FINANCIAL AND OPERATING SUMMARY

($000s except per share amounts)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2012	% change	**2013**	2012	% change
Financials highlights						
Oil and NGL sales	**52,624**	45,610	15%	**100,840**	92,977	8%
Natural gas sales	**5,342**	3,308	61%	**10,698**	6,986	53%
Other revenue	**38**	9	nm	**48**	24	nm
Total oil, natural gas, and NGL revenue	**58,004**	48,927	19%	**111,586**	99,987	12%
Funds from Operations[1]	**26,812**	24,315	10%	**52,049**	48,322	8%
Per share basic ($)	**0.38**	0.34	12%	**0.73**	0.68	7%
Per share diluted ($)	**0.38**	0.34	12%	**0.73**	0.67	9%
Net income (loss)[4]	**(15,004)**	13,273	nm	**(16,358)**	15,930	nm
Per share basic ($)	**(0.21)**	0.19	nm	**(0.23)**	0.23	nm
Per share diluted ($)	**(0.21)**	0.18	nm	**(0.23)**	0.22	nm
Capital expenditures - petroleum & gas properties[2]	**25,166**	27,707	(9%)	**65,231**	82,605	(21%)
Capital expenditures - acquisitions & dispositions[2]	**(39,377)**	9,347	nm	**(40,184)**	113,745	nm
Total capital expenditures[2]	**(14,212)**	37,054	nm	**25,046**	196,350	(87%)
Net debt at end of period[3]	**193,597**	171,692	13%	**193,597**	171,692	13%
Operating highlights						
Production:						
Oil and NGL (bbls per day)	**6,966**	6,568	6%	**6,910**	6,339	9%
Natural gas (mcf per day)	**14,442**	16,246	(11%)	**15,559**	16,822	(8%)
Total (boe per day) (6:1)	**9,373**	9,275	1%	**9,504**	9,142	4%
Average realized price (excluding hedges):						
Oil and NGL ($per bbl)	**83.01**	76.31	9%	**80.62**	80.59	0%
Natural gas ($ per mcf)	**4.06**	2.24	81%	**3.80**	2.28	67%
Realized loss on financial contracts ($ per boe)	**(2.12)**	(0.29)	nm	**(1.28)**	(0.61)	nm
Net back (excluding hedges) ($ per boe)						
Oil, natural gas and NGL sales	**68.00**	57.97	17%	**64.87**	60.09	8%
Royalties	**(12.56)**	(9.69)	30%	**(11.74)**	(10.94)	7%
Operating expenses	**(11.97)**	(10.63)	13%	**(12.28)**	(11.14)	10%
Transportation expenses	**(2.46)**	(2.59)	(5%)	**(2.35)**	(2.19)	7%
Operating netback	**41.01**	35.06	17%	**38.50**	35.82	7%
G&A expenses	**(4.88)**	(3.50)	39%	**(4.03)**	(3.56)	13%
Interest expense	**(2.62)**	(1.87)	40%	**(2.67)**	(1.81)	48%
Corporate netback	**33.51**	29.69	13%	**31.80**	30.45	4%
Common shares (000s)						
Common shares outstanding, end of period	**71,918**	71,065	1%	**71,918**	71,065	1%
Weighted average basic shares outstanding	**71,358**	71,058	0%	**71,288**	70,766	1%
Stock option dilution (treasury method)	**-**	1,080	(100%)	**-**	1,403	(100%)
Weighted average diluted shares outstanding	**71,358**	72,138	(1%)	**71,288**	72,169	(1%)

1 Management uses funds from operations (cash flow from operations before changes in non-cash working capital, legal settlement expenses, transaction costs and current tax on disposition) 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, including the deposit on acquisition and excluding the fair value of financial contracts.
4 The Corporation views this change calculation as not meaningful, or "nm".

OVERVIEW, ACHIEVEMENTS AND HIGHLIGHTS

CHANGES TO SENIOR MANAGEMENT/NON-CORE ASSET SALE

On May 9, 2013, the Board announced the appointment of Mr. Paul Colborne as the President and CEO of Surge on that date. In addition, Mr. Murray Bye was appointed the Vice President of Production of Surge.

The Board also announced Mr. Dan O'Neil's retirement from his role as CEO and President of the Company. The Board thanks Mr. O'Neil for his efforts and service on behalf of Surge shareholders. Mr. O'Neil will continue as a director of the Company and will provide technical assistance.

On May 9, 2013 Surge also announced the sale of its non-core, primarily non-operated assets in North Dakota for a purchase price of $43.8 million net of closing adjustments. This transaction closed on May 31, 2013.

The non-core assets sold comprised production of approximately 650 barrels of oil per day, with independently proved plus probable reserves of 2.2 million boe, and a net present value of $36.8 million (discounted at ten percent before tax as of December 31, 2012).

STRATEGIC TRANSITION TO SUSTAINABLE GROWTH + DIVIDEND MODEL

On June 11, 2013, Surge announced the orderly transition of the Company to a sustainable, moderate growth dividend paying oil and gas company with high quality, focused, operated light and medium gravity crude oil assets.

Surge has a high quality, high netback, reserves, production and cash flow base focused primarily in just four operated, crude oil properties. Over 95 percent of the Company's assets are concentrated in these four elite properties at Valhalla and Nipisi in western Alberta, the Silver area in SE Alberta, and the Shaunavon area of SW Saskatchewan. These core assets are characterized by large Original Oil in Place ("OOIP")[5] reservoirs, low recovery factors, significant upside from infill and step-out development drilling, and successful waterfood implementation.

In addition, in the first half of 2013, Surge delivered the best drilling program in the Company's history, with three significant exploration discoveries at its core properties of Valhalla, Nipisi and Silver, respectively.

In spite of these very positive developments, Surge continued to trade at a significant discount to the Company's net asset value. At year-end 2012, Surge's independent engineering report provided an estimate net asset value of $8.21 per basic share[6], before tax, based on proved plus probable reserves (PV10).

Consequently, given that Surge has an elite, high quality crude oil asset and opportunity base, and that the Company's true value as a growth junior was being significantly discounted, Surge's Board and management approved an orderly transition to a sustainable growth plus dividend business model for the Company on a go-forward basis.

