

June 3, 2011

Of Counsel

The Right Honourable Pierre Elliott Trudeau, P.C., C.C., C.H., Q.C., FRSC (1984 - 2000)

The Right Honourable Jean Chrétien, P.C., Q.C.

The Honourable Donald J. Johnston, P.C., Q.C. (1974 - 1996)

Pierre Marc Johnson, FRSC

Peter M. Blaikie, Q.C.

André Bureau, O.C.

Pierre C. Lemoine

VIA SEDAR

To: British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
New Brunswick Securities Commission
Newfoundland and Labrador Department of Government Services and Lands
Nova Scotia Securities Commission
Prince Edward Island Securities Division

Re: Surge Energy Inc. - Filing of Revised Annual Information Form

Accompanying this letter is a revised annual information form (the “**Revised AIF**”) of Surge Energy Inc. (the “**Corporation**”), which we are filing with the securities regulatory authorities in each of the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador. The Revised AIF includes the Form 51-101F2 which was unintentionally omitted as Schedule “A” from the initial filing of the annual information form of the Corporation for the year ended December 31, 2010 which was originally filed on SEDAR on April 26, 2011. **There were no other changes to the annual information form and the Revised AIF is only being filed to correct this deficiency.**

Peter W. Yates

T 403 781.3383
F 1 866 297.8751
pyates@heenan.ca

19th Floor, Penn West Plaza
215 – 9th Avenue SW
Calgary, Alberta
Canada T2P 1K3

www.heenanblaikie.com

Heenan Blaikie LLP

(signed) “*Peter W Yates*”

Peter W. Yates

PY

HBdocs - 10523083v1



SURGE ENERGY INC.

REVISED ANNUAL INFORMATION FORM

For the Year Ended December 31, 2010

Dated June 3, 2011

TABLE OF CONTENTS

Definitions	5
Abbreviations and Conversion	8
Special Note Regarding Forward Looking Statements	9
Surge Energy Inc.	10
General	10
Development of the Business	11
General	11
2008.....	11
2009.....	11
2010.....	11
The Recapitalization	12
New Management Group	12
Prospectus Financing.....	12
Corinthian and Crystal Lake Acquisition	13
Name Change	13
Valhalla Asset Acquisition.....	13
Offering.....	13
Description of the Business	14
Corporate Strategy	14
Competition.....	15
Seasonal Factors	15
Environmental Regulation	15
Personnel.....	15
Principal Producing Properties.....	15
Statement of Reserves Data	16
Summary of Oil and Gas Reserves – Forecast Prices and Costs	17
Net Present Value of Future Net Revenue – Forecast Prices and Costs.....	17
Additional Information Concerning Future Net Revenue – Forecast Prices and Costs (Undiscounted)	18
Future Net Revenue by Production Group – Forecast Prices and Costs	18
Pricing Assumptions – Forecast Prices and Costs.....	19
Reconciliation of Changes in Reserves	19
Additional Information Relating to Reserves Data	20
Undeveloped Reserves	20
Significant Factors or Uncertainties Affecting Reserves Data	21
Future Development Costs	21
Other Oil and Gas Information	22
Oil and Gas Wells	22
Properties with no Attributed Reserves	22
Additional Information Concerning Abandonment and Reclamation Costs	22
Tax Horizon	22
Costs Incurred.....	23
Drilling Activity.....	23
Planned Capital Expenditures.....	23
Production Estimates.....	23
Production History.....	24
Average Daily Production Volume.....	24
Prices Received, Royalties Paid, Production Costs and Netback- Crude Oil.....	24
Prices Received, Royalties Paid, Production Costs and Netback- Natural Gas.....	24
Prices Received, Royalties Paid, Production Costs and Netback- Combined	24
Production Volume by Field	25

Share Capital	25
Common Shares.....	25
Preferred Shares.....	25
Dividend Policy	25
Escrowed Securities	25
Market for Securities	26
Directors and Officers	26
Corporate Cease Trade Orders.....	28
Bankruptcies.....	29
Penalties or Sanctions.....	29
Conflicts of Interest.....	29
Industry Conditions	29
Pricing and Marketing – Oil.....	30
Pipeline Capacity.....	30
The North American Free Trade Agreement.....	30
Provincial Royalties and Incentives.....	30
General.....	30
Alberta.....	31
British Columbia.....	32
Land Tenure.....	32
Environmental Regulation.....	32
Risk Factors	33
Operational Risks.....	33
Sour Natural Gas.....	33
Reserve Estimates.....	33
Reserve Replacement.....	34
Possible Failure to Realize Anticipated Benefits of the Valhalla Asset Acquisition.....	34
Availability of Services.....	34
Adoption of International Financial Reporting Standards.....	34
Risks Associated with Acquisitions.....	34
Market Conditions.....	35
Industry Regulation and Competition.....	35
Volatility of Oil and Gas Prices and Markets.....	35
Variations in Foreign Exchange Rates and Interest Rates.....	36
Price Volatility of Publicly Traded Securities.....	36
Substantial Capital Requirements; Liquidity.....	36
Issuance of Debt.....	36
Environmental Concerns.....	36
Abandonment and Reclamation Costs.....	37
Possible Failure to Realize Anticipated Benefits of Future Acquisitions.....	37
Third Party Credit Risk.....	37
Delay in Cash Receipts and Credit Worthiness of Counterparties.....	38
Dilution.....	38
Net Asset Value.....	38
Reliance on Management.....	38
Permits and Licenses.....	38
Title to Properties.....	38
Aboriginal Claims.....	39
Corporate Matters.....	39
Failure to Maintain Listing of the Common Shares.....	39
Structure of the Corporation.....	39
Changes in Legislation.....	39

Legal Proceedings And Regulatory Actions.....	39
Interest of Management and Others in Material Transactions	39
Auditor, Transfer Agent and Registrar	40
Interest of Experts.....	40
Material Contracts	40
Additional Information.....	41

DEFINITIONS

Unless the context indicates otherwise, the following terms shall have the meanings set out below when used in this Annual Information Form. Certain other terms and abbreviations used herein, but not defined herein, are defined in NI 51-101 or the COGE Handbook and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101 or the COGE Handbook.

"2007 Bid" means the normal course issuer bid announced by the Corporation in June 2007 through the facilities of the TSXV to acquire for cancellation up to 871,129 Common Shares;

"2008 Bid" means the normal course issuer bid announced by the Corporation in June 2008 through the facilities of the TSXV to acquire for cancellation up to 864,329 Common Shares;

"771129" means 771129 Alberta Ltd., a corporation organized under the ABCA and the Corporation's wholly-owned subsidiary;

"744997" means 744997 Alberta Ltd., a corporation organized under the ABCA and a predecessor to the Corporation by amalgamation;

"ABCA" means the *Business Corporations Act*, R.S.A. 2000, c. B-9, as amended;

"AIF" means this Annual Information Form;

"Audit Committee" means the audit committee of the Corporation

"Board of Directors" or **"Board"** means the board of directors of the Corporation;

"Breaker" means Breaker Energy Ltd., a publicly traded oil and natural gas company acquired by NAL Oil & Gas Trust in December 2009;

"COGE Handbook" means the Canadian Oil and Gas Evaluation Handbook prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum;

"Common Shares" means the common shares of the Corporation;

"Corinthian" means Corinthian Energy Corp. originally incorporated under the ABCA and amalgamated with a wholly-owned subsidiary of the Corporation to form Breaker Resources Ltd.;

"Corinthian Acquisition" means the indirect acquisition by the Corporation on July 9, 2010 of all of the issued and outstanding shares of Corinthian;

"Corinthian Acquisition Agreement" means the agreement entered into by the Corporation and Corinthian dated June 21, 2010 whereby the Corporation agreed to acquire all of the issued and outstanding common shares of Corinthian for consideration of 0.4 Common Shares of the Corporation for every one common share of Corinthian for a total consideration of approximately 16 million Common Shares;

"Corinthian Shares" means common shares of Corinthian;

"Corporation" or **"Surge"** means Surge Energy Inc., a corporation amalgamated under the ABCA;

"Credit Facility" means the \$90 million extendible revolving term credit facility of the Corporation with a Canadian chartered bank bearing interest at bank rates;

"Crystal Lake" means Crystal Lake Resources Inc. originally incorporated under the ABCA and amalgamated with a wholly-owned subsidiary of the Corporation to form Breaker Resources Ltd.;

“Crystal Lake Acquisition” means the indirect acquisition by the Corporation on July 19, 2010 of all of the issued and outstanding shares of Crystal Lake;

“FT Units” means units issued pursuant to a private placement that took place in conjunction with the Recapitalization, with each unit consisting of one Common Share issued on a “flow-through” basis in accordance with the Tax Act and one Performance Warrant;

“NAFTA” means the North American Free Trade Agreement;

“NI 51-101” means National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities;

“Offering” means the private placement offering of 8,001,000 Subscription Receipts at a price of \$5.25 per Subscription Receipt completed of October 20, 2010;

“Partnership” means Zapata Limited Partnership, an Alberta limited partnership which was dissolved on January 2, 2011;

“Performance Warrant” means a Common Share purchase warrant entitling the holder to purchase one Common Share at a price of \$5.17 for a period of five years, issued pursuant to the private placement that took place in conjunction with the Recapitalization;

“Preferred Shares” means the preferred shares of the Corporation;

