Condensed Consolidated Interim Statements of Financial Position

Stated in thousand of dollars
(Unaudited)

As at	**March 31, 2013**	December 31, 2012
Assets		
Current Assets		
Accounts receivable	**$ 31,336**	$ 25,260
Fair value of financial contracts (note 6)	**-**	2,384
Prepaid expenses and deposits	**1,925**	2,508
	33,261	30,152
Exploration and evaluation assets (note 3)	**59,757**	70,726
Petroleum and natural gas properties (note 4)	**621,074**	575,483
Deferred income taxes	**3,703**	5,083
	$ 717,795	$ 681,444
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 55,182**	$ 53,823
Fair value of financial contracts (note 6)	**7,209**	957
	62,391	54,780
Fair value of financial contracts (note 6)	**1,818**	1,137
Bank debt (note 7)	**212,874**	194,523
Decommissioning obligations (note 5)	**48,311**	39,339
Deferred income taxes	**39,902**	40,666
Shareholders' equity		
Share capital	**351,957**	351,957
Contributed surplus	**22,695**	20,495
Performance warrants	**7,059**	7,059
Accumulated other comprehensive income (loss)	**611**	(43)
Deficit	**(29,823)**	(28,469)
	352,499	350,999
Contingencies (note 9)		
Subsequent event (note 10)		
	$ 717,795	$ 681,444

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

Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss)

Stated in thousands of dollars, except per share amounts
(Unaudited)

	Three months ended March 31, 2013	2012
Revenues		
Petroleum and natural gas	**$ 53,582**	$ 51,060
Royalties	**(9,483)**	(10,017)
Realized loss on financial contracts (note 6)	**(401)**	(770)
Unrealized loss on financial contracts (note 6)	**(9,317)**	(2,821)
	34,381	37,452
Expenses		
Operating	**10,911**	9,556
Transportation	**1,950**	1,458
General and administrative	**2,775**	2,972
Bad debt provision	**317**	-
Transaction costs	**-**	363
Stock-based compensation	**892**	966
Depletion and depreciation	**15,752**	16,890
Finance expense	**2,672**	1,688
Gain on disposal of petroleum and natural gas properties	**(150)**	-
	35,119	33,893
Income (loss) before income taxes	**(738)**	3,559
Deferred income tax expense (recovery)	**616**	902
Net income (loss) for the period	**$ (1,354)**	$ 2,657
Other comprehensive income (loss):		
Currency translation adjustment	**654**	(382)
Other comprehensive income (loss) for the period	**654**	(382)
Total comprehensive income (loss) for the period	**$ (699)**	$ 2,275
Income (loss) per share		
Basic	**$ (0.02)**	$ 0.04
Diluted	**$ (0.02)**	$ 0.04

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

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

Stated in thousands of dollars, except share amounts
(Unaudited)

	Number of common shares	Share capital	Contributed surplus	Performance warrants	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total equity
Balance at December 31, 2011	63,040,987	$ 278,302	$ 12,879	$ 7,196	$ 1,005	$ 24,774	$ 324,156
Net income for the period	-	-	-	-	-	2,657	2,657
Other comprehensive loss	-	-	-	-	(382)	-	(382)
Issued pursuant to acquisition	7,919,436	71,275	-	-	-	-	71,275
Share issue costs (net of tax of $30)	-	(88)	-	-	-	-	(88)
Stock-based compensation	-	-	2,420	-	-	-	2,420
Transfer on exercise of options & warrants	-	240	(240)	-	-	-	-
Warrants exercised	4,545	23	-	-	-	-	23
Options exercised	67,999	400	-	-	-	-	400
Balance at March 31, 2012	71,032,967	$ 350,152	$ 15,059	$ 7,196	$ 623	$ 27,431	$ 400,461
Balance at December 31, 2012	71,217,345	$ 351,957	$ 20,495	$ 7,059	$ (43)	$ (28,469)	$ 350,999
Net loss for the period	-	-	-	-	-	(1,354)	(1,354)
Other comprehensive loss	-	-	-	-	654	-	654
Stock-based compensation	-	-	2,200	-	-	-	2,200
Balance at March 31, 2013	**71,217,345**	**$ 351,957**	**$ 22,695**	**$ 7,059**	**$ 611**	**$ (29,823)**	**$ 352,499**

