in the same period of 2011.

During the three months ended September 30, 2012, funds from operations increased 42 percent to $19.8 million compared to $14.0 million in the same period of 2011. On a per share basis, funds from operations increased 12 percent, to $0.28 per basic share in the third quarter of 2012 from $0.25 per basic share in the third 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 September 30, 2012, was $24.5 million as compared to $17.3 million in the same period of 2011. Cash flow from operations for the nine months ended September 30, 2012, was $69.7 million as compared to $37.6 million in the same period of 2011.

Included in cash flow from operations is an increase in non-cash working capital of $4.6 million in the third quarter of 2012 and an increase of $1.6 million for the nine months ended September 30, 2012.

Funds from Operations

	Three Months Ended September 30,			Nine Months Ended September 30,		
($000s except per share and per boe)	**2012**	2011	% Change	**2012**	2011	% Change
Funds from operations	**19,849**	14,002	42%	**68,171**	35,701	91%
Per share - basic ($)	**0.28**	0.25	12%	**0.96**	0.64	50%
Per share - diluted ($)	**0.28**	0.24	17%	**0.95**	0.62	53%
$ per boe	**26.02**	24.68	5%	**28.09**	24.06	17%
Cash flow from operations	**24,483**	17,272	42%	**69,745**	37,617	85%

STOCK-BASED COMPENSATION

Surge recorded net stock-based compensation expense of $2.5 million during the nine months ended September 30, 2012, compared to $2.4 million for the same period of 2011. The fair value of the options was calculated using the Black-Scholes option-pricing model.

Surge recorded net stock-based compensation expense of $0.9 million during the three months ended September 30, 2012, compared to $1.0 million for the same period of 2011. The fair value of the options was calculated using the Black-Scholes option-pricing model.

During the third quarter of 2012, 2,084,450 options were issued at a weighted average exercise price of $7.35 per option, 77,332 options were exercised at a weighted average exercise price of $5.78 and 66,667 options were forfeited at a weighted average price of $8.20 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 September 30,			Nine Months Ended September 30,		
($000s except per boe)	**2012**	2011	% Change	**2012**	2011	% Change
Stock-based compensation	**2,337**	2,315	1%	**6,150**	5,680	8%
Capitalized stock-based compensation	**(1,447)**	(1,346)	8%	**(3,611)**	(3,278)	10%
Net stock-based compensation	**890**	969	(8%)	**2,539**	2,402	6%
Net stock-based compensation $ per boe	**1.17**	1.71	(32%)	**1.05**	1.62	(35%)

DEPLETION AND DEPRECIATION

Depletion and depreciation are calculated based upon capital expenditures, production rates and proved plus probable reserves. Deducted from the Corporation's depletion and depreciation calculation are costs associated with salvage values of $31.2 million. Future development costs for proved and probable reserves of $111.8 million have been included in the depletion calculation.

Surge recorded $52.3 million or $21.54 per boe in depletion and depreciation expense during the nine months ended September 30, 2012, as compared to $26.9 million or $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.

Surge recorded $17.0 million or $22.23 per boe in depletion and depreciation expense during the three months ended September 30, 2012, as compared to $10.3 million or $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.

The depletion and depreciation calculation is based on daily production volumes of 8,857 boed for the first nine months of 2012 and 8,292 boed for the quarter.

Depletion and Depreciation Expense

	Three Months Ended September 30,			Nine Months Ended September 30,		
($000s except per boe)	**2012**	2011	% Change	**2012**	2011	% Change
Depletion and depreciation expense	**16,959**	10,279	65%	**52,262**	26,887	94%
$ per boe	**22.23**	18.12	23%	**21.54**	18.12	19%

NET INCOME (LOSS)

The Corporation recorded net income for the nine months ended September 30, 2012 of $14.9 million or $0.21 per basic share, compared to a net income of $7.6 million or $0.14 per basic share for the same period of 2011. The increase in net income for the nine months ended September 30, 2012 is primarily due to a 63 percent increase in production, versus the same period in 2011.