“Purchase Agreement” means the definitive agreement of purchase and sale dated September 22, 2010 between the Corporation and the Vendor relating to the acquisition by the Corporation of the Valhalla Assets;

“Recapitalization” means the change of officers and directors and the private placement of the Corporation conducted pursuant to the Recapitalization Agreement;

“Recapitalization Agreement” means the reorganization and investment agreement dated March 24, 2010 among the Corporation and P. Daniel O’Neil, Maxwell Lof, Daniel C. Brown and Paul Colborne;

“Sproule” means Sproule Associates Limited, independent oil and gas reservoir engineers;

“Sproule Report” means the independent engineering report dated February 25, 2011 and effective December 31, 2010 prepared by Sproule evaluating the oil, NGL and natural gas reserves attributable to the properties of the Corporation;

“Subscription Receipt Agreement” means the subscription receipt agreement dated October 20, 2010 between the Corporation, Olympia Trust Company as escrow agent and a syndicate of underwriters governing the terms and conditions of the Subscription Receipts;

“Subscription Receipts” means the subscription receipts of the Corporation that were issued pursuant to the Offering and the Subscription Receipt Agreement;

“Tax Act” means the *Income Tax Act* (Canada), R.S.C. 1985, c.I. (5th Supp.), as amended, including the regulations promulgated thereunder;

“Transitional Program” means the optional five-year transitional royalty program announced by the Alberta Government on November 19, 2008 and November 24, 2008;

“TSXV” means the TSX Venture Exchange;

“Units” means units issued pursuant to a private placement that took place in conjunction with the Recapitalization, with each unit consisting of one Common Share and one Performance Warrant;

“Valhalla Asset Acquisition” means the acquisition of the Valhalla Assets by the Corporation from the Vendor pursuant to the Purchase Agreement which was completed on November 1, 2010;

“Valhalla Assets” has the same meaning as is ascribed to the term “Assets” in the Purchase Agreement; and

“Vendor” means the vendors of the Valhalla Assets pursuant to the Purchase Agreement.

ABBREVIATIONS AND CONVERSION

In this Annual Information Form, the abbreviations set forth below have the following meanings:

Oil and Natural Gas Liquids

bbbl	Barrel
bbls	Barrels
Mbbls	thousand barrels
MMbbls	million barrels
Mstb	1,000 stock tank barrels
bbl/d	barrels per day
NGLs	natural gas liquids
stb	standard tank barrels

Natural Gas

Mcf	thousand cubic feet
MMcf	million cubic feet
Mcf/d	thousand cubic feet per day
MMcf/d	million cubic feet per day
MMBtu	million British Thermal Units
Bcf	billion cubic feet
GJ	gigajoule

Other

AECO	a natural gas storage facility located at Suffield, Alberta
API	American Petroleum Institute
°API	an indication of the specific gravity of crude oil measured on the API gravity scale. Liquid petroleum with a specified gravity of 28° API or higher is generally referred to as light crude oil
BOE	barrel of oil equivalent on the basis of 1 BOE to 6 Mcf of natural gas. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 1 BOE for 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead
BOE/d	barrel of oil equivalent per day
m ³	cubic metres
MBOE	1,000 barrels of oil equivalent
\$000s	thousands of dollars
M\$	thousands of dollars
MM\$	millions of dollars
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements contained in this Annual Information Form constitute forward-looking statements. The use of any of the words “anticipate”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “should”, “believe” and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Corporation believes the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct. Such forward-looking statements included in this Annual Information Form should not be unduly relied upon. These statements speak only as of the date of this Annual Information Form.

In particular, this Annual Information Form may contain forward-looking statements pertaining to the following:

- the performance characteristics of the Corporation’s oil and natural gas properties;
- oil and natural gas production levels;
- the size of the oil and natural gas reserves;
- projections of market prices and costs;
- supply and demand for oil and natural gas;
- expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development;
- treatment under governmental regulatory regimes and tax laws; and
- capital expenditure programs and the allocation of such capital;

With respect to forward looking statements contained in this Annual Information Form, the Corporation has made assumptions regarding:

- oil and natural gas production levels;
- commodity prices;
- availability of labour and drilling equipment;
- timing and amount of capital expenditures;
- general economic and financial market conditions; and
- government regulation in the areas of taxation, royalty rates and environmental protection;

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Annual Information Form:

- volatility in market prices for oil and natural gas;
- liabilities inherent in oil and natural gas operations;
- uncertainties associated with estimating oil and natural gas reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions and exploration and development programs;
- geological, technical, drilling, completion and processing problems;
- changes in legislation, including changes in tax laws and incentive programs relating to the oil and gas industry; and
- the other factors discussed under “Risk Factors”.

Statements relating to “reserves” or “resources” are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this Annual Information Form are expressly qualified by this cautionary statement. The Corporation does not undertake any obligation to publicly update or revise any forward-looking statements other than as required under applicable securities laws.

SURGE ENERGY INC.

General

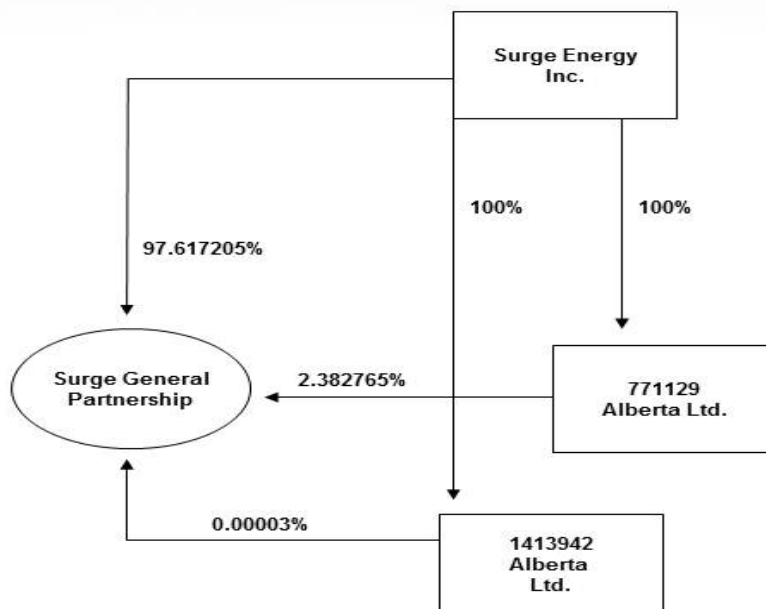
The Corporation is a Calgary, Alberta based, public company whose Common Shares are listed on the TSXV under the symbol "SGY". The Corporation was incorporated on January 26, 1998 under the ABCA as "Zapata Capital Inc." and completed its initial public offering of 1,000,000 Common Shares on August 21, 1998 under the Alberta Stock Exchange's junior capital pool program. On June 18, 1999, the Corporation acquired all of the issued and outstanding shares of 744997, a private corporation, as the Corporation's major transaction under the Alberta Stock Exchange's junior capital pool program and amalgamated with 744997 on that date under the name "Zapata Energy Corporation". On June 25, 2010, the Corporation changed its name to "Surge Energy Inc." by way of articles of amendment. On December 31, 2010, the Corporation amalgamated with its wholly owned subsidiary, Breaker Resources Ltd. by way of articles of amalgamation and continued under the name "Surge Energy Inc."

The Corporation is an independent Calgary, Alberta based oil and gas company which acquires interests in petroleum and natural gas rights, that explores for, develops, produces and markets petroleum and natural gas reserves primarily in western Canada. The Corporation's strategy for growth is based on positioning the Corporation in early stage oil resource plays that have the following key criteria: significant oil in place per section with low recovery factor to date, significant undeveloped land, available infrastructure, high working interest, operatorship, all-season access and drilling inventory that provides a definable high rate of return. The Corporation plans to utilize its proven expertise and experience to build core areas which can deliver top quartile corporate performance.

Management of the Corporation believes in controlling the timing and costs of its projects wherever possible. Accordingly, the Corporation seeks to become the operator of its properties. Further, to minimize competition within its geographic areas of interest, the Corporation strives to maximize its working interest ownership in its properties.

To achieve sustainable and profitable growth, the Corporation intends to maintain a balance between exploration, exploitation, development drilling for oil and gas reserves, and making asset and corporate acquisitions that meet the Corporation's business parameters.

The Corporation has the following direct and indirect wholly-owned subsidiaries: 771129 Alberta Ltd. and 1413942 Alberta Ltd. The Corporation, 771129 Alberta Ltd. and 1413942 Alberta Ltd. are the general partners of Surge General Partnership. The corporate structure of the Corporation and its subsidiaries is as set forth in the diagram below:



The head office of the Corporation is located at 2300, 635 – 8th Avenue S.W., Calgary, Alberta T2P 3M3. The registered office of the Corporation is located at 1200, 425 – 1st Street S.W., Calgary, Alberta, T2P 3L8.

DEVELOPMENT OF THE BUSINESS

General

The Corporation is an independent Calgary, Alberta based oil and gas company which acquires interests in petroleum and natural gas rights, that explores for, develops, produces and markets petroleum and natural gas reserves primarily in western Canada. The Corporation's strategy for growth is based on positioning the Corporation in early stage oil resource plays that have the following key criteria: significant oil in place per section with low recovery factor to date, significant undeveloped land, available infrastructure, high working interest, operatorship, all-season access and drilling inventory that provides a definable high rate of return. The Corporation plans to utilize its proven expertise and experience to build core areas which can deliver top quartile corporate performance.