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

Condensed Consolidated Interim Statements of Cash Flows

Stated in thousands of dollars
(Unaudited)

	Three months ended March 31, 2013	2012
Cash provided by (used in)		
Operating		
Net income (loss)	**$ (1,354)**	$ 2,657
Gain on disposal of petroleum and natural gas properties	**(150)**	-
Unrealized loss on financial contracts	**9,317**	2,821
Finance expense	**2,672**	1,688
Interest expense	**(2,362)**	(1,433)
Depletion and depreciation	**15,752**	16,890
Decommissioning expenditures	**(463)**	(484)
Bad debt provision	**317**	-
Stock-based compensation	**892**	966
Deferred income tax expense (recovery)	**616**	902
Change in non-cash working capital	**(250)**	(2,136)
Cash flow from operating activities	**24,987**	21,871
Financing		
Bank debt	**18,351**	34,845
Issue of common shares, net of issue costs	**-**	305
Cash flow from financing activities	**18,351**	35,150
Investing		
Petroleum and natural gas properties	**(39,917)**	(45,286)
Exploration and evaluation assets	**(148)**	(9,612)
Disposition of petroleum and natural gas properties	**807**	-
Acquistions	**-**	(18,500)
Change in non-cash working capital	**(4,080)**	16,377
Cash flow used in investing activities	**(43,338)**	(57,021)
Change in cash	**-**	-
Cash, beginning of the period	**-**	-
Cash, end of the period	**$ -**	$ -

Cash is defined as cash and cash equivalents.

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Tabular amounts are in thousands of dollars, except share and per share data

(Unaudited)

1. REPORTING ENTITY

Surge Energy Inc.'s (the "Corporation" or "Surge") business consists of the exploration, development and production of oil and gas from properties in western Canada and the northern United States. The interim consolidated financial statements include the accounts of the Corporation, its wholly-owned subsidiaries and partnerships.

2. BASIS OF PREPARATION

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" and using the accounting policies outlined by the Corporation in its annual consolidated financial statements for the year ended December 31, 2012, except as identified below. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

On January 1, 2013, the Company adopted new standards with respect to consolidations (IFRS 10), joint arrangements (IFRS 11), disclosure of interests in other entities (IFRS 12), fair value measurements (IFRS 13) and amendments to financial instrument disclosures (IFRS 7). The adoption of these standards had no impact on the amounts recorded in the consolidated financial statements as at January 1, 2013 or on the comparative periods.

The condensed consolidated interim financial statements were authorized for issuance by the Board of Directors on May 9, 2013.

3. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation (E&E) assets consist of the Corporation's exploration projects which are pending the determination of proven or probable reserves. Additions represent the Corporation's share of costs incurred on E&E assets during the period.

Exploration & Evaluation Assets

		Total
Balance at December 31, 2011	$	47,719
Acquisitions		6,181
Additions		25,604
Change in foreign exchange rate		(102)
Transfer to petroleum and natural gas properties		(8,676)
Balance at December 31, 2012	$	70,726
Additions		148
Change in foreign exchange rate		170
Transfer to petroleum and natural gas properties		(11,287)
Balance at March 31, 2013	**$**	**59,757**

4. PETROLEUM AND NATURAL GAS PROPERTIES

Petroleum and Natural Gas Properties

		Total
Balance at December 31, 2011	$	504,802
Acquisitions		133,056
Additions		155,110
Transfer from exploration and evaluation assets		8,676
Change in decommissioning obligations		1,885
Capitalized stock-based compensation		4,992
Change in foreign exchange rate		(822)
Disposals		(3,816)
Balance at December 31, 2012	$	803,883
Additions		39,917
Dispositions		(898)
Transfer from exploration and evaluation assets		11,287
Change in decommissioning obligations		9,334
Capitalized stock-based compensation		1,308
Change in foreign exchange rate		370
Balance at March 31, 2013	**$**	**865,201**