The Corporation recorded a net loss for the three months ended September 30, 2012 of $1.0 million or $0.01 per basic share, compared to a net income of $4.8 million or $0.09 per basic share for the same period of 2011. The cause for the change in net income is primarily due to a $5.0 million unrealized loss on financial contracts in the third quarter of 2012, versus a $4.0 million unrealized gain during the same period in 2011.

Net Income (Loss)

	Three Months Ended September 30,			Nine Months Ended September 30,		
($000s except per share)	**2012**	2011	% Change	**2012**	2011	% Change
Total	**(986)**	4,811	(120%)	**14,944**	7,626	96%
Per share - basic ($)	**(0.01)**	0.09	(111%)	**0.21**	0.14	50%
Per share - diluted ($)	**(0.01)**	0.08	(113%)	**0.21**	0.13	62%

CAPITAL EXPENDITURES

During the first nine months of 2012, Surge invested a total of $248.1 million, net of dispositions of $1.4 million. Surge invested $90.9 million to drill 42 gross (34.55 net) wells.

In addition, Surge invested $25.1 million in facilities, equipment, and pipelines, $13.8 million in seismic and land acquisitions, and $5.9 million on other capital items.

During the third quarter of 2012, Surge invested a total of $51.8 million, net of dispositions of $1.4 million. Surge invested $38.9 million to drill 18 gross (15.29 net) wells.

In addition, Surge invested $10.0 million in facilities, equipment, and pipelines, $2.7 million in seismic and land acquisitions, and $1.5 million on other capital items.

Capital Expenditure Summary

($000s)	Q1 2012	Q2 2012	Q3 2012	2012 YTD	2011 YTD	Change
Land	4,303	4,732	2,680	**11,715**	15,852	(26%)
Seismic	991	1,049	42	**2,082**	1,291	61%
Drilling and completions	38,537	13,461	38,927	**90,925**	57,732	57%
Facilities, equipment and pipelines	9,102	5,995	9,980	**25,077**	20,280	24%
Other	1,968	2,468	1,504	**5,940**	5,336	11%
Total exploration and development	54,901	27,705	53,133	**135,739**	100,491	35%
Acquisitions - cash consideration	18,500	9,347	-	**27,847**	24,442	14%
Acquisitions - debt acquired	14,623	-	-	**14,623**	-	nm
Acquisitions - share based consideration	71,275	-	-	**71,275**	-	nm
Property dispositions	-	-	(1,354)	**(1,354)**	(6,525)	nm
Total acquisitions & dispositions	104,398	9,347	(1,354)	**112,391**	17,917	527%
Total cash-based capital expenditures	159,299	37,052	51,779	**248,130**	118,408	110%

Quarterly Financial Information

	Q3 2012	Q2 2012	Q1 2012	Q4 2011
Oil, Natural gas & NGL sales	**43,243**	48,927	51,060	42,812
Net earnings (loss)	**(986)**	13,273	2,657	(5,531)
Net earnings (loss) per share ($):				
Basic	**(0.01)**	0.19	0.04	(0.09)
Diluted	**(0.01)**	0.18	0.04	(0.09)
Funds from operations	**19,849**	24,315	24,005	22,088
Funds from operations per share ($):				
Basic	**0.28**	0.34	0.34	0.36
Diluted	**0.28**	0.34	0.33	0.35
Average daily sales				
Oil & NGL (bbls/d)	**5,651**	6,568	6,110	4,534
Natural gas (mcf/d)	**15,846**	16,246	17,398	17,885
Barrels of oil equivalent (boe per day) (6:1)	**8,292**	9,275	9,009	7,514
Average sales price				
Natural gas ($/mcf)	**2.56**	2.24	2.32	3.49
Oil & NGL ($/bbl)	**75.94**	76.31	85.19	88.60
Barrels of oil equivalent ($/boe)	**56.70**	57.97	62.28	61.93