Significant developments of the Corporation over the last three completed financial years are as set forth below:

2008

In 2008, the Corporation drilled or participated in drilling 27 gross (17.9 net) wells resulting in 15 gross (7.4 net) gas wells, ten gross (8.5 net) oil wells and two net abandoned wells.

The largest increase in reserves related to the Silver area where successful drilling and waterflood results led to extensions and increased recovery factors. Revisions and new reserves (discoveries) added 1,282.7 Mboe to the company's reserves. Production reduced the Corporation's reserves by 1,042.5 Mboe. Other minor factors reduced reserves by 79.8 Mboe. The Corporation increased its net result of the above was an increase of 160.4 Mboe of proved and probable reserves at December 31, 2008.

During 2008, the Corporation acquired and cancelled a total of 619,900 Common Shares pursuant to the 2008 Bid at an average cost of \$2.96 per Common Share.

2009

Between December 2009 and January 2010, the Corporation completed a private placement of an aggregate total of 1,344,399 units and 757,000 Common Shares issued on a "flow-through" basis in accordance with the Tax Act. Each unit consisted of one Common Share and one Common Share purchase warrant (with each whole warrant exercisable into one Common Share at a price of \$4.00 per Common Share until December 23, 2010).

In 2009, the Corporation drilled or participated in drilling 17 gross (13.6 net) wells resulting in four gross (0.6 net) gas wells, 11 gross (11 net) oil wells, one gross (one net) standing well and one gross (one net) abandoned well. In 2009, the Corporation purchased and cancelled 36,000 Common Shares pursuant to the 2008 Bid at an average cost of \$1.83 per Common Share.

2010

On March 24, 2010, the Corporation entered in the Recapitalization Agreement. On April 13, 2010, the then existing directors and officers of the Corporation resigned and were replaced by the current directors and officers of the Corporation, with the exception of Murray Smith and Colin Davies, who subsequently joined the Board. The Corporation concurrently completed a non-brokered private placement pursuant to which it issued 1,787,500 Common Shares at a price of \$4.40 per Common Share, 1,394,317 Units at a price of \$4.40 per Unit and 681,819 FT Units at a price of \$4.40 per FT Unit, for total proceeds of approximately \$17.0 million. Each Unit consists of one Common Share and one Performance Warrant entitling the holder to purchase one Common Share at a price of \$5.17 for a period of five years, subject to certain conditions. Each FT Unit consists of one Common Share issued on a "flow-through" basis in accordance with the Tax Act and one Performance Warrant.

All of the Common Shares, Units and FT Units issued pursuant to the non-brokered private placement are subject to a contractual escrow arrangement under which one-third of the securities are released from escrow each six months following the date of issuance.

Subsequent to the Recapitalization and concurrent non-brokered private placement, the Corporation changed its name to Surge Energy Inc., completed two equity bought deal financings (details outlined below), completed two private company acquisitions, one asset acquisition, increased its bank line from \$50 to \$90 million, and increased its proved plus probable reserves from 9.9 to 21.2 million boe.

As mentioned above, the Corporation completed two equity bought deal financings subsequent to the Recapitalization. On May 5, 2010, the Corporation completed a short form prospectus offering of 6,945,000 Common Shares at a price of \$7.20 per Common Share for aggregate gross proceeds of approximately \$50,004,000. In conjunction with the Valhalla Asset Acquisition, the Corporation issued an aggregate of 8,001,000 Subscription Receipts at a price of \$5.25 per Subscription Receipt for gross proceeds of \$42,005,250.

During 2010, the Corporation drilled a total of 22 gross (21.5 net) wells resulting in 10 development wells in southeast Alberta, three horizontal multi-frac wells at Windfall, five horizontal multi-frac wells at Waskada, two water injectors,, , and two exploratory wells for an overall success rate of 91 percent.

The Recapitalization

On March 24, 2010, the Corporation entered into the Recapitalization Agreement. The Recapitalization Agreement provided for the transactions described immediately above.

New Management Group

In conjunction with the completion of the non-brokered private placement on April 13, 2010, the then existing directors and officers of the Corporation were replaced by the current directors and officers of the Corporation, with the exception of Murray Smith and Colin Davies, who subsequently joined the Board. The names and principal occupations of each of such directors and officers are set forth in the material change report of the Corporation dated March 29, 2010, which is incorporated by reference in this AIF.

Each member of the Board of Directors, with the exception of P. Daniel O'Neil who is the President and Chief Executive Officer of the Corporation and James Pasioka, who is a partner of Heenan Blaikie LLP, which law firm provides legal services to the Corporation, is independent of the Corporation as defined under National Instrument 58-101 – *Disclosure of Corporate Governance Practices*. The Audit Committee of the Board of Directors is comprised of Keith Macdonald, Murray Smith and Peter Bannister, each of whom is independent of the Corporation as defined under National Instrument 52-110 – *Audit Committees*.

The Recapitalization is described in greater detail in the material change reports of the Corporation dated March 29, 2010 and April 16, 2010, both of which are incorporated by reference in this AIF.

Subsequent to the Recapitalization, Murray Smith and Colin Davies joined the Board of Directors of the Corporation (on June 25 and July 9, 2010 respectively).

Prospectus Financing

On May 5, 2010, the Corporation completed a short form prospectus offering of 6,945,000 Common Shares at a price of \$7.20 per Common Share for aggregate gross proceeds of approximately \$50,004,000. The financing was concluded on a bought deal basis with a syndicate of underwriters led by National Bank Financial Inc. and including FirstEnergy Capital Corp., Macquarie Capital Markets Canada Ltd., GMP Securities L.P., CIBC World Markets Inc., Cormark Securities Inc., Peters & Co. Limited and Wellington West Capital Markets Inc. Proceeds of the offering were used for the expansion of the capital program, repayment of debt and general corporate purposes.

Corinthian and Crystal Lake Acquisition

On July 9, 2010, pursuant to the Corinthian Acquisition Agreement, the Corporation completed the Corinthian Acquisition.

The Corinthian Acquisition was approved by the shareholders of Corinthian. Upon completion of the Corinthian Acquisition, one director of Corinthian, Colin Davies joined the Board of Directors of the Corporation.

The Corinthian Acquisition Agreement, among other things, provided for a mutual non-completion fee of up to \$3.5 million in the event the Corinthian Acquisition was not completed in certain circumstances.

Through the Corinthian Acquisition, the Corporation acquired light oil and natural gas reserves, which included two high impact light oil core areas in Alberta and one in southwest Manitoba. The producing properties were greater than 90 percent operated with high working interests, had 3D & 2D seismic coverage, maintained control of key producing infrastructure and were associated with nearly 80,000 acres of net undeveloped land.

In addition to the Corinthian Acquisition, on July 19, 2010 the Corporation also completed an acquisition of a private oil and gas company, Crystal Lake Resources Ltd, for total consideration of 288,639 Common Shares. The assets that were acquired pursuant to the Crystal Lake Acquisition were producing approximately 40 boe/d at the time of the Crystal Lake Acquisition, are synergistic with the Corporation's southern Alberta assets and provided the Corporation with five unbooked horizontal well locations targeting oil in the Sawtooth Formation.

The Corinthian Acquisition and the Crystal Lake Acquisition are described in greater detail in the material change report of the Corporation dated June 23, 2010, which is incorporated by reference in this AIF. In addition, please see the business acquisition report of the Corporation dated September 22, 2010 for further particulars concerning the Corinthian Acquisition.

Name Change

At a meeting of Shareholders held on June 25, 2010, the Corporation changed its name from Zapata Energy Corporation to Surge Energy Inc. and the Common Shares started trading on the TSXV under the ticker symbol "SGY" on June 30, 2010.

Valhalla Asset Acquisition

On November 1, 2010, the Corporation completed the acquisition of the Valhalla Assets from the Vendor for total consideration of \$75 million, subject to adjustments. The Valhalla Assets consisted of a high working interest, operated property producing approximately 726 boe/d in the Valhalla South area located in western Alberta.

For further particulars regarding the Valhalla Asset Acquisition, see the material change report of the Corporation dated October 1, 2010 and the business acquisition report dated November 10, 2010, which are incorporated by reference in this AIF.

Offering

In conjunction with the Valhalla Asset Acquisition, the Corporation completed the Offering, pursuant to which the Corporation issued an aggregate of 8,001,000 Subscription Receipts at a price of \$5.25 per Subscription Receipt for gross proceeds of \$42,005,250. Pursuant to the Offering, the Subscription Receipts were offered by way of private placement in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Nova Scotia.

Each Subscription Receipt entitled the holder thereof to receive, for no additional consideration and without further action, one Common Share, upon the earlier to occur of: (i) four months and a day from the closing date of the Offering, and (ii) the date that a receipt was issued for a prospectus qualifying the distribution of the Common Shares underlying the Subscription Receipts. The escrowed funds were released from escrow on November 1, 2010 following the satisfaction of the escrow release conditions pursuant to the Subscription Receipt Agreement. Immediately following the closing of the Valhalla Asset Acquisition, the escrowed funds were used to pay down a portion of the outstanding amount of the Credit Facility that was drawn down to fund the balance of the purchase price for the Valhalla Assets on this date.

On November 22, 2010, a receipt was issued by the securities commissions in all Province of Canada, except Québec, qualifying the distribution of the Common Shares underlying the Subscription Receipts and such Common Shares were issued in accordance with the terms of the Subscription Receipts and the Subscription Receipt Agreement.