On this basis, Surge will now:

1. Grow, cost effectively, 3 to 5 percent per year on a reserves, production and cash flow per share basis; and
2. Provide a sustainable, resilient, annual dividend to shareholders payable monthly; and

[5] Original Oil in Place (OOIP) is the equivalent to Discovered Petroleum Initially In Place (DPIIP) for the purposes of this press release. 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.

[6] Based on Sproule's independent engineering report as at December 31, 2012 (pre-Acquisition/Disposition, and pre-equity financing)

3. Provide additional growth through accretive acquisitions of new, high quality, large OOIP assets with low recovery factors.

In June 2013, the Corporation announced its intention to become a dividend paying corporation. Monthly dividend payments of $0.035 per share ($0.42 per share annually) are expected to commence in September 2013.

$240 Million Acquisition of Elite, Large OOIP, Crude Oil Asset; $247.5 Million Bought Deal Financing

On June 11, 2013, Surge also announced an accretive acquisition of an operated, medium gravity crude oil producing asset in the Southwest area of Saskatchewan (the "Acquisition") with OOIP of more than 250 million barrels and a recovery factor of less than 1.4 percent. In conjunction with the Acquisition, Surge entered into a $247.5 million bought deal equity financing (the "Equity Financing") for 49,500,000 common shares at a price of $5.00 per common share with a syndicate of underwriters. The Acquisition and the Equity Financing closed on July 3, 2013.

Highlights for the quarter include:

- **Increased Surge's operating netback by 17 percent** to $41.01 per boe for the second quarter of 2013 as compared to $35.06 in the second quarter of 2012 (excluding risk management activity).
- **Increased Surge's operating netback by 14 percent** to $41.01 per boe for the second quarter of 2013 as compared to $36.02 in the first quarter of 2013 (excluding risk management activity).
- **Funds from operations increased 10 percent** to $26.8 million during the second quarter of 2013 from $24.3 million during the same period of 2012.
- **Funds from operations per fully diluted share increased 12 percent** during the second quarter of 2013 to $0.38 compared to the same period in 2012.
- **Funds from operations increased 6 percent** to $26.8 million during the second quarter of 2013 from $25.2 million during the first quarter of 2013.
- **Funds from operations per fully diluted share increased nine percent** during the second quarter of 2013 to $0.38 compared to $0.35 during the first quarter of 2013.
- **Reduced operating costs by five percent** to $11.97 per boe for the second quarter of 2013 as compared to $12.58 per boe in the first quarter of 2013.
- **Achieved a 100 percent drilling success rate** investing a total of $25.2 million in the second quarter, $17.4 million of which was allocated to drilling six gross (5.47 net) oil wells.
- **Surge realized a 74 percent** oil and natural gas liquids production weighting in the second quarter of 2013.
- **Approximately 91 percent of Surge's revenue resulted from oil and natural gas liquids production**, in the second quarter of 2013 with approximately nine percent derived from natural gas production.
- **Strong risk management program** which supports the protection of Surge's balance sheet. The Corporation has 54 percent of its current oil and NGL (after royalties) production hedged for the second half 2013, with an average WTI floor price of approximately $95.79 CAD per barrel.

Netback Comparison

	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012
Average production (boe per day)	**9,373**	9,636	8,919	8,292	9,275
Revenue	**$ 68.00**	$ 61.78	$ 60.24	$ 56.70	$ 57.97
Royalties	**(12.56)**	(10.93)	(11.36)	(9.96)	(9.69)
Operating costs	**(11.97)**	(12.58)	(12.68)	(11.48)	(10.63)
Transportation costs	**(2.46)**	(2.25)	(2.56)	(2.07)	(2.59)
Operating netback	**$ 41.01**	$ 36.02	$ 33.64	$ 33.19	$ 35.06
G&A expenses	**(4.88)**	(3.20)	(3.08)	(3.12)	(3.50)
Interest expense	**(2.62)**	(2.72)	(2.56)	(2.23)	(1.87)
Corporate netback	**$ 33.51**	$ 30.10	$ 28.00	$ 27.84	$ 29.69

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) of the interim condensed consolidated financial position and results of operations of Surge Energy Inc. ("Surge" or the "Corporation"), which includes its subsidiaries and partnership arrangements, is for the three and six months ended June 30, 2013 and 2012. 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 2013, (2) exploration, development, and acquisition activities, (3) average and exit oil, NGLs and natural gas production for 2013, (4) production weighting for 2013 (5) construction of new facilities, (6) funds from operations, (7) debt and bank facilities, (8) operating and transportation costs, (9) the availability and successful completion of acquisitions, (10) drilling locations, (11) primary and secondary recovery potentials and implementation thereof, (12) hedging results, (13) capital efficiencies and (14) decline rates. 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, prevailing commodity prices and economic conditions, development and completion activities, the performance of new wells, the successful implementation of waterflood programs, the availability of and performance of facilities and pipelines, the geological characteristics of Surge's properties, the successful application of drilling, completion and seismic technology, prevailing weather conditions, exchange rates, licensing requirements, the impact of completed facilities on operating costs and the availability, costs of capital, labour and services, and the creditworthiness of industry partners.

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 constraint in the availability of services, adverse weather or break-up conditions, 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 this MD&A under the heading 'Risk Factors' and in Surge's Annual Information Form dated March 19, 2013 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.

BOE PRESENTATION

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.

NON-IFRS MEASURES

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, legal settlement expense, transaction costs, and current tax on disposition as follows:

Funds from Operations

($000s)	**Q2 2013**	Q1 2013	Q4 2012	Q3 2012	Q2 2012
Cash flow from operating activities	**$ 24,703**	$ 24,987	$ 23,116	$ 24,483	$ 23,391
Change in non-cash working capital	**(3,019)**	250	945	(4,634)	924
Legal settlement expense	**3,550**	-	-	-	-
Transaction costs	**139**	-	-	-	-
Current tax on disposition	**1,439**	-	-	-	-
Funds from operations	**$ 26,812**	$ 25,237	$ 24,061	$ 19,849	$ 24,315

Funds from operations per share is calculated using the same weighted average basic and diluted shares used in calculating income per share. Operating and corporate netbacks are also presented. Operating netbacks excluding hedging activity represent Surge’s revenue, excluding realized and unrealized gains or losses on financial contracts, less royalties and operating and transportation expenses. Operating netbacks including hedging activity represent Surge’s operating netback adjusted for realized gains or losses on financial contracts. 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. This reconciliation is shown within the MD&A.