Quarterly Financial Information

	Q3 2011	Q2 2011	Q1 2011	Q4 2010
Oil, Natural gas & NGL sales	33,012	29,796	25,872	18,544
Net earnings (loss)	4,811	3,317	(502)	3,696
Net earnings (loss) per share ($):				
Basic	0.09	0.06	(0.01)	(0.08)
Diluted	0.08	0.06	(0.01)	(0.08)
Funds from operations	14,002	11,898	9,772	7,274
Funds from operations per share ($):				
Basic	0.25	0.21	0.17	0.14
Diluted	0.24	0.21	0.17	0.14
Average daily sales				
Oil & NGL (bbls/d)	3,781	2,995	3,090	2,308
Natural gas (mcf/d)	14,313	12,334	11,915	10,182
Barrels of oil equivalent (boe per day) (6:1)	6,166	5,051	5,076	4,005
Average sales price				
Natural gas ($/mcf)	3.81	4.13	3.88	3.55
Oil & NGL ($/bbl)	80.29	92.36	77.86	70.70
Barrels of oil equivalent ($/boe)	58.19	64.83	56.64	50.33

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 fourth 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

	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010
Weighted Common Shares	**71,117,390**	71,057,943	70,474,105	62,124,542	56,118,838	56,098,181	56,094,747	53,065,155
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]	**71,117,390**	72,138,291	72,185,349	63,314,071	57,467,666	57,285,799	56,094,747	53,065,155

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

On November 12, 2012 Surge had 71,217,345 common shares, 2,047,272 performance warrants and 6,540,700 options outstanding.

LIQUIDITY AND CAPITAL RESOURCES

On September 30, 2012, Surge had net debt of $202.7 million. Surge has approximately $47.3 million of borrowing capacity in relation to the $250 million, giving Surge considerable financial flexibility through the balance of 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	$	(168,739)
Accounts receivable		26,223
Prepaid expenses and deposits		2,492
Accounts payable and accrued liabilities		(62,722)
Total	**$**	**(202,746)**

As at September 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 September 30, 2012 (September 30, 2011 – prime plus 1.25 percent). Average debt for the three and nine months ended September 30, 2012 was $160.7 million and $120.5 million, respectively.

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 nine months ended September 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 summarizes the Corporation's current hedging positions by period and by product. Further detail can be found on the subsequent four tables following this summary:

Product	Period	Volume hedged	Average Floor Price (C$)
C$ WTI Oil	Q4 2012	3,500 bbl/d	$89.94
C$ WTI Oil	Q1 2013	3,500 bbl/d	$92.75
C$ WTI Oil	Q2 2013	3,500 bbl/d	$92.77
C$ WTI Oil	Q3 2013	1,500 bbl/d	$93.43
C$ WTI Oil	Q4 2013	1,500 bbl/d	$93.43
AECO Gas	Calendar 2013	8,000 gj/d	$3.22 per gj
AECO Gas	Calendar 2014	2,000 gj/d	$3.60 per gj
WCS Differential	Q4 2012	1,000 bbl/d	$21.96 discount from WTI
Edm Light to WTI Differential	Q4 2012	2,000 bbl/d	$0.00 discount from WTI

The following table outlines the realized and unrealized gains (losses) on oil differential contracts for the three and nine months ended September 30, 2012:

					Three months ended September 30, 2012		Nine months ended September 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	-	-	(104)	385
Jan 1 to Jun 30, 2012	Swap	250 bbls/d	$ 14.85	Western Canadian Select	-	-	(37)	401
Jun 1 to Jun 30, 2012	Swap	750 bbls/d	$ 17.50	Western Canadian Select	-	-	-	(23)
Jul 1 to Sep 30, 2012	Swap	500 bbls/d	$ 20.25	Western Canadian Select	(312)	67	-	67
Oct 1 to Dec 31, 2012	Swap	500 bbls/d	$ 23.15	Western Canadian Select	(562)	-	(562)	-
Oct 1 to Oct 31, 2012	Swap	500 bbls/d	$ 21.25	Western Canadian Select	(181)	-	(181)	-
Nov 1 to Dec 31, 2012	Swap	500 bbls/d	$ 20.50	Western Canadian Select	(271)	-	(271)	-
Oct 1 to Dec 31, 2012	Swap	2,000 bbls/d	$ -	Edmonton Sweet Crude	(61)	-	(61)	-
Total					**$ (1,387)**	**$ 67**	**$ (1,216)**	**$ 830**