The Valhalla Asset Acquisition and the Offering are described in greater detail in the material change report of the Corporation dated October 1, 2010 and the business acquisition report dated November 10, 2010, which are both incorporated by reference in this AIF.

DESCRIPTION OF THE BUSINESS

Corporate Strategy

The Corporation's business plan is to build a company that targets per share growth through the early identification, capture, and cost-effective exploitation of high impact oil resource plays. To accomplish this, the Corporation intends to place high priority on positioning the Corporation in early stage oil resource plays that have the following key criteria: significant oil in place per section with low recovery factor to date, significant undeveloped land, available infrastructure, high working interest, operatorship, all-season access and that provide a definable high rate of return drilling inventory. The Corporation plans to utilize its proven expertise and experience to build core areas which can deliver top quartile corporate performance.

To achieve sustainable and profitable growth, the Corporation intends to utilize its skills in identifying and capturing oil resource plays and then cost effectively exploiting those reserves. To achieve this, the Corporation may make asset and corporate acquisitions or enter into agreements that meet the Corporation's business parameters.

Management of the Corporation believes in controlling the timing and costs of its projects wherever possible. Accordingly, the Corporation seeks to become the operator of its properties. Further, to minimize competition within its geographic areas of interest, the Corporation strives to maximize its working interest ownership in its properties.

In reviewing potential drilling or acquisition opportunities, the Corporation gives consideration to the following criteria:

- (a) risk capital to secure or evaluate the opportunity;
- (b) the potential return on the project, if successful;
- (c) the likelihood of success; and
- (d) risked return versus cost of capital.

In general, the Corporation pursues a portfolio approach in developing a large number of opportunities with a balance of risk profiles in an attempt to generate sustainable high levels of growth. It should be noted that the Board of Directors of the Corporation may, in its discretion, approve asset or corporate acquisitions or investments that do not conform to the guidelines discussed above based upon the Board's consideration of the qualitative aspects of the subject properties, including risk profile, technical upside, reserve life and asset quality.

In addition, the new management team of the Corporation, as described below under "*Directors and Officers*" is continually assessing the assets and operations of the Corporation, including its existing land base, facilities, reserves, prospects and personnel. While the Corporation has prepared a budget for 2011 based on guidance for such year, the Corporation may further evaluate its existing reserves, drilling prospects, prevailing commodity prices and capital expenditure program, among other items, and may change its budget as the year progresses.

The Corporation currently plans to pursue the development of its proven and probable undeveloped reserves within the next two years through ordinary course capital expenditures. However, the Corporation may choose to accelerate or delay development depending on a number of circumstances, including the existence of higher priority expenditures and prevailing commodity prices and cash flow.

Competition

The oil and natural gas industry is competitive in all its phases. The Corporation competes with numerous other participants in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. The Corporation's competitors include resource companies which have greater financial resources, staff and facilities than those of the Corporation. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery. The Corporation believes that its competitive position is equivalent to that of other oil and gas issuers of similar size and at a similar stage of development.

Seasonal Factors

The exploration for and development of oil and natural gas reserves is dependent on access to areas where production is to be conducted. Seasonal weather variations, including freeze-up and break-up, affect access in certain circumstances.

Environmental Regulation

The oil and natural gas industry is currently subject to environmental regulations pursuant to a variety of provincial and federal legislation. Compliance with such legislation can require significant expenditures or result in operational restrictions. Breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage and the imposition of material fines and penalties, all of which might have a significant negative impact on earnings and overall competitiveness. See below under the headings "*Industry Conditions - Environmental Regulation*" and "*Risk Factors – Environmental Concerns*".

The Corporation is obligated to abandon, retire and reclaim wells and wellsites in compliance with applicable environmental laws and regulations. As of December 31, 2010, the Corporation has recorded an asset retirement obligation of \$12.2 million. The Corporation anticipates that the expenditures necessary to satisfy the asset retirement obligation will be incurred over a period of 50 years, with the majority of the expenditures being incurred from years 1 to 28. Other than asset retirement obligations and ordinary course operational expenditures necessary to ensure environmental compliance, the Corporation is not aware of any environmental protection requirement that will impact its capital expenditures, earnings or competitive position in a manner disproportionate to that of its peers in its area of operations.

Personnel

As at December 31, 2010, the Corporation had 44 employees, 14 consultants and 56 contract operators.

PRINCIPAL PRODUCING PROPERTIES

The Corporation's principal oil and natural gas producing properties are located in Alberta and southwest Manitoba. A description of those properties, as at December 31, 2010, is provided below.

Valhalla South, Western Alberta

The Valhalla South property is located in north western Alberta, approximately 40 kilometers north west of Grand Prairie (TWP 74, Rge 8, W6M). This operated property consists of an average working interest of approximately 82 percent in 10,240 gross (7,900 net) acres and was producing approximately 726 boe/d (approximately 37 percent light oil and NGLs) with a decline rate of approximately 15 percent as at December 31, 2010. The majority of production was from vertical oil wells producing from an extensive tight sand with up to 50 meters of gross light oil pay in the Triassic Doig Formation. The Valhalla Assets included 18 gross (14 net) producing vertical wells, four gross (four net) producing gas wells and 14 gross (12 net) non-producing wells.

At the time of the acquisition, using the existing vertical well control and the complete 3D seismic coverage over the pool, the Corporation identified approximately 25 gross (15.3 net) horizontal multi-frac infill drilling locations that have the potential to quadruple production on the property to over 3,000 boe/d (greater than 60 percent oil and NGLs) over the next three years. The Corporation plans to drill approximately six horizontal multi-frac wells at Valhalla South in the Doig Formation in 2011.

Windfall, Western Alberta

The Corporation's Windfall assets are located in western Alberta near Whitecourt (TWP 59, Rge. 15, W5M). At December 31, 2010, this operated property consisted of 11,000 gross (10,000 net) acres with an average working interest of approximately 90 percent and was producing approximately 420 boe/d from the Bluesky light oil pool. The production was from three horizontal multi-frac wells and nine vertical wells.

At December 31, 2010, the Corporation identified over 28 gross (28 net) horizontal multi-frac drilling locations. The Corporation plans to drill approximately seven horizontal multi-frac wells at Windfall into the Bluesky light oil pool in 2011. To accommodate the additional production in 2011 and beyond, the Corporation upgraded its battery facility and constructed additional flowlines during the first quarter 2011.

Waskada, Pierson and Goodlands, Southwest Manitoba

In southwest Manitoba, the Corporation has accumulated a land position at Waskada, Pierson and Goodlands, providing it with critical mass in the Spearfish (Amaranth) light oil resource play. At December 31, 2010, the Corporation had 4,500 gross (4,500 net) acres of land across the three areas, identified approximately 124 gross (111 net) horizontal multi-frac drilling locations with an average working interest of approximately 90 percent. As of December 31, 2010, the field was producing approximately 350 bbls/d oil from the Spearfish after the Corporation re-activated four vertical wells and brought five new horizontal Spearfish wells on production at Waskada.

The Corporation successfully drilled, completed, and tied-in five Spearfish horizontal multi-frac oil wells at Waskada in the fourth quarter 2010 and plans to drill approximately 10 wells, including one water disposal well and construct a battery facility at Waskada in 2011.

Silver Lake, South East Alberta

At Silver Lake, in eastern Alberta, the Corporation held approximately 109,700 gross (75,830 net) acres of land and 78,500 gross (72,300) acres of undeveloped land at December 31, 2010. The Corporation has interests in 150 gross (143 net) oil wells and 22 gross (18 net) gas wells producing from the Dina, Lloydminster, Cummings, Rex, Sparky and Viking Formations. Another 116 gross (101 net) shut in wells are being evaluated for optimization and recompletion potential. In addition, the Corporation operates seven oil batteries and an oil blending facility, providing a strong infrastructure base for future development in the area. The Corporation continues to add to its land base through acquisitions and farmins in the area.

The Corporation completed a ten well drilling program in the third quarter of 2010 at Silver Lake with an overall success rate of 70 percent. Net sales from the area in 2010 were 1,340 bbls/d oil and NGL, 860 mcf/d of natural gas for a total of 1,480 boe/d. The Corporation plans to apply horizontal drilling technologies in 2011 to take advantage of horizontal oil well royalty holidays now available, as well as to optimize pool depletion strategies. The Corporation will be expanding its existing pressure maintenance schemes and implementing new waterflood projects. Additional enhanced recovery methods will also be evaluated.

In addition to the Corporations assets at Silver Lake, Surge has various working interests in 111,260 gross (103,550 net) acres of undeveloped land in south east Alberta. The Corporation has 31 gross (27 net) gas wells and four gross (four net) oil wells in the area producing from the Belly River, Bow Island, Mannville and Mississippian Formations. Another 23 gross (17 net) wells are shut in and are being assessed for production opportunities. Net sales from the area in 2010 were 2.48 MMcf/d of natural gas and 304 bbls/d of oil and NGL for a total of 716 boe/d.

STATEMENT OF RESERVES DATA

In accordance with NI 51-101 – *Standards for Disclosure for Oil and Gas Activities*, Sproule Associates Limited prepared the Sproule Report. The Sproule Report evaluated, as at December 31, 2010, the oil, NGL and natural gas reserves attributable to the properties of the Corporation. The Sproule Report is dated February 25, 2011.