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.

The Corporation defines net debt as outstanding bank debt plus or minus working capital, including the deposit on acquisition and excluding the fair value of financial contracts.

Surge's Board of Directors and Audit Committee have reviewed and approved the condensed consolidated interim financial statements and MD&A. This MD&A is dated August 6, 2013.

OPERATIONS

Drilling

	Drilling		Success rate	Working
	Gross	Net	(%) gross	interest (%)
Q1 2013	15.00	10.95	93%	73%
Q2 2013	6.00	5.47	100%	91%
Total	**21.00**	**16.42**	**95%**	**78%**

Surge achieved a 100 percent success rate during the quarter ended June 30, 2013, drilling 6 gross (5.47 net) wells. The six gross wells drilled during the quarter include one well in North Dakota, two wells in South East Alberta, and three wells in Valhalla.

Production

	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012
Oil and NGL (bbls per day)	**6,966**	6,854	6,398	5,651	6,568
Natural gas (mcf per day)	**14,442**	16,689	15,129	15,846	16,246
Total (boe per day) (6:1)	**9,373**	9,636	8,919	8,292	9,275
% Oil and NGL	**74%**	71%	72%	68%	71%

Surge achieved an average production rate of 9,373 boe per day in the second quarter of 2013, a one percent increase from an average production rate of 9,275 boe per day in the same period of 2012, and a 3% decrease as compared to an average production rate of 9,636 for the first quarter of 2013. The increase in the production volumes as compared to 2012 was primarily due to the results of the 2012 and 2013 drilling programs. Production increases due to drilling were offset by approximately 415 boe per day in the second quarter for the Valhalla settlement which was effective April 1, 2013 and approximately 800 boe per day in June 2013 as a result of the Surge Energy USA Inc. disposal which was effective May 31, 2013.

Surge realized a 74 percent oil and natural gas liquids production weighting in the second quarter of 2013. Surge realized average oil and natural gas liquids production of 6,966 bbls per day for the second quarter of 2013.

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

In the second quarter of 2013, approximately 91 percent of Surge's revenue resulted from oil and natural gas liquids production, with approximately nine percent derived from natural gas.

A 17 percent increase in revenue per boe, combined with a one percent increase in production, resulted in revenues of $58.0 million in the second quarter of 2013, up 19 percent from $48.9 million in the same period of 2012.

Surge had certain financial contracts in place as of June 30, 2013. Surge recognized an unrealized gain of $1.6 million and a realized loss of $1.8 million on its financial contracts for the three months ended June 30, 2013. This compares to an unrealized gain of $12.9 million and a realized loss of $0.2 million on its financial contracts for the three months ended June 30, 2012.

The realized losses on financial contracts resulted in a decrease of $2.12 per boe to average revenue per boe during the three months ended June 30, 2013.

During the first half of 2013, approximately 90 percent of Surge's revenue resulted from oil and natural gas liquids production, with approximately 10 percent derived from natural gas.

An eight percent increase in revenue per boe, combined with a four percent increase in production, resulted in revenues of $111.6 million in the first half of 2013, up 12 percent from $100.0 million in the same period of 2012.

Surge had certain financial contracts in place as of June 30, 2013. Surge recognized an unrealized loss of $7.8 million and a realized loss of $2.2 million on its financial contracts in the first half of 2013. This compares to an unrealized gain of $10.1 million and a realized loss of $1.0 million on its financial contracts in the first half of 2012.

The realized losses on financial contracts resulted in a decrease of $1.28 per boe to average revenue per boe during the first half of 2013.

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

Prices

The Corporation realized average revenue of $68.00 per boe in the second quarter of 2013, before realized financial contract losses, an increase of 17 percent from the $57.97 per boe recorded in the same period of 2012.

The Corporation realized an average of $83.01 per bbl of oil and natural gas liquids in the second quarter of 2013, an increase of nine percent from the $76.31 per bbl realized in the same period of 2012. This compares to an average Edmonton Light Sweet price of $92.48 per bbl for the quarter, which increased 10 percent per barrel from the $83.94 per bbl during the same period of 2012. The increase in Surge's realized oil and natural gas liquids price is consistent with the increase in benchmark prices, and is a reflection of the narrowing of the WTI to Edmonton Light Sweet differential over the period.

The Corporation realized an average natural gas price of $4.06 per mcf in the second quarter of 2013, an 81 percent increase from the $2.24 per mcf averaged in the same period of 2012. This compares to an average AECO Daily Index reference price of $3.53 per mcf in the quarter, which increased by 87 percent from the $1.90 per mcf in the same period of 2012. The increase in realized natural gas prices is relatively consistent with the increase in benchmark prices.

Realized losses on financial contracts resulted in a decrease of $2.12 per boe to the average revenue per boe in the second quarter of 2013.

The Corporation realized average revenue of $64.87 per boe in the first half of 2013, before realized financial contract losses, an increase of eight percent from the $60.09 per boe recorded in the same period of 2012.

The Corporation realized an average of $80.62 per bbl of oil and natural gas liquids in the first half of 2013, a slight increase from the $80.59 per bbl realized in the same period of 2012. This compares to an average Edmonton Light Sweet price of $90.35 per bbl during the first half of 2013, which increased three percent per barrel from the $88.09 per bbl during the same period of 2012. The increase in Surge's realized oil and natural gas liquids price is relatively consistent with the increase in benchmark prices.

The Corporation realized an average natural gas price of $3.80 per mcf in the first half of 2013, a 67 percent increase from the $2.28 per mcf averaged in the same period of 2012. This compares to an average Alberta Plant Gate reference price of $3.37 per mcf in the first half of 2013, which increased by 66 percent from the $2.03 per mcf in the same period of 2012. The increase in realized natural gas prices is relatively consistent when compared to the increase in average Alberta Plant Gate reference pricing.