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

					Three months ended September 30, 2012		Nine months ended September 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	134	(136)	396	(220)

(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 and natural gas commodity contracts for the three and nine months ended September 30, 2012:

					Three months ended September 30, 2012		Nine months ended September 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	(285)	122	477	46
Jan 1 to Dec 31, 2012	Put	250 bbls/d	$ 80.00	WTI - NYMEX	(59)	-	536	-
Jan 1 to Dec 31, 2012	Call	62.5 bbls/d	$ 80.00	WTI - NYMEX	41	(67)	(274)	(280)
Jan 1 to Dec 31, 2012	Swap	250 bbls/d	$ 80.00	WTI - NYMEX	104	(269)	1,631	(1,119)
Jan 1 to Dec 31, 2012	Call	250 bbls/d	$ 89.95	WTI - NYMEX	(49)	46	(1,286)	483
Jan 1 to Dec 31, 2012	Put	250 bbls/d	$ 90.00	WTI - NYMEX	(174)	6	569	46
Jan 1 to Dec 31, 2012	Call	92.5 bbls/d	$ 90.00	WTI - NYMEX	18	(17)	(425)	(178)
Jan 1 to Dec 31, 2012	Put	500 bbls/d	$ 90.00	WTI - NYMEX	31	(29)	(840)	(302)
Jan 1 to Dec 31, 2012	Call	157.5 bbls/d	$ 90.00	WTI - NYMEX	(348)	13	986	13
Jan 1 to Dec 31, 2012	Swap	500 bbls/d	$ 85.00	WTI - NYMEX	(30)	(308)	2,583	(1,553)
Jan 1 to Dec 31, 2012	Call	500 bbls/d	$ 96.00	WTI - NYMEX	(204)	-	(1,883)	420
Apr 1 to Dec 31, 2012	Swap	500bbls/d	$ 90.00	WTI - NYMEX	(330)	(78)	(57)	(274)
Apr 1 to Dec 31, 2012	Call	500bbls/d	$ 96.00	WTI - NYMEX	64	451	64	99
Apr 1 to Dec 31, 2012	Swap	500bbls/d	$ 101.50	WTI - NYMEX	(776)	152	469	779
Jul 1 to Dec 31, 2012	Swap	500bbls/d	$ 95.00	WTI - NYMEX	(479)	-	171	151
Jul 1 to Dec 31, 2012	Call	500bbls/d	$ 99.80	WTI - NYMEX	(60)	-	38	-
Jan 1 to Mar 31, 2013	Swap	250bbls/d	$ 104.85	WTI - NYMEX	(55)	-	276	-
Jan 1 to Dec 31, 2013	Swap	250bbls/d	$ 98.00	WTI - NYMEX	469	-	469	-
Jan 1 to Dec 31, 2013	Swap	250bbls/d	$ 95.00	WTI - NYMEX	(190)	-	198	-
Jan 1 to Mar 31, 2013	Swap	500bbls/d	$ 95.00	WTI - NYMEX	(89)	-	332	-
Jan 1 to Mar 31, 2013	Call	185bbls/d	$ 95.00	WTI - NYMEX	(8)	-	(83)	-
Apr 1 to Jun 30, 2013	Swap	250bbls/d	$ 105.05	WTI - NYMEX	(48)	-	272	-
Apr 1 to Jun 30, 2013	Swap	500bbls/d	$ 95.00	WTI - NYMEX	(97)	-	91	-
Apr 1 to Jun 30, 2013	Call	300bbls/d	$ 95.00	WTI - NYMEX	4	-	183	-
Jan 1 to Dec 31, 2013	Swap	250 bbls/d	$ 85.00	WTI - NYMEX	(845)	-	(422)	-
Jan 1 to Dec 31, 2013	Call	250bbls/d	$ 95.00	WTI - NYMEX	5	-	619	-
Jan 1 to Mar 31, 2013	Swap	500bbls/d	$ 95.00	WTI - NYMEX	(110)	-	112	-
Jan 1 to Mar 31, 2013	Call	500bbls/d	$ 103.70	WTI - NYMEX	58	-	89	-
Jan 1 to Jun 30, 2013	Swap	500bbls/d	$ 95.00	WTI - NYMEX	(212)	-	(248)	-
Jan 1 to Jun 30, 2013	Call	380bbls/d	$ 95.00	WTI - NYMEX	16	-	589	-
Jan 1 to Jun 30, 2013	Swap	1,000 bbls/d	$ 90.00	WTI - NYMEX	(428)	-	(507)	-
Jan 1 to Jun 30, 2013	Call	1,000 bbls/d	$ 96.00	WTI - NYMEX	150	-	986	-
Jul 1 to Dec 31, 2013	Swap	750 bbls/d	$ 94.97	WTI - NYMEX	295		295	
Apr 1 to Jun 30, 2013	Swap	500 bbls/d	$ 95.15	WTI - NYMEX	96		96	
Total					**$ (3,525)**	**$ 22**	**$ 6,106**	**$ (1,669)**