The tables below are a summary of the oil, NGL and natural gas reserves attributable to the properties of the Corporation and the net present value of future net revenue attributable to such reserves as evaluated in the Sproule Report based on forecast price and cost assumptions. The tables summarize the data contained in the Sproule Report and, as a result, may contain slightly different numbers than such report due to rounding. Also due to rounding, certain columns may not add exactly.

The net present value of future net revenue attributable to reserves is stated without provision for interest costs and general and administrative costs, but after providing for estimated royalties, production costs, development costs, other income, future capital expenditures and well abandonment costs for only those wells assigned reserves by Sproule. It should not be assumed that the undiscounted or discounted net present value of future net revenue attributable to reserves estimated by Sproule represent the fair market value of those reserves. Other assumptions and qualifications relating to costs, prices for future production and other matters are summarized herein. The recovery and reserve estimates of oil, NGL and natural gas reserves provided herein are estimates only. Actual reserves may be greater than or less than the estimates provided herein.

The Sproule Report is based on certain factual data supplied by the Corporation and Sproule's opinion of reasonable practice in the industry. The extent and character of ownership and all factual data pertaining to petroleum properties and contracts (except for certain information residing in the public domain) were supplied by the Corporation to Sproule. Sproule accepted this data as presented and neither title searches nor field inspections were conducted.

Summary of Oil and Gas Reserves – Forecast Prices and Costs

	Gross Reserves				Net Reserves			
	Light and Medium Crude Oil (Mbbbls)	Heavy Crude Oil (Mbbbls)	Natural Gas Liquids (Mbbbls)	Natural Gas (MMcf)	Light and Medium Crude Oil (Mbbbls)	Heavy Crude Oil (Mbbbls)	Natural Gas Liquids (Mbbbls)	Natural Gas (MMcf)
Proved								
Developed Producing	2,624.3	1,924.5	388.3	19,992.0	2,263.6	1,585.9	259.9	17,920.0
Developed Non-Producing	526.2	44.4	138.8	6,859.0	447.1	37.6	92.6	5,868.0
Undeveloped	1,368.7	986.4	316.2	9,397.0	1,049.4	794.7	218.4	7,243.0
Total Proved	4,519.2	2,955.3	843.3	36,248.0	3,760.1	2,418.2	570.9	31,031.0
Probable	2,328.5	1,308.3	397.2	16,920.0	1,869.5	1,017.5	264.1	14,307.0
Total Proved plus Probable	6,847.7	4,263.6	1,240.5	53,168.0	5,629.6	3,435.7	835.0	45,338.0

Net Present Value of Future Net Revenue – Forecast Prices and Costs

(\$M)	Before Future Income Tax Expenses and Discounted at				
	0%	5%	10%	15%	20%
Proved					
Developed Producing	297,142	235,164	197,284	171,364	152,433
Developed Non-Producing	52,483	41,752	34,497	29,306	25,422
Undeveloped	125,585	93,014	71,082	55,556	44,115
Total Proved	475,210	369,930	302,863	256,226	221,970
Probable	264,216	160,131	108,995	80,111	62,080
Total Proved plus Probable	739,426	530,061	411,858	336,337	284,050

(\$M)	After Future Income Tax Expenses and Discounted at				
	0%	5%	10%	15%	20%
Proved					
Developed Producing	270,383	213,850	179,674	156,398	139,432
Developed Non-Producing	39,124	30,807	25,213	21,223	18,247
Undeveloped	93,827	67,924	50,465	38,106	29,007
Total Proved	403,334	312,581	255,352	215,727	186,686
Probable	198,286	119,368	80,635	58,775	45,133
Total Proved plus Probable	601,620	431,949	335,987	274,502	231,819

	Unit Value before Income Tax Discounted at 10%/year (\$/BOE)
Proved	
Developed Producing	27.80
Developed Non-Producing	22.18
Undeveloped	21.74
Total Proved	25.41
Probable	19.69
Total Proved plus Probable	23.59

Additional Information Concerning Future Net Revenue – Forecast Prices and Costs (Undiscounted)

(Undiscounted) (\$M)			Operating	Development	Abandon-	Future net	Future net
	Revenue	Royalties	Costs	Costs	ment and Other costs	revenue before income taxes	revenue after income taxes
Total Proved	985,084	168,418	265,024	63,815	12,618	475,210	403,334
Total Proved plus Probable	1,518,546	270,735	414,696	79,395	14,294	739,426	601,620

Future Net Revenue by Production Group – Forecast Prices and Costs

	Future Net Revenue Before Income Taxes and Discounted at 10% (\$M)	Per Unit Future Net Revenue Before Income Taxes and Discounted at 10% ⁽³⁾ (\$/BOE)
Proved		
Light and Medium Crude Oil ⁽¹⁾	167,706	26.82
Heavy Oil	100,197	37.92
Natural Gas ⁽²⁾	34,960	11.55
Proved plus Probable		
Light and Medium Crude Oil ⁽¹⁾	234,787	25.04
Heavy Oil	130,295	34.77
Natural Gas ⁽²⁾	46,776	10.79

Notes:

- (1) Including solution gas and other by-products.
- (2) Including by-products, but excluding solution gas from oil wells.
- (3) Based on net reserves volumes.

Pricing Assumptions – Forecast Prices and Costs

Sproule employed the following pricing, exchange rate and inflation rate assumptions as of December 31, 2010 in the Sproule Report in estimating reserves data using forecast prices and costs. The weighted average historical prices received by the Corporation for 2010 are also reflected in the table below.

Year	Medium and Light Crude Oil			Natural Gas	NGL		Inflation rates (%/Yr)	Exchange rate (\$US/\$Cdn)
	WTI Cushing Oklahoma 40° API (US\$/bbl)	Edmonton Par Price 40° API (\$/bbl)	Cromer Medium 29.3° API (\$/bbl)	AECO Gas Price (\$/MMBtu)	Pentanes plus FOB Field Gate (\$/bbl)	Butanes FOB Field Gate (\$/bbl)		
2010 (Actual)	79.43	77.81	73.66	4.16	84.21	57.04	1.0	0.971
2011	88.40	93.08	85.63	4.04	95.32	62.44	1.5	0.932
2012	89.14	93.85	86.34	4.66	96.11	62.95	1.5	0.932
2013	88.77	93.43	85.02	4.99	95.68	62.67	1.5	0.932
2014	88.88	93.54	84.18	6.58	95.79	62.75	1.5	0.932
2015	90.22	94.95	85.45	6.69	97.24	63.69	1.5	0.932
2016	91.57	96.38	86.74	6.80	98.70	64.65	1.5	0.932
2017	92.94	97.84	88.05	6.91	100.18	65.62	1.5	0.932
2018	94.34	99.32	89.38	7.02	101.68	66.60	1.5	0.932
2019	95.75	100.81	90.73	7.14	103.21	67.60	1.5	0.932
2020	97.19	102.34	92.10	7.26	104.76	68.61	1.5	0.932

Reconciliation of Changes in Reserves

The following table sets forth a reconciliation of the Corporation's gross reserves as at December 31, 2010, derived from the Sproule Report using forecast prices and cost estimates, reconciled to the gross reserves of the Corporation as at December 31, 2009. The additional reserves associated with royalty interest reserves, representing 2,438 Mboe and 3,756 Mboe on a proved and proved plus probable basis, respectively, are not included in the following tables.

	Light and Medium		Natural Gas		BOE (MBOE)
	Crude Oil (Mbbls)	Heavy Oil (Mbbls)	Liquids (Mbbls)	Natural Gas (MMcf)	
Proved					
Balance at December 31, 2009	1,271.0	2,564.6	347.0	15,967.0	6,843.8
Extensions and Improved Recovery	1,201.5	615.0	269.5	7,109.0	3,270.9
Technical Revisions	176.2	48.8	(3.1)	705.0	339.4
Discoveries	-	-	-	-	-
Acquisitions	2,243.0	-	306.3	15,635.0	5,155.1
Dispositions	-	-	(39.0)	(641.0)	(145.8)
Economic Factors	-	-	-	-	-
Production	(372.4)	(273.1)	(37.5)	(2,527.0)	(1,104.2)
Balance at December 31, 2010	4,519.3	2,955.3	843.2	36,248.0	14,359.2

	Light and Medium		Natural Gas		BOE (MBOE)
	Crude Oil (Mbbbls)	Heavy Oil (Mbbbls)	Liquids (Mbbbls)	Natural Gas (MMcf)	
Probable					
Balance at December 31, 2009	481.4	997.4	164.2	8,502.0	3,060.1
Extensions and Improved Recovery	1,023.9	397.2	138.0	4,011.0	2,227.6
Technical Revisions	(157.1)	(86.3)	(66.8)	(3,068.0)	(821.4)
Discoveries	-	-	-	-	-
Acquisitions	980.3	-	169.4	7,599.0	2,416.2
Dispositions	-	-	(7.6)	(125.0)	(28.5)
Economic Factors	-	-	-	-	-
Production	-	-	-	-	-
Balance at December 31, 2010	2,328.5	1,308.3	397.2	16,919.0	6,854.0