Realized losses on financial contracts resulted in a decrease of $1.28 per boe to the average revenue per boe in the first half of 2013.

Revenue and Realized Prices

	Three Months Ended June 30,			Six Months Ended June 30		
($000s except per amount)	**2013**	2012	% Change	**2013**	2012	% Change
Oil and NGL	**52,624**	45,610	15%	**100,840**	92,977	8%
Natural gas	**5,342**	3,308	61%	**10,698**	6,986	53%
Processing and other	**38**	9	322%	**48**	24	101%
Total oil, natural gas and NGL revenue	**58,004**	48,927	19%	**111,586**	99,986	12%
Oil and NGL ($ per bbl)	**83.01**	76.31	9%	**80.62**	80.59	0%
Natural gas ($ per mcf)	**4.06**	2.24	81%	**3.80**	2.28	67%
Total oil, natural gas and NGL revenue ($ per boe)	**68.00**	57.97	17%	**64.87**	60.09	8%
Realized loss on commodity contracts ($ per boe)	**(2.12)**	(0.29)	631%	**(1.28)**	(0.61)	110%
Total oil, natural gas, and NGL revenue after realized commodity contracts ($ per boe)	**65.88**	57.68	14%	**63.59**	59.48	7%
Reference Prices						
Edmonton Light Sweet ($ per bbl)	**92.48**	83.94	10%	**90.35**	88.09	3%
AECO Daily Index ($ per mcf)	**3.53**	1.90	87%	**3.37**	2.03	66%

Benchmark prices

	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
($ per bbl)						
Benchmark - WTI (US$)	**94.22**	94.37	88.18	92.22	93.49	102.93
Difference - WTI realized to Edmonton Light Sweet (C$)	**(1.74)**	(6.15)	(4.19)	(7.89)	(9.55)	(10.84)
% Difference	**(2%)**	(7%)	(5%)	(9%)	(10%)	(11%)
Benchmark - Edmonton Light Sweet (C$)	**92.48**	88.22	83.99	84.33	83.94	92.09
Difference - Edmonton Light Sweet to Surge realized (C$)	**(9.47)**	(10.04)	(9.21)	(8.39)	(7.63)	(6.90)
% Difference	**(10%)**	(11%)	(11%)	(10%)	(9%)	(7%)
Surge realized prices (C$)	**83.01**	78.18	74.78	75.94	76.31	85.19
(C$ per mcf)						
Benchmark - AECO Daily Index	**3.53**	3.20	3.22	2.29	1.90	2.14
Surge realized prices	**4.06**	3.57	2.73	2.56	2.24	2.32
Difference	**0.53**	0.37	(0.49)	0.27	0.34	0.18
% Difference	**15%**	11%	(15%)	12%	18%	8%

ROYALTIES

Surge realized royalty expenses of $10.7 million or 18 percent of revenue in the second quarter of 2013, as compared to $8.2 million or 17 percent of revenue in the same period of 2012. During the first half of 2013, Surge realized royalty expenses of $20.2 million or 18 percent of revenue, as compared to $18.2 million or 18 percent of revenue in the same period of 2012. Royalties increased slightly as a percentage of revenue during the second quarter of 2013, in comparison to the same period in 2012, due to increased production that was no longer eligible for reduce royalty rates under the Alberta government's royalty incentive program, which allows for reduced royalties on newly drilled horizontal wells.

As royalties under the Alberta Royalty Framework (ARF) are sensitive to both commodity prices and production levels, the estimated ARF and corporate royalty rates will fluctuate with commodity prices, well production rates, production decline of existing wells, and performance and location of new wells drilled.

Royalties

	Three Months Ended June 30,			Six Months Ended June 30,		
($000s except per boe)	**2013**	2012	% Change	**2013**	2012	% Change
Royalties	**10,709**	8,182	31%	**20,192**	18,199	11%
% of Revenue	**18%**	17%	6%	**18%**	18%	0%
$ per boe	**12.56**	9.69	30%	**11.74**	10.94	7%

OPERATING EXPENSES

Operating expenses per boe in the second quarter of 2013 were five percent lower than the previous quarter, at $11.97 per boe in the second quarter of 2013, as compared to $12.58 per boe in the first quarter of 2013.

Operating expenses per boe in the second quarter of 2013 were 13 percent higher than the same period in 2012, at $11.97 per boe as compared to $10.63 per boe in the same period of 2012. Operating expenses per boe in the first half of 2013 were 10 percent higher than the same period in 2012, at $12.28 per boe as compared to $11.14 per boe in the same period of 2012.

Operating expenses per boe during the three and six months ended June 30, 2013 increased mainly due to poor weather conditions and increased utility costs combined with site repairs and maintenance costs, as compared to the three and six month periods ended June 30, 2012.

The management team continues to focus on finding efficiencies within existing operations and expects combined transportation and operating expenses per boe to remain relatively consistent for the remainder of 2013.

Operating Expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
($000s except per boe)	**2013**	2012	% Change	**2013**	2012	% Change
Operating expenses	**10,214**	8,976	14%	**21,125**	18,532	14%
$ per boe	**11.97**	10.63	13%	**12.28**	11.14	10%

TRANSPORTATION EXPENSES

Transportation expenses per boe decreased by five percent to $2.46 per boe in the second quarter of 2013, as compared to $2.59 per boe in the same period of 2012. The decrease for the three months ended June 30, 2013 is primarily due to additional production volumes from pipeline connected production areas.

Transportation expenses per boe increased by seven percent in the first half of 2013, to $2.35 per boe, as compared to $2.19 per boe in the first half of 2012. The increase for the six months ended June 30, 2013 is primarily due to additional production volumes that were trucked from pipeline-connected areas that experienced pipeline interruptions during the first quarter of 2013.

The management team continues to focus on finding efficiencies within existing operations and expects combined transportation and operating expenses per boe to remain relatively consistent for the remainder of 2013.