		Total
Accumulated depletion and depreciation		
Balance at December 31, 2011	$	(66,948)
Depletion and depreciation expense		(69,262)
Impairment		(92,878)
Disposals		688
Balance at December 31, 2012	$	(228,400)
Disposals		25
Depletion and depreciation expense		(15,752)
Balance at March 31, 2013	**$**	**(244,127)**

		Total
Carrying amounts		
At December 31, 2012	$	575,483
At March 31, 2013	$	621,074

The calculation of depletion and depreciation expense for the three months ended March 31, 2013 included an estimated $222.6 million (March 31, 2012 - $155.6 million) for future development costs associated with proved plus probable reserves and deducted $35.8 million (March 31, 2012 - $30.5 million) for the estimated salvage value of production equipment and facilities.

5. DECOMMISSIONING OBLIGATIONS

The Corporation's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted amount of cash flows required to settle its decommissioning obligations is approximately $88.7 million (December 31, 2012 – $73.9

million). A risk free rate of 2.5 percent (December 31, 2012 – 2.5 percent) and an inflation rate of two percent (December 31, 2012 – two percent) was used to calculate the fair value of the decommissioning obligations.

A reconciliation of the decommissioning obligations is provided below:

	March 31, 2013	December 31, 2012
Balance, beginning of period	**$ 39,339**	$ 37,511
Liabilities related to acquisitions	**-**	1,608
Liabilities related to dispositions	**(217)**	(441)
Change in foreign exchange rate	**7**	(4)
Change in estimate	**8,681**	-
Liabilities incurred	**654**	1,885
Accretion expense	**310**	1,041
Decommissioning expenditures	**(463)**	(2,261)
Balance, end of period	**$ 48,311**	$ 39,339

During the three months ended March 31, 2013, the Company updated its decommissioning estimates based on new guidance released by the ERCB.

6. RISK MANAGEMENT CONTRACTS

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

The following table outlines the fair value of interest rate contracts as at March 31, 2013:

					As at March 31, 2013
Term	**Type (floating to fixed)**	**Amount (C$)**	**Company Fixed Interest Rate (%) (1)**	**Counter party Floating Rate Index**	**Fair Value ($000s CDN)**
Jan 1, 2012 to Dec 31, 2014	Swap	$ 50,000,000	2.74%	CAD-BA-CDOR	(1,882)

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

The following table outlines the fair value of foreign exchange contracts as at March 31, 2013:

					As at March 31, 2013
Term	**Type**	**Notional ($USD)**	**Swap Price (Surge receives) (C$)**	**Index (Surge pays) (C$)**	**Fair Value ($000s CDN)**
Jan 1 to Dec 31, 2013	Swap	$33,762,500	$ 1.005	Floating CAD	(387)
Jan 1 to Dec 31, 2014	Swap	$33,361,000	$ 1.005	Floating CAD	(740)
Total					**$ (1,127)**

The following table outlines the fair value of natural gas commodity contracts as at March 31, 2013:

					As at March 31, 2013
Term	**Type (floating to fixed)**	**Volume**	**Swap Price (Surge receives) (C$)**	**Index (Surge pays) (C$)**	**Fair Value ($000s CDN)**
Jan 1 to Dec 31, 2013	Swap	2,000 gj/d	$ 3.10	AECO	(206)
Jan 1 to Dec 31, 2013	Swap	1,000 gj/d	$ 3.05	AECO	(116)
Jan 1 to Dec 31, 2013	Swap	1,000 gj/d	$ 3.07	AECO	(111)
Jan 1 to Dec 31, 2013	Swap	2,000 gj/d	$ 3.25	AECO	(124)
Jan 1 to Dec 31, 2013	Swap	2,000 gj/d	$ 3.45	AECO	(18)
Jan 1 to Dec 31, 2014	Swap	2,000 gj/d	$ 3.40	AECO	(129)
Jan 1 to Dec 31, 2014	Swap	2,000 gj/d	$ 3.60	AECO	17
Total					**$ (687)**