	Light and Medium		Natural Gas		BOE (MBOE)
	Crude Oil (Mbbbls)	Heavy Oil (Mbbbls)	Liquids (Mbbbls)	Natural Gas (MMcf)	
Proved plus Probable					
Balance at December 31, 2009	1,752.4	3,562.0	511.2	24,470.0	9,903.9
Extensions and Improved Recovery	2,225.4	1,012.2	407.5	11,121.0	5,498.5
Technical Revisions	19.1	(37.5)	(69.8)	(2,363.0)	(482.0)
Discoveries	-	-	-	-	-
Acquisitions	3,223.3	-	475.7	23,234.0	7,571.3
Dispositions	-	-	(46.6)	(766.0)	(174.2)
Economic Factors	-	-	-	-	-
Production	(372.4)	(273.1)	(37.5)	(2,527.0)	(1,104.2)
Balance at December 31, 2010	6,847.8	4,263.6	1,240.5	53,169.0	21,213.3

ADDITIONAL INFORMATION RELATING TO RESERVES DATA

Undeveloped Reserves

The following table sets forth the volumes of proved undeveloped reserves that were first attributed in each of the three most recent financial years and, in the aggregate, before that time:

Proved	Light and Medium		Natural Gas Liquids (Mbbbls)	Natural Gas (MMcf)
	Crude Oil (Mbbbls)	Heavy Oil (Mbbbls)		
Prior to 2008	482.4	84.9	28.5	3,690.3
2008	214.6	-	8.0	352.6
2009	-	254.7	2.5	103.0
2010	1,201.5	84.6	263.3	6,839.0

The following table sets forth the volumes of probable undeveloped reserves that were first attributed in each of the three most recent financial years and, in the aggregate, before that time:

Probable	Light and Medium			
	Crude Oil (Mbbbls)	Heavy Oil (Mbbbls)	Natural Gas Liquids (Mbbbls)	Natural Gas (MMcf)
Prior to 2008	862.9	233.6	138.5	8,472.3
2008	357.6	-	13.0	692.0
2009	-	51.8	23.8	504.0
2010	1,023.9	236.4	136.2	3,932.0

Proved undeveloped reserves are generally those reserves related to infill wells that have not yet been drilled or wells further away from gathering systems requiring relatively high capital to bring on production. Probable undeveloped reserves are generally those reserves tested or indicated by analogy to be productive, infill drilling locations and lands contiguous to production. This also includes the probable undeveloped wedge from the proved undeveloped locations.

The Corporation currently plans to pursue the development of its proven and probable undeveloped reserves within the next two years through ordinary course capital expenditures. However, the Corporation may choose to delay development depending on a number of circumstances, including the existence of higher priority expenditures and prevailing commodity prices and cash flow.

Significant Factors or Uncertainties Affecting Reserves Data

The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering, and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates contained herein are based on current production forecasts, prices and economic conditions.

As circumstances change and additional data becomes available, reserve estimates also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions.

Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. As a result, subjective decisions, new geological or production information and a changing environment may impact these estimates. Revisions to reserve estimates can arise from changes in year-end oil and gas prices and reservoir performance. Such revisions can be either positive or negative.

Future Development Costs

The table below sets out the total development costs deducted in the estimation in the Sproule Report of future net revenue attributable to proved reserves and proved plus probable reserves (using forecast prices and costs).

	Forecast Prices and Costs	
	Proved Reserves (\$M)	Proved plus Probable Reserves (\$M)
2011	53,916	62,855
2012	9,674	15,018
2013	-	464
2014	78	256
2015	11	494
Remaining Years	136	308
Total Undiscounted	63,815	79,395

The Corporation has four sources of funding available to finance its capital expenditure programs: internally generated cash flow from operations, funds raised from the sale of non-core assets, debt financing when appropriate and new issues of Common Shares, if available on favourable terms. The Corporation expects to fund the above future development costs

primarily through internally generated cash flow, funds raised from the sale of non-core assets and debt. There can be no guarantee that the Board of Directors will allocate funding to develop all of the reserves attributed in the Sproule Report. Failure to develop those reserves could have a negative impact on the Corporation's future cash flow.

OTHER OIL AND GAS INFORMATION

Oil and Gas Wells

The following table sets forth the number and status of the Corporation's wells effective December 31, 2010.

	Producing Wells				Non-Producing Wells			
	Oil		Natural Gas		Oil		Natural Gas	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Alberta	327	250.9	228	147.5	235	189.8	121	91.3
Manitoba	14	14.0	-	-	4	4.0	-	-
British Columbia	5	0.5	28	2.4	2	0.4	9	2.2
Total	346	265.4	256	149.9	241	194.2	130	93.5

Properties with no Attributed Reserves

The following table summarizes, effective December 31, 2010, the gross and net acres of unproved properties in which the Corporation has an interest and also the number of net acres for which the Corporation's rights to explore, develop or exploit will, absent further action, expire within one year.

	Gross Acres	Net Acres	Net Acres Expiring within One Year
	Alberta	448,487	425,301
British Columbia	13,460	6,947	1,663
Manitoba	3,165	3,165	518
Total	465,113	435,413	73,401

Additional Information Concerning Abandonment and Reclamation Costs

The Corporation typically estimates well abandonment costs area by area. Such costs are included in the Sproule Report as deductions in arriving at future net revenue. The expected total abandonment costs, net of estimated salvage value, included in the Sproule Report for 329.6 net wells under the proved reserves category is \$12.6 million undiscounted (\$5.1 million discounted at 10%), of which a total of \$0.7 million is estimated to be incurred in 2011, 2012 and 2013. This estimate does not include expected reclamation costs for surface leases of \$7.5 million undiscounted (\$3.0 million discounted at 10%). The Corporation will be liable for its share of ongoing environmental obligations and for the ultimate reclamation of the properties held by it upon abandonment. Ongoing environmental obligations are expected to be funded out of cash flow.

Tax Horizon

Based on planned capital expenditures and the forecast commodity pricing employed in the Sproule Report, the Corporation estimates that it will not be required to pay current income taxes before 2014.

Costs Incurred

The following table summarizes capital expenditures incurred by the Corporation during the year ended December 31, 2010.

	Property Acquisition Costs		Exploration Costs	Development Costs
	Proved Properties	Unproved Properties		
Total (\$MM)	42,615	34,025	5,844	36,700

Drilling Activity

The following table sets forth the gross and net exploration and development wells drilled by the Corporation based on rig release date during the year ended December 31, 2010.

	Exploration Wells		Development Wells	
	Gross	Net	Gross	Net
Oil	2	2	15	15
Natural Gas	-	-	1	0.5
Service	-	-	2	2
Dry	-	-	2	2
Total:	2	2	20	19.5

Planned Capital Expenditures

The Corporation has announced a planned capital expenditure budget of approximately \$80 million for 2011, net of approximately \$8.5 million of dispositions. This spending will be largely weighted to drilling, completions and tie-ins at approximately \$55 million and will include facility spending of approximately \$21 million and land, seismic and other spending of approximately \$8 million. The Corporation is planning to drill 37 gross (36.245 net) wells in 2011 targeting high quality light oil, with the majority of the activity at Waskada (14 gross, 14 net wells), Windfall (7 gross, 7 net wells), Valhalla (6 gross, 5.245 net wells) and Silver Lake (10 gross, 10 net wells).

Production Estimates

The following table discloses for each product type the total volume of production estimated by Sproule in the Sproule Report for 2011 in the estimates of future net revenue from gross proved and gross proved plus probable reserves disclosed above.

	Light and Medium Oil & NGLs (bbls/d)	Natural Gas (Mcf/d)	Natural Gas Liquids (bbls/d)	BOE (BOE/d)	%
Proved					
Silver Lake	998	675	16	1,126	20%
Valhalla South	436	4,368	177	1,341	24%
Other	1,755	7,688	87	3,123	56%
Total Proved	3,189	12,731	280	5,590	100%
Proved Plus Probable					
Silver Lake	1,035	717	17	1,171	18%
Valhalla South	474	4,824	195	1,473	24%
Other	2,097	8,401	92	3,589	58%
Total Proved Plus Probable	3,606	13,942	304	6,233	100%

Production History

The following table discloses, on a quarterly basis for the year ended December 31, 2010, certain information in respect of production, product prices received, royalties paid, operating expenses and resulting netback for the Corporation.

Average Daily Production Volume

	Three Months Ended				Total
	Mar 31, 2010	Jun 30, 2010	Sep 30, 2010	Dec 31, 2010	
Natural Gas (Mcf/d)	5,874	3,823	7,783	10,182	6,930
Crude Oil (bbls/d)	1,570	1,509	1,777	2,207	1,769
NGL (bbls/d)	137	112	64	101	104
Total (BOE/d)	2,686	2,258	3,138	4,005	3,026

Prices Received, Royalties Paid, Production Costs and Netback- Crude Oil

	Three Months Ended				Total
	Mar 31, 2010	Jun 30, 2010	Sep 30, 2010	Dec 31, 2010	
Prices Received	72.35	66.57	69.33	70.70	69.84
Royalties Paid	10.30	16.23	9.36	10.90	11.53
Transportation Costs	2.66	3.55	1.90	1.84	2.41
Production Costs	16.10	15.67	14.37	14.33	15.03
Netback⁽¹⁾	43.29	31.11	43.69	43.64	40.87

Prices Received, Royalties Paid, Production Costs and Netback- Natural Gas

	Three Months Ended				Total
	Mar 31, 2010	Jun 30, 2010	Sep 30, 2010	Dec 31, 2010	
Prices Received	5.20	3.74	3.71	3.55	3.96
Royalties Paid	0.57	(0.80)	0.23	0.06	0.10
Transportation Costs	0.70	(0.13)	0.28	0.27	0.10
Production Costs	2.70	2.26	2.72	2.63	2.62
Netback⁽¹⁾	1.24	2.41	0.48	0.59	1.15

Prices Received, Royalties Paid, Production Costs and Netback- Combined

	Three Months Ended				Total
	Mar 31, 2010	Jun 30, 2010	Sep 30, 2010	Dec 31, 2010	
Prices Received	57.83	56.17	49.41	50.33	52.45
Royalties Paid	7.79	10.30	6.06	6.43	7.35
Transportation Costs	3.21	2.32	1.82	1.76	2.20
Production Costs	16.13	15.27	15.02	14.84	15.25
Netback⁽¹⁾	30.71	28.28	26.52	27.30	27.65

Note:

- (1) Netback is calculated by deducting royalties paid and production costs, including transportation costs, from prices received, excluding the effects of hedging.