Transportation Expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
($000s except per boe)	**2013**	2012	% Change	**2013**	2012	% Change
Transportation expenses	**2,100**	2,188	(4%)	**4,050**	3,646	11%
$ per boe	**2.46**	2.59	(5%)	**2.35**	2.19	7%

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

Net G&A expenses per boe for the second quarter of 2013 increased 39 percent to $4.88 per boe as compared to $3.50 per boe in the same period of 2012. G&A expenses for the second quarter of 2013, net of recoveries and capitalized amounts of $1.7 million, were $4.2 million, compared to $3.0 million in the same period of 2012, after recoveries and capitalized amounts of $2.3 million.

Net G&A expenses per boe for the first half of 2013 increased by 13 percent to $4.03 per boe as compared to $3.56 in the same period of 2012. G&A expenses for the first half of 2013, net of recoveries and capitalized amounts of $4.0 million, were $6.9 million, compared to $5.9 million in the same period of 2012, after recoveries and capitalized amounts of $4.4 million.

The increase in G&A per boe is primarily due to one-time severance expenses totaling $1.5 million booked in the second quarter of 2013, as compared to nil in the same period of 2012. When adjusted for one-time severance costs, net G&A per BOE is approximately $3.18 per boe for the six months ended June 30, 2013, an eleven percent decrease in net G&A per boe.

G&A Expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
($000s except per boe)	**2013**	2012	% Change	**2013**	2012	% Change
G&A expenses	**5,820**	5,246	11%	**10,893**	10,360	5%
Recoveries and capitalized amounts	**(1,661)**	(2,294)	(28%)	**(3,959)**	(4,436)	(11%)
Net G&A expenses	**4,159**	2,952	41%	**6,934**	5,924	17%
Net G&A expenses $ per boe	**4.88**	3.50	39%	**4.03**	3.56	13%

TRANSACTION COSTS

In the second quarter of 2013, the Corporation incurred transaction costs of $0.1 million or $0.16 per boe related to evaluation and review of business and property acquisitions. This is compared to $0.2 million or $0.30 per boe during the same period of 2012.

In the first half of 2013, the Corporation incurred transaction costs of $0.1 million or $0.08 per boe related to evaluation and review of business and property acquisitions. This is compared to $0.6 million or $0.37 per boe during the same period of 2012.

Transaction Costs

	Three Months Ended June 30,			Six Months Ended June 30,		
($000s except per boe)	**2013**	2012	% Change	**2013**	2012	% Change
Transaction costs	**139**	249	(45%)	**139**	612	(77%)
$ per boe	**0.16**	0.30	(47%)	**0.08**	0.37	(78%)

FINANCE EXPENSES

During the quarter ended June 30, 2013, Surge incurred interest expense of $2.2 million or $2.62 per boe as compared to $1.6 million or $1.87 per boe in the same period of 2012. Surge incurred interest expense of $4.6 million or $2.67 per boe in the first half of 2013 as compared to $3.0 million or $1.81 per boe in the same period of 2012. The increased interest expense per boe during the three and six months ended June 30, 2013 is primarily due to higher debt levels as compared to the same period of 2012.

Accretion represents the change in the time value of the decommissioning liability. Accretion expense per boe increased for the three and six months ended June 30, 2013 compared to the same periods of 2012 primarily due to the change in estimate recorded in the first half of 2013. The underlying liability may increase over a period of time, based on new obligations incurred from drilling wells, constructing facilities, acquiring operations or adjusting future estimates of timing or amounts. Similarly, this future obligation can be reduced as a result of abandonment work undertaken.

Finance Expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
($000s except per boe)	**2013**	2012	% Change	**2013**	2012	% Change
Interest expense	**2,238**	1,576	42%	**4,600**	3,009	53%
$ per boe	**2.62**	1.87	40%	**2.67**	1.81	48%
Accretion expense	**335**	258	31%	**645**	514	25%
$ per boe	**0.40**	0.30	33%	**0.38**	0.31	23%
Finance expenses	**2,573**	1,835	40%	**5,245**	3,523	49%
$ per boe	**3.02**	2.17	39%	**3.05**	2.12	44%

NETBACKS

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 $41.01 for the second quarter of 2013, a 17 percent increase from the $35.06 recorded during the same period of 2012. The increase in operating netback was attributable to a 17 percent increase in revenue per boe and a five percent decrease in transportation costs per boe, partially offset by a 30 percent increase in royalties per boe and a 13 percent increase in operating costs per boe. The increase in corporate netback was impacted by a 39 percent increase in interest expense per boe and a 40 percent increase in G&A expense per boe, as compared to the same period 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 $38.50 for the first half of 2013, a seven percent increase from the $35.82 recorded during the same period of 2012. The increase in operating netback was attributable to an eight percent increase in revenue per boe, partially offset by a 10 percent increase in operating costs per boe, a seven percent increase in transportation costs per boe, and a seven percent increase in royalties per boe. The increase in corporate netback was impacted by a 48 percent increase in interest expense per boe and a 13 percent increase in G&A expense per boe, as compared to the same period of 2012.

Netbacks, Excluding Hedging Activity

	Three Months Ended June 30,			Six Months Ended June 30,		
($ per boe, except production)	**2013**	2012	% Change	**2013**	2012	% Change
Average production (boe per day)	**9,373**	9,275	1%	**9,504**	9,142	4%
Revenue	**68.00**	57.97	17%	**64.87**	60.09	8%
Royalties	**(12.56)**	(9.69)	30%	**(11.74)**	(10.94)	7%
Operating costs	**(11.97)**	(10.63)	13%	**(12.28)**	(11.14)	10%
Transportation costs	**(2.46)**	(2.59)	(5%)	**(2.35)**	(2.19)	7%
Operating netback	**41.01**	35.06	17%	**38.50**	35.82	7%
G&A expense	**(4.88)**	(3.50)	39%	**(4.03)**	(3.56)	13%
Interest expense	**(2.62)**	(1.87)	40%	**(2.67)**	(1.81)	48%
Corporate netback	**33.51**	29.69	13%	**31.80**	30.45	4%