The following table outlines the fair value of oil commodity contracts as at March 31, 2013:

Term	Type (floating to fixed)	Volume	Swap Price (Surge receives) (C$)	Index (Surge pays) (C$)	As at March 31, 2013 Fair Value ($000s CDN)
Jan 1 to Dec 31, 2013	Swap	250bbls/d	$ 98.00	WTI - NYMEX	(49)
Jan 1 to Dec 31, 2013	Swap	250bbls/d	$ 95.00	WTI - NYMEX	(254)
Jan 1 to Dec 31, 2013	Swap	250 bbls/d	$ 85.00	WTI - NYMEX	(930)
Jan 1 to Dec 31, 2013	Call	250bbls/d	$ 95.00	WTI - NYMEX	402
Apr 1 to Jun 30, 2013	Swap	250bbls/d	$ 105.05	WTI - NYMEX	134
Apr 1 to Jun 30, 2013	Swap	500bbls/d	$ 95.00	WTI - NYMEX	(187)
Apr 1 to Jun 30, 2013	Call	300bbls/d	$ 95.00	WTI - NYMEX	131
Jan 1 to Jun 30, 2013	Swap	500bbls/d	$ 90.00	WTI - NYMEX	(416)
Jan 1 to Jun 30, 2013	Call	380bbls/d	$ 90.00	WTI - NYMEX	323
Jan 1 to Jun 30, 2013	Swap	1,000 bbls/d	$ 90.00	WTI - NYMEX	(835)
Jan 1 to Jun 30, 2013	Call	1,000 bbls/d	$ 96.00	WTI - NYMEX	369
Apr 1 to Jun 30, 2013	Swap	500 bbls/d	$ 95.15	WTI - NYMEX	(182)
Jul 1 to Dec 31, 2013	Swap	750 bbls/d	$ 94.97	WTI - NYMEX	(480)
Jul 1 to Dec 31, 2013	Swap	1,000 bbls/d	$92.50 (USD)	WTI - NYMEX	(733)
Jul 1 to Dec 31, 2013	Swap	350 bbls/d	$96.25 (USD)	WTI - NYMEX	(12)
Jan 1 to Dec 31, 2014	Swap	1,000 bbls/d	$91.40 (USD)	WTI - NYMEX	(497)
Apr 1 to Dec 31, 2013	Swap	1,000 bbls/d	$ 8.35	MSW (EDM) - WTI	(1,106)
Apr 1 to Jun 30, 2013	Swap	1,000 bbls/d	$ 7.00	MSW (EDM) - WTI	(435)
Jul 1 to Dec 31, 2013	Swap	1,000 bbls/d	$ 7.50	MSW (EDM) - WTI	(420)
May 1 to May 31, 2013	Swap	500 bbls/d	$ 19.50	WCS	(81)
May 1 to May 31, 2013	Swap	500 bbls/d	$ 19.00	WCS	(73)
Total					**$ (5,331)**

The following table summarizes the sensitivity of the fair value of the Corporation's market risk management positions to fluctuations in interest rates, foreign exchange rates, and natural gas and crude oil prices. All such fluctuations were evaluated independently, with all other variables held constant. In assessing the potential impact of these fluctuations, the Corporation believes that the volatilities presented below are reasonable measures. Fluctuations in interest rates, foreign exchange rates, and crude oil and natural gas prices would have had the following impact on the net earnings:

Net earnings impact for the period ended March 31, 2013	Price Increase	Price Decrease
Crude Oil - Change of +/- $1.00	$ (1,530)	$ 1,530
Natural Gas - Change of +/- $0.10	$ (275)	$ 275
Interest rate - Change of +/- 100 points	$ 375	$ (375)
Foreign Exchange - Change of +/- $0.01	$ (503)	$ 503

7. BANK DEBT

The Corporation has a $290 million extendible, revolving term credit facility with a syndicate of Canadian banks bearing interest at bank rates. The facility is available on a revolving basis until May 31, 2013. On May 31, 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 1.75 percent as at March 31, 2013 (December 31, 2012 – prime plus 2.00 percent).