Production Volume by Field

The following table indicates the average daily net production from the Corporation's important fields for the year ended December 31, 2010.

Field	Light and	Natural Gas	Natural Gas	BOE (BOE/d)	%
	Medium Oil & NGLs (bbls/d)	(Mcf/d)	Liquids (bbls/d)		
Silver Lake	1,031	786	17	1,162	38%
Other	839	6,144	103	1,863	62%
Total	1,871	6,930	120	3,026	100%

SHARE CAPITAL

The Corporation is authorized to issue an unlimited number of Common Shares and an unlimited number of Preferred Shares issuable in series. As at March 31, 2011, there were 56,096,547 Common Shares and no Preferred Shares issued and outstanding.

Common Shares

The holders of Common Shares are entitled to: (i) one vote for each Common Share held at all meetings of shareholders of the Corporation other than meetings of the holders of any class or series of shares meeting as a class or series; (ii) receive any dividends declared by the Corporation on the Common Shares; and (iii) subject to the rights of shares ranking prior to the Common Shares, to receive the remaining property of the Corporation on dissolution, after the payment of all liabilities.

Preferred Shares

Preferred Shares may be issued in one or more series. The Board of Directors is authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series. Preferred Shares are entitled to a priority over the Common Shares with respect to the payment of dividends and the distribution of assets upon the liquidation, dissolution or winding-up of The Corporation.

DIVIDEND POLICY

The Corporation has not declared or paid any dividends on the Common Shares since its incorporation. Any decision to pay dividends on the Common Shares will be made by the Board of Directors on the basis of the Corporation's earnings, financial requirements and other conditions existing at such future time.

ESCROWED SECURITIES

The following securities of the Corporation are subject to contractual escrow restrictions pursuant to the terms of escrow agreements dated April 13, 2010 between the Corporation, the holders of the securities and Olympia Trust Company as escrow agent. These securities were issued pursuant to the Recapitalization and will be released as to one-third on each of October 13, 2010, April 13, 2011 and October 13, 2011. See "Development of the Business – The Recapitalization".

Class of Securities	Number of Securities Escrowed at March 31, 2011	Percentage of Class as at March 31, 2011
Common Shares	2,575,827	4.6%
Performance Warrants	1,384,117	67%

MARKET FOR SECURITIES

The Common Shares are listed and posted for trading on the TSXV under the trading symbol "SGY". The following table sets forth the reported market price ranges and the trading volumes for the Common Shares for the periods indicated, as reported by the TSXV.

Period	Price Range (\$)		Trading Volume
	High	Low	
2009			
April	1.84	1.35	97,600
May	1.84	1.37	103,920
June	1.98	1.62	75,700
July	2.45	1.74	87,880
August	2.43	2.09	35,108
September	2.54	2.30	74,843
October	3.33	2.33	130,720
November	3.00	2.60	89,248
December	3.48	2.81	275,826
2010			
January	3.30	3.00	501,323
February	4.25	3.05	2,464,587
March	7.65	4.25	22,071,395
April	7.84	6.75	31,480,461
May	7.00	5.75	19,035,775
June	6.50	5.55	7,474,263
July	5.89	4.95	49,393,915
August	5.50	5.18	8,663,716
September	5.66	5.00	13,805,288
October	6.49	5.50	29,350,988
November	7.15	6.40	43,166,367
December	7.40	6.66	21,056,385
2011			
January	8.49	7.30	9,571,600
February	9.25	8.00	10,750,064
March	9.74	7.87	7,799,273

DIRECTORS AND OFFICERS

In conjunction with the completion of the non-brokered private placement on April 13, 2010, the then existing directors and officers of the Corporation were replaced by the current directors and officers of the Corporation, with the exception of Murray Smith and Colin Davies, who joined the Board of Directors on July 12, 2010 and July 9, 2010 respectively. The name, municipality of residence, principal occupation for the prior five years and position with the Corporation of each of the directors and officers of the Corporation are as follows:

Name and Residence	Position	Principal Occupation During Previous Five Years
P. Daniel O'Neil Calgary, Alberta	Director, President and Chief Executive Officer	Director, President and Chief Executive Officer of the Corporation. Prior thereto, President and Chief Executive Officer of Breaker Energy Ltd., a publicly traded oil and natural gas company, from its formation in September 2004 until its acquisition by NAL Oil & Gas Trust in December 2009. Mr. O'Neil is also a director of Hyperion Exporation Corp.

Name and Residence	Position	Principal Occupation During Previous Five Years
Paul Colborne ⁽⁴⁾ Calgary, Alberta	Chairman of the Board of Directors	President of StarValley Oil & Gas Ltd., a private oil and natural gas company, since October 2006, Chairman of Legacy Oil and Gas Inc. and serves on the board of directors of Crescent Point Energy Corp., Cequence Energy Ltd., and Wildstream Exploration Inc. Prior thereto, Mr. Colborne served as Chairman of TriStar Oil & Gas Ltd. until its sale in 2009 and a director of Breaker Energy Ltd. until its sale in 2009. Prior thereto, Mr. Colborne was President and Chief Executive Officer of StarPoint Energy Trust, a publicly traded oil and natural gas income trust, until its merger to form Canetic Resources Trust in January 2006 and was Chairman of Seaview Energy Ltd, and was a director of Westfire Energy Ltd. and Twin Butte Energy Ltd.
Robert Leach ⁽²⁾ Calgary, Alberta	Director	President and Chief Executive Officer of Custom Truck Sales Ltd., a private company operating Kenworth truck dealerships in Saskatchewan and Manitoba, and President of International Fitness Holdings, an operating arm of a private equity firm operating 25 health clubs in Alberta. Mr. Leach was formerly the Chairman of the Board of Breaker Energy Inc.
Peter Bannister ⁽¹⁾⁽³⁾ Calgary, Alberta	Director	President of Destiny Energy Inc., a privately owned oil and gas company, Chairman of Crescent Point Energy Corp., and also serves on the board of directors of Cequence Energy Ltd. Prior thereto, Mr. Bannister served as a director of Breaker Energy Ltd. until its sale in 2009. He was Vice-President Exploration of Mission Oil and Gas Inc. until its sale in 2006 and Vice-President Exploration of StarPoint Energy Inc., President of Impact Energy Inc. and Vice-President of Corporate Development of Startech Energy Ltd. prior to their respective corporate sales.
Keith Macdonald ⁽¹⁾⁽³⁾⁽⁴⁾ Calgary, Alberta	Director	President of Bamako Investment Management Ltd., a financial consulting and investment holding company and currently Chairman and director of Cirrus Energy Ltd. and director of Bellatrix Exploration Ltd. Mr. Macdonald was formerly a director of Breaker Energy Ltd.
James Pasiaka ⁽²⁾ Calgary, Alberta	Director	Partner of the national law firm Heenan Blaikie LLP since 2001. Mr. Pasiaka has served as an officer and director of a number of public energy companies, chairman of the board of several oil and gas companies and was formerly Corporate Secretary of Breaker Energy Ltd.
Murray Smith ⁽¹⁾⁽²⁾ Calgary, Alberta	Director	Mr. Smith is the president of a private consulting company, Murray Smith and Associates and a director of CriticalControl Business Solutions Corp. and serves on four private company boards. Prior thereto, Mr. Smith was an Official Representative of the Province of Alberta to the United States of America until 2007. Prior thereto, he was a member of the Legislative Assembly in the Province of Alberta serving in four different Cabinet portfolios – Energy, Gaming, Labour, and Economic Development from 1993 to 2005.
Colin Davies ⁽³⁾⁽⁴⁾ Calgary, Alberta	Director	Mr. Davies was co-founder, President & CEO and director of Corinthian Energy Corp., a private company with oil and gas assets located in Alberta, Manitoba, and British Columbia prior to its sale to Surge Energy Inc. in 2010. Prior thereto, Mr. Davies spent five years as Vice President, Operations and COO of Acanthus Resources Ltd., a private oil and gas company where he was responsible for all aspects of engineering and operations.