					Three months ended September 30, 2012		Nine months ended September 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, 2013	Swap	2,000 gj/d	$ 3.10	AECO	(84)	-	(84)	-
Jan 1 to Dec 31, 2013	Swap	1,000 gj/d	$ 3.05	AECO	(60)	-	(60)	-
Jan 1 to Dec 31, 2013	Swap	1,000 gj/d	$ 3.07	AECO	(52)	-	(52)	-
Total					**$ (196)**	**$ -**	**$ (196)**	**$ -**

SUBSEQUENT EVENT

(a) Subsequent to the third quarter, Surge entered into the following financial natural gas commodity pricing contracts:

	Term	Type	Volume	Price (C$) (Surge Receives)	Index (Surge pays) (C$)
1)	Jan 1, 2013 - Dec 31, 2013	Swap	2,000 gj/d	3.25	AECO - Monthly
2)	Jan 1, 2013 - Dec 31, 2013	Swap	2,000 gj/d	3.45	AECO - Monthly
3)	Jan 1, 2014 - Dec 31, 2014	Swap	2,000 gj/d	3.60	AECO - Daily

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 2011 Annual Information Form, which can be found on www.sedar.com. Many risks are discussed below and in the 2011 Annual Information Form, but these risk factors should not be construed as exhaustive. There are numerous factors, both known and unknown, that could cause actual results or events to differ materially from forecast results.

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Surge depends on its ability to find, acquire, develop, and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves Surge may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in Surge's reserves will depend not only on the 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's financial performance and condition are substantially dependent on the prevailing prices of oil and natural gas which are unstable and subject to fluctuation. Fluctuations in oil or natural gas prices could have an adverse effect on the Corporation's operations and financial condition and the value and amount of its reserves. Prices for crude oil fluctuate in response to global supply of and demand for oil, market performance and uncertainty and a variety of other factors which are outside the control of the Corporation including, but not limited, to the world economy and the Organization of the Petroleum Exporting Countries' ability to adjust supply to world demand, government regulation, political stability and the availability of alternative fuel sources. Natural gas prices are influenced primarily by factors within North America, including North American supply and demand, economic performance, weather conditions and availability and pricing of alternative fuel sources.

Decreases in oil and natural gas prices typically result in a reduction of the Corporation's net production revenue and may change the economics of producing from some wells, which could result in a reduction in the volume of the Corporation's reserves. Any further substantial declines in the prices of crude oil or natural gas could also result in delay or cancellation of existing or future drilling, development or construction programs or the curtailment of production. All of these factors could result in a material decrease in the Corporation's net production revenue, cash flows and profitability causing a reduction in its oil and gas acquisition and development activities. In addition, bank borrowings available to the Corporation will in part be determined by the Corporation's borrowing base. A sustained material decline in prices from historical average prices could further reduce such borrowing base, therefore reducing the bank credit available and could require that a portion of its bank debt be repaid.

The 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.

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.