Netbacks, Including Hedging Activity

	Three Months Ended June 30,			Six Months Ended June 30,		
($ per boe)	**2013**	2012	% Change	**2013**	2012	% Change
Operating netback	**41.01**	35.06	17%	**38.50**	35.82	7%
Realized gain (loss) on commodity contracts	**(2.12)**	(0.29)	nm	**(1.28)**	(1.62)	(21%)
Operating netback, net of hedging activity	**38.89**	34.77	12%	**37.22**	34.20	9%
G&A expense	**(4.88)**	(3.50)	39%	**(4.03)**	(3.56)	13%
Interest expense	**(2.62)**	(1.87)	40%	**(2.67)**	(1.81)	48%
Corporate netback	**31.39**	29.40	7%	**30.52**	28.83	6%

FUNDS FROM OPERATIONS AND CASH FLOW FROM OPERATIONS

Funds from operations increased 10 percent to $26.8 million in the second quarter of 2013 compared to $24.3 million in the same period of 2012. On a per share basis, funds from operations increased 12 percent, to $0.38 per basic share from $0.34 per basic share in the same period of 2012.

Funds from operations increased eight percent to $52.0 million in the first half of 2013 compared to $48.3 million in the same period of 2012. On a per share basis, funds from operations increased seven percent, to $0.73 per basic share from $0.68 per basic share in the same period of 2012.

Cash flow from operating activities differs from funds from operations principally due to the inclusion of changes in non-cash working capital. Cash flow from operations was $24.7 million for the second quarter of 2013 as compared to $23.4 million in the same period of 2012.

Cash flow from operating activities differs from funds from operations principally due to the inclusion of changes in non-cash working capital. Cash flow from operations was $49.7 million for the first half of 2013 as compared to $45.3 million in the same period of 2012.

Included in cash flow from operations is an increase in non-cash working capital of $3.0 million in the second quarter of 2013 and an increase of $2.8 million for the six months ended June 30, 2013.

Funds from Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
($000s except per share and per boe)	**2013**	2012	% Change	**2013**	2012	% Change
Funds from operations	**26,812**	24,315	10%	**52,049**	48,322	8%
Per share - basic ($)	**0.38**	0.34	12%	**0.73**	0.68	7%
Per share - diluted ($)	**0.38**	0.34	12%	**0.73**	0.67	9%
$ per boe	**31.78**	28.81	10%	**30.43**	29.04	5%
Cash flow from operating activities	**24,703**	23,391	6%	**49,690**	45,262	10%

STOCK-BASED COMPENSATION

Surge recorded net stock-based compensation expense of $4.3 million during the second quarter of 2013, compared to $0.7 million for the same period of 2012. The fair value of the options granted was calculated using the Black-Scholes option-pricing model. The increase in stock-based compensation for this period was due to immediate recognition of $3.5 million related to warrants issued through a private placement to the CEO of the Corporation during the second quarter of 2013 that were considered compensatory.

Surge recorded net stock-based compensation expense of $5.2 million during the first half of 2013, compared to $1.6 million for the same period of 2012. The fair value of the options granted was calculated using the Black-Scholes option-pricing model. The increase was attributable to the warrants noted above.

During the second quarter of 2013, 74,500 options were issued at a weighted average exercise price of $4.05 per option and 746,701 options were forfeited at a weighted average price of $7.74 per option. No options were exercised during the period.

The following assumptions were used to calculate the fair value of options granted in 2013: zero dividend yield; expected volatility of 69 percent; risk free rate of two percent; forfeiture rate of zero and expected life of five years.

During the second quarter of 2013, the Corporation in conjunction with the private placement issued 1,400,560 warrants exercisable at a price of $4.46. The warrants will become exercisable based on certain time based and performance based conditions. Specifically with respect to time they are exercisable up to one third on each anniversary from the date of the grant, and with respect to performance up to one half when the market price of the Corporation reaches $6.30 and the other half when it reaches $8.40. The warrants expire in June 2018. There are no warrants exercisable as at June 30, 2013.

The following assumptions were used to calculate stock-based compensation recognized on warrants in the period: zero dividend yield; expected volatility of 66 percent; risk free rate of one percent; forfeiture rate of zero percent and expected life of five years.

During the second quarter of 2013, the Corporation issued 2.0 million stock appreciation rights ("SAR's") exercisable at a price of $3.24 per SAR. The SAR's vest up to one third on each anniversary from the date of grant and expire in June 2018. The exercise price is downward adjusted for dividends paid. The SAR's when exercised are to be cash settled based on the difference between the Corporation's common share price on the date of exercise and the adjusted exercise price. The Corporation has valued the SAR's using a Black Scholes valuation model and will continue to revalue at each reporting period until ultimate cash settlement. The Corporation realized a liability within accounts payable and an offsetting increase to stock based compensation.

Stock-based compensation

	Three Months Ended June 30,			Six Months Ended June 30,		
($000s except per boe)	**2013**	2012	% Change	**2013**	2012	% Change
Stock-based compensation	**4,392**	1,658	165%	**6,592**	4,078	62%
Capitalized stock-based compensation	**(93)**	(975)	(90%)	**(1,401)**	(2,429)	(42%)
Net stock-based compensation	**4,299**	683	529%	**5,191**	1,649	215%
Net stock-based compensation $ per boe	**5.04**	1.54	227%	**3.02**	0.99	205%

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 $35.1 million. Future development costs for proved and probable reserves of $185.3 million have been included in the depletion calculation.

Surge recorded $15.0 million or $17.57 per boe in depletion and depreciation expense during the second quarter of 2013, as compared to $18.4 million or $21.82 per boe in depletion and depreciation expense in the same period of 2012. This decrease is due primarily to the impairment recorded in the fourth quarter of 2012.

The depletion and depreciation calculation is based on daily production volumes of 9,373 boed for the second quarter of 2013.

Surge recorded $30.7 million or $17.87 per boe in depletion and depreciation expense during the first half of 2013, as compared to $35.3 million or $21.22 per boe in depletion and depreciation expense in the same period of 2012. This decrease is due primarily to the impairment recorded in the fourth quarter of 2012.