Name and Residence	Position	Principal Occupation During Previous Five Years
Maxwell Lof Calgary, Alberta	Chief Financial Officer	Chief Financial Officer of the Corporation. Prior thereto, Chief Financial Officer and Vice-President, Finance of Breaker Energy Ltd. from its formation in September 2004 until its acquisition by NAL Oil & Gas Trust in December 2009.
Dan Brown Calgary, Alberta	Chief Operating Officer	Chief Operating Officer of the Corporation. Prior thereto, Chief Operating Officer of Breaker Energy Ltd. from August 2009 until its acquisition by NAL Oil & Gas Trust in December 2009. Prior thereto, Mr. Brown was the Business Unit Team Lead at a major North American production company.
Margaret Elekes Calgary, Alberta	Vice-President, Land	Vice-President, Land of the Corporation. Prior thereto, Consulting Landman for Breaker Energy from its formation in September 2004 until its acquisition by NAL Oil & Gas Trust in December 2009 and Consulting Landman with Legacy Oil + Gas Inc. from December 2009 to March 2010.
Malcolm Adams Calgary, Alberta	Vice-President, Corporate Development	Vice-President, Corporate Development of the Corporation. Prior thereto, Mr. Adams was the Vice-President of ARC Financial Corp. from October 2001 to April 2010.
Tee Ong Calgary, Alberta	Vice-President, Engineering	Vice-President, Engineering of the Corporation. Prior thereto, Mr. Ong has held engineering positions with various oil and gas companies, with Daylight Energy Ltd. being the most recent.
Kevin Angus Calgary, Alberta	Vice President, Exploration	Vice President, Exploration of the Corporation. Prior thereto, Mr. Angus was the Executive Vice-President and director of Pegasus Oil and Gas Inc. from June 2006 to August 2009, Vice-President, Exploration at Mustang Resources Inc. from June 2003 to July 2005 and President of KD Angus & Associates Ltd. from 1997 to 2003.

Notes:

1. Member of the audit committee.
2. Member of the compensation committee.
3. Member of the reserves committee.
4. Member of the environment, health and safety committee.

As a group, the directors and executive officers of the Corporation beneficially own, control or direct, directly or indirectly, 2,981,836 Common Shares, representing approximately 5% of the outstanding Common Shares as at March 31, 2011.

Corporate Cease Trade Orders

To the knowledge of management of the Corporation, no director or executive officer of the Corporation is, or within the 10 years before the date of this AIF, has been, a director, chief executive officer or chief financial officer of any other issuer that:

- a) was the subject of a cease trade or similar order or an order that denied the other issuer access to any exemptions under Canadian securities legislation that lasted for a period of more than 30 consecutive days that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or
- b) was subject to a cease trade or similar order or an order that denied the relevant issuer access to any exemption under securities legislation that lasted for a period of more than 30 consecutive days that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which

resulted from an event that occurred while the person was acting in the capacity as director, chief executive officer or chief financial officer.

Bankruptcies

To the knowledge of management of the Corporation, no director or executive officer, or any shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, or a personal holding company of any such person:

- a) is, at the date of this AIF or has been within the 10 years before the date of this AIF, a director or executive officer of any company that, while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- b) has, within the 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, officer or shareholder.

Penalties or Sanctions

To the knowledge of management of the Corporation, no director or executive officer, or any shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, has:

- a) been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with the Canadian securities regulatory authority; or
- b) been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

The directors and officers of the Corporation may participate in activities and investments in the oil and gas industry outside the scope of their engagement or employment as directors or officers of the Corporation. As a result, the directors and officers may become subject to conflicts of interest. The ABCA provides that, in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided under the ABCA. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the ABCA, the written mandate of the Board of Directors and the Corporation's corporate governance policies.

As at the date hereof, the Corporation is not aware of any existing or potential material conflicts of interest between the Corporation and a director or officer of the Corporation.

INDUSTRY CONDITIONS

The oil and natural gas industry is subject to extensive controls and regulations governing its operations (including land tenure, exploration, development, production, refining, transportation and marketing) imposed by legislation enacted by various levels of government and with respect to pricing and taxation of oil and natural gas by agreements among the governments of Canada, Alberta and British Columbia, all of which should be carefully considered by investors in the oil and gas industry. It is not expected that any of these controls or regulations will affect the operations of the Corporation in a manner materially different than they would affect other oil and gas issuers of similar size. All current legislation is a matter of public record and the Corporation is unable to predict what additional legislation or amendments may be enacted.

Outlined below are some of the principal aspects of legislation, regulations and agreements governing the oil and gas industry in the jurisdictions in which the Corporation currently operates.

Pricing and Marketing – Oil

In Canada, producers of oil negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. Such price depends in part on oil type and quality, price of competing fuels, distance to market, the value of refined products, supply/demand balance and other contractual terms. Oil exporters are also entitled to enter into export contracts and export oil provided that, for contracts that do not exceed one year in the case of light crude oil and two years in the case of heavy crude oil, an export order is obtained from the National Energy Board prior to the export. Any export pursuant to a contract of longer duration (to a maximum of 25 years) must be made pursuant to an National Energy Board export license and Governor in Council approval.

Pipeline Capacity

Although pipeline expansions are ongoing, the lack of firm pipeline capacity continues to affect the oil and natural gas industry and limit the ability to produce and to market production. In addition, the pro-rationing of capacity on the inter-provincial pipeline systems also continues to affect the ability to export oil and natural gas.

The North American Free Trade Agreement

On January 1, 1994, the NAFTA among the governments of Canada, the U.S. and Mexico became effective. The NAFTA carries forward most of the material energy terms contained in the Canada U.S. Free Trade Agreement. In the context of energy resources, Canada continues to remain free to determine whether exports of energy resources to the U.S. or Mexico will be allowed, provided that any export restrictions are justified under certain provisions of the General Agreement on Tariffs and Trade, and further provided that any export restrictions do not: (i) reduce the proportion of energy resources exported relative to the total supply of the energy resource (based upon the proportion prevailing in the most recent 36 month period or in such other representative period as the parties may agree), (ii) impose an export price higher than the domestic price subject to an exception with respect to certain measures which only restrict the volume of exports, and (iii) disrupt normal channels of supply. All three countries are prohibited from imposing minimum or maximum export or import price requirements, provided, in the case of export price requirements, prohibition in any circumstances in which any other form of quantitative restriction is prohibited, and in the case of import price requirements, such requirements do not apply with respect to enforcement of countervailing and anti dumping orders and undertakings.

The NAFTA contemplates the reduction of Mexican restrictive trade practices in the energy sector and prohibits discriminatory border restrictions and export taxes. The NAFTA also contemplates clearer disciplines on regulators to ensure fair implementation of any regulatory changes and to minimize disruption of contractual arrangements and avoid undue interference with pricing, marketing and distribution arrangements, which is important for Canadian natural gas exports.

Provincial Royalties and Incentives

General

In addition to federal regulation, each province has legislation and regulations that govern land tenure, royalties, production rates, environmental protection and other matters. The royalty regime is a significant factor in the profitability of crude oil, natural gas, natural gas liquids and sulphur production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee, although production from such lands is also subject to certain provincial taxes and royalties. Operations not on Crown lands and subject to the provisions of specific agreements are also usually subject to royalties negotiated between the mineral owner and the lessee. These royalties are not eligible for incentive programs sponsored by various governments as discussed below. Crown royalties are determined by governmental regulation and are generally calculated as a percentage of the value of the gross production. The rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date, method of recovery and the type or quality of the petroleum product produced. Other royalties and royalty-like interests are from time to time carved out of the working interest owner's interest through non-public transactions. These are often referred to as overriding royalties, gross overriding royalties, net profits interests or net carried interests.

From time to time the governments of the western Canadian provinces have established incentive programs for exploration and development. Such programs often provide for royalty rate reductions, royalty holidays and tax credits for the purpose of encouraging oil and natural gas exploration or enhanced recovery projects. The programs are designed to encourage exploration and development activity by improving earnings and cash flow within the industry. Royalty holidays and reductions would reduce the amount of Crown royalties paid by oil and gas producers to the provincial governments and would increase the net income and funds from operations of such producers. However, the trend in recent years has been for provincial governments to allow such incentive programs to expire without renewal, and consequently few such incentive programs are currently operative.

Alberta

In Alberta, the Crown royalty rates on conventional oil and natural gas fluctuate, depending on when a well was drilled, well depth, well production volume and the price of oil and natural gas. On October 25, 2007, the Alberta Government introduced a new royalty regime which became effective on January 1, 2009, and is applicable to all existing conventional oil and natural gas wells in Alberta. The new royalty regime assesses the applicable royalty rate on a well by well basis using a sliding scale which takes into account the price of oil and/or natural gas and the well's production volumes.

Under the new Alberta royalty regime, the royalty reserved to the Alberta Crown on conventional oil production ranges from zero percent to 50 percent and is capped at fifty percent once the price of conventional oil reaches Cdn \$120 per barrel. The royalty applicable to natural gas production under the new royalty regime ranges from five percent to 50 percent and is capped at 50 percent once the price of natural gas reaches Cdn \$16.59 per gigajoule. The new royalty regime has retained the Natural Gas Deep Drilling Program and the Deep Oil Exploration Program. The new royalty regime also sets royalties for natural gas liquids at 40 percent for pentanes and 30 percent for butanes and propane.

On November 19, 2008, and November 24, 2008, the Alberta Government announced details of an optional five-year transitional royalty program ("**Transitional Program**"). The Transitional Program applies to conventional oil and natural gas wells drilled to measured depths between 1,000 to 3,500 meters between November 19, 2008, and January 1, 2014. For each well, the producer can make a one time election to produce the well under the Transitional Program or the new royalty regime. As of January 1, 2014, all production subject to the Transitional Program will revert to the new royalty regime. The Natural Gas Deep Drilling and Deep Oil Exploration programs are not available to wells producing under the Transitional