The 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. Under the terms of the agreement, the Corporation is required to meet certain financial and engineering reporting requirements.

8. SHARE CAPITAL

(a) Stock Options

Under the Corporation's stock option plan, it may grant options to its officers, directors, employees and certain consultants for up to 7,121,735 common shares of the Corporation as at March 31, 2013. The exercise price of each option equals the market price of the Corporation's common shares at the date of grant. Options granted have a term of five years to maturity and vest as to one-third on each of the first, second and third anniversaries from the date of grant.

	March 31 2013		December 31, 2012	
	Number of Options	**Weighted average exercise price**	Number of Options	Weighted average exercise price
Stock options oustanding, beginning of period	**6,580,701**	**$ 7.53**	4,948,999	$ 7.54
Granted	**29,500**	**$ 5.05**	2,433,450	$ 7.49
Exercised	**-**	**$ -**	(230,330)	$ 6.04
Forfeited	**(88,000)**	**$ 8.26**	(571,418)	$ 8.11
Stock options oustanding, end of period	**6,522,201**	**$ 7.51**	6,580,701	$ 7.53
Exercisable at period-end	**2,291,909**	**$ 7.19**	2,132,742	$ 7.13

The following table summarizes stock options outstanding and exercisable at March 31, 2013:

	Options Outstanding				Options Exercisable			
Range of exercise prices	Number outstanding	Weighted average exercise price		Weighted average contractual life (years)	Number exercisable	Weighted average exercise price	
$1 to $2.99	26,666	$	1.75	0.70	26,666	$	1.75
$3 to $4.99	31,500	$	3.30	2.47	24,000	$	3.20
$5 to $6.99	2,231,167	$	6.39	2.45	1,391,318	$	6.41
$7 to $8.99	2,692,534	$	7.52	4.05	336,503	$	7.91
$9 to $11.15	1,540,334	$	9.28	3.37	513,422	$	9.28
$1 to $11.15	6,522,201	$	7.51	3.32	2,291,909	$	7.19

The following assumptions were used to calculate stock-based compensation during 2013: zero dividend yield; expected volatility of 69 percent; risk free rate of two percent; and expected life of five years.

(b) Performance warrants

The Corporation has 2,047,272 performance warrants outstanding (December 31, 2012 – 2,074,272) that expire on April 13, 2015. As at March 31, 2013, all 2,047,272 outstanding performance warrants were vested and exercisable at a price of $5.17.

(c) Per share amounts

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

	Three months ended March 31, 2013	2012
Weighted average number of shares - basic	**71,217,345**	70,474,105
Effect of dilutive stock options	**-**	1,711,244
Weighted average number of shares - diluted	**71,217,345**	72,185,349

In computing diluted per share amounts for the three months ended March 31, 2013, 6,522,201 options (March 31, 2012 – 52,099) and 2,047,272 performance warrants (March 31, 2012 – nil) were excluded from the calculation as their effect was anti-dilutive.

9. CONTINGENCIES

The Corporation is defending a legal action brought forth by a third party rights owner alleging that Surge is producing their gas from the Halfway formation as a result of cross-flow from the Halfway formation into the Corporation's Doig formation at Valhalla. If the defense against the action were to be unsuccessful, management does not expect the outcome of the action to have a material effect on the Corporation's financial position. The amount of potential damages and legal costs have not been determined due to the complex nature of the claim and calculations required to determine what amount would be owing due to the cross-flow.

10. SUBSEQUENT EVENT

The Company has executed a formal purchase and sale agreement with a Canadian oil and gas producer to sell all of the issued and outstanding shares of Surge Energy USA Inc. consisting of its non-core assets in North Dakota for a purchase price of approximately US$42.75 million. Closing of this transaction is anticipated to occur on or around May 31, 2013. The chief executive officer of the acquirer is a member of the Board of Directors of the Company and the sale was concluded following a marketed process to potential purchasers.