Depletion and Depreciation Expense

	Three Months Ended June 30,			Six Months Ended June 30,		
($000s except per boe)	**2013**	2012	% Change	**2013**	2012	% Change
Depletion and depreciation expense	**14,986**	18,413	(19%)	**30,738**	35,303	(13%)
$ per boe	**17.57**	21.82	(19%)	**17.87**	21.22	(16%)

IMPAIRMENT

Impairment

($000s except per boe)	Three Months Ended June 30, 2013	2012	% Change	Six Months Ended June 30, 2013	2012	% Change
Impairment	**24,000**	-	nm	**24,000**	-	nm
$ per boe	**28.14**	-	nm	**13.95**	-	nm

In conjunction with the disposal of the US petroleum and natural gas properties and performance and reserve issues, the Corporation tested the remaining petroleum and natural gas properties in the related CGU for impairment. The estimated recoverable amount of the CGU was estimated as its fair value less costs to sell based on the net present value of before tax cash flows from oil and gas proved plus probable reserves estimated by the Corporation's third party reserve evaluators at a discount rate of 15%. In determining the appropriate discount rate, the Corporation referenced recent market transactions completed on assets similar to those in the CGU. At June 30, 2013, it was determined that the net book value of the CGU exceeded the recoverable amount and the Corporation recorded a $24.0 million impairment charge.

NET INCOME

The Corporation recorded a net loss of $15.0 million or $0.21 per basic share for the second quarter of 2013 compared to net income of $13.3 million or $0.19 per basic share for the same period of 2012. The cause for the change in net income is primarily due to the $1.4 million gain on disposal (2012 – nil)) offset by the $24.0 million impairment (2012 – nil) recorded in the second quarter of 2013, as well as the $1.2 million unrealized gain on financial contracts as compared to the $12.9 million unrealized gain on financial contracts recognized in the second quarter of 2012.

The Corporation recorded a net loss of $16.4 million or $0.23 per basic share for the first half of 2013 compared to net income of $15.9 million or $0.23 per basic share for the same period of 2012. The cause for the change in net income is primarily due to the $1.5 million gain on disposal (2012 – nil)) offset by the $24.0 million impairment (2012 – nil) recorded in the second quarter of 2013, as well as the $7.8 million unrealized loss on financial contracts as compared to the $10.1 million unrealized gain on financial contracts recognized in the second quarter of 2012.

Net Income (Loss)

($000s except per share)	Three Months Ended June 30, 2013	2012	% Change	Six Months Ended June 30, 2013	2012	% Change
Net Income (Loss)	**(15,004)**	13,273	nm	**(16,358)**	15,930	nm
Per share - basic ($)	**(0.21)**	0.19	nm	**(0.23)**	0.23	nm
Per share - diluted ($)	**(0.21)**	0.18	nm	**(0.23)**	0.22	nm

CAPITAL EXPENDITURES

During the second quarter of 2013, Surge invested a total of $25.2 million, prior to proceeds from dispositions. Surge invested $17.4 million to drill 6 gross (5.47 net) wells.

In addition, Surge invested $5.8 million in facilities, equipment, and pipelines, $0.4 million in seismic and land acquisitions, and $1.6 million on other capital items.

Capital Expenditure Summary

($000s)	Q1 2013	Q2 2013	2013 YTD	2012 YTD	Change
Land	1,975	335	**2,310**	9,032	(74%)
Seismic	311	61	**372**	2,040	(82%)
Drilling and completions	27,607	17,371	**44,978**	51,998	(14%)
Facilities, equipment and pipelines	8,075	5,799	**13,874**	15,097	(8%)
Other	2,097	1,599	**3,696**	4,436	(17%)
Total exploration and development	40,065	25,166	**65,231**	82,605	(21%)
Acquisitions - cash consideration	-	-	**-**	27,847	(100%)
Acquisitions - debt acquired	-	-	**-**	14,623	(100%)
Acquisitions - share based consideration	-	-	**-**	71,275	(100%)
Property dispositions	(807)	(39,377)	**(40,184)**	-	nm
Total acquisitions & dispositions	(807)	(39,377)	**(40,184)**	113,745	nm
Total capital expenditures	39,258	(14,212)	**25,046**	196,350	(87%)

Quarterly Financial Information

	Q2 2013	Q1 2013	Q4 2012	Q3 2012
Oil, Natural gas & NGL sales	58,004	53,582	49,430	43,243
Net earnings (loss)	(15,004)	(1,354)	(68,187)	(986)
Net earnings (loss) per share ($):				
Basic	(0.21)	(0.02)	(0.96)	(0.01)
Diluted	(0.21)	(0.02)	(0.96)	(0.01)
Funds from operations	26,812	25,237	24,061	19,849
Funds from operations per share ($):				
Basic	0.38	0.35	0.34	0.28
Diluted	0.38	0.35	0.34	0.28
Average daily sales				
Oil & NGL (bbls/d)	6,966	6,854	6,398	5,651
Natural gas (mcf/d)	14,442	16,689	15,129	15,846
Barrels of oil equivalent (boe per day) (6:1)	9,373	9,636	8,919	8,292
Average sales price				
Natural gas ($/mcf)	4.06	3.57	3.89	2.56
Oil & NGL ($/bbl)	83.01	78.18	74.78	75.94
Barrels of oil equivalent ($/boe)	68.00	61.78	60.24	56.70

Quarterly Financial Information

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

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 second quarter of 2012 through the current quarter are due to Surge's successful drilling program, as well as corporate and asset acquisitions over that period. Please refer to the Financial and Operating Results section and other sections of this MD&A for detailed discussions on variations during the comparative quarters and to Surge's previously issued interim and annual MD&A for changes in prior quarters.

Share Capital and Option Activity

	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012
Weighted Common Shares	71,358,171	71,217,345	71,196,143	71,117,390	71,057,943
Stock option dilution (treasury method)[1]	-	-	-	-	1,080,348
Weighted average diluted shares oustanding[1]	71,358,171	71,217,345	71,196,143	71,117,390	72,138,291

[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 August 6, 2013 Surge had 121,417,626 common shares, 3,447,832 warrants, 2,000,000 SAR's and 5,894,165 options outstanding.

LIQUIDITY AND CAPITAL RESOURCES

On June 30, 2013, Surge had drawn $212.5 million on its credit facility with total net debt of $193.1 million. Surge has approximately $65 million of borrowing capacity in relation to the $277 million credit facility, giving Surge considerable financial flexibility through the balance of 2013.

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, including the deposit on acquisition and excluding the fair value of financial contracts as follows:

Net Debt

($000s)		
Bank debt	$	(212,494)
Accounts receivable		29,715
Prepaid expenses and deposits		2,999
Accounts payable and accrued liabilities		(37,817)
Deposit on acquisition		24,000
Total	**$**	**(193,597)**

As at June 30, 2013, the Corporation had a $277 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 June 30, 2013 (December 31, 2012 – prime plus 2.0 percent).

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

Under the terms of the agreement, the Corporation must maintain an adjusted working capital ratio of not less than 1.00:1.00 at all times. The working capital ratio is defined under the current credit facility as cash-based current assets, including the undrawn portion of the facility, to cash-based current liabilities, excluding any current bank indebtedness. The Corporation is compliant with this covenant at June 30, 2013.

Subsequent to the second quarter of 2013, in association with an asset acquisition, the Corporation increased its bank line to $350 million.

RELATED-PARTY AND OFF-BALANCE-SHEET TRANSACTIONS

Surge was not involved in any off-balance-sheet transactions or related party transactions during the period ended June 30, 2013.

FINANCIAL INSTRUMENTS

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 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 summarizes the Corporation's derivatives as at the date of this MD&A by period and by product. Further detail on the individual hedges can be found in the Financial Statements.

Commodity Contracts

WTI-to-Edm Oil Differential Hedges

Period	Volume Hedged (bbl/d)	Avg Discount to WTI (C$)
Mar 2013	1,000	$ (7.50)
Q2 2013	2,000	$ (7.68)
Q3 2013	2,000	$ (7.93)
Q4 2013	2,000	$ (7.93)

WTI Oil Hedges

Period	Volume Hedged (bbl/d)	Avg Floor Price (Surge receives) (C$ per bbl)
Q1 2013	3,500	$ 93.06
Q2 2013	3,500	$ 93.10
Q3 2013	2,850	$ 93.85
Q4 2013	2,850	$ 93.85
Q1 2014	1,000	$ 91.83
Q2 2014	1,000	$ 91.83
Q3 2014	1,000	$ 91.83
Q4 2014	1,000	$ 91.83

AECO Gas Hedges

Period	Volume Hedged (mcf/d)	Avg Swap Price (Surge receives) (C$ per mcf)
Q1 2013	8,441	$ 3.39
Q2 2013	8,441	$ 3.39
Q3 2013	8,441	$ 3.39
Q4 2013	8,441	$ 3.39
Q1 2014	4,220	$ 3.69
Q2 2014	4,220	$ 3.69
Q3 2014	4,220	$ 3.69
Q4 2014	4,220	$ 3.69

Interest Contracts

Product	Period	Notional (C$)	Company Fixed Interest Rate (%) (1)
Interest Rate Swap	Calendar 2013 - 2014	$50,000,000	2.74

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

Foreign Exchange Contracts

Product	Period	Notional (US$)	Swap Price (C$)
Foreign Exchange Swap	Calendar 2013	$33,762,500	$ 1.005
Foreign Exchange Swap	Calendar 2014	$33,361,000	$ 1.005

CONTINGENCIES

On May 23, 2013 the Corporation reached a settlement agreement, whereby all third party objections to the Corporation's holding applications at its Valhalla property were withdrawn. The negotiated settlement includes compensation by Surge of $4.0 million for gas production from the property over the preceding 30 months and included a commercial arrangement which accounts for and compensates the parties for any future gas obligations and the withdrawal of a lawsuit filed by one of the objectors.

SUBSEQUENT EVENTS

On July 3, 2013 the Corporation acquired certain working interest in petroleum and natural gas properties in Saskatchewan for $240 million from a Canadian oil and gas producer. The Corporation paid a deposit of $24 million as a deposit on the properties in June 2013. The Corporation also issued 49,500,000 common shares at a price of $5.00 per common share for aggregate gross proceeds of $247.5 million pursuant to a short form prospectus on July 3, 2013. Concurrent with the acquisition, Surge increased its bank line from $277 million to $350 million.

Subsequent to the second quarter, Surge entered into the following financial oil commodity pricing contracts:

	Term	Type	Volume	Price (C$) (Surge Receives)	Index (Surge pays)
1)	Jul 1, 2013 - Jun 30, 2014	Swap	500bbls/d	101.45	$CAD WTI - NYMEX
2)	Jan 1, 2014 - Jun 30, 2014	Swap	500bbls/d	100.05	$CAD WTI - NYMEX
3)	Jul 1, 2014 - Dec 31, 2014	Swap	500bbls/d	95.90	$CAD WTI - NYMEX
4)	Jan 1, 2015 - Dec 31, 2015	Swap	250bbls/d	92.29	$CAD WTI - NYMEX
5)	Jan 1, 2015 - Dec 31, 2015	Swap	250bbls/d	92.00	$CAD WTI - NYMEX
6)	Aug 1, 2013 - Dec 31, 2013	Swap	500bbls/d	100.00	$CAD WTI - NYMEX
		Call	500bbls/d	101.80	$CAD WTI - NYMEX

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 Commission ("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.

There were no changes in the Corporation's ICFR during the period ended March 31, 2013 that materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

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.

Forecasted 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.

Stock-based Compensation

Management makes various assumptions in determining the value of stock based compensation. This includes estimating the forfeiture rate, the expected volatility of the underlying security, interest rates and expected life.

Deferred Income Taxes

Management makes various assumptions in determining the value of stock deferred income tax provision, including (but not limited to) future tax rates, accessibility of tax pools and future cashflows.

CHANGES IN ACCOUNTING POLICIES

On January 1, 2013, the Corporation 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.

FUTURE ACCOUNTING POLICY CHANGES

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, 2015. 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 2012 Annual Information Form, which can be found on www.sedar.com. Many risks are discussed below and in the 2012 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 effect 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 be required to shift to the NRF on January 1, 2014. All wells drilled prior to November 19, 2008 moved to the NRF on January 1, 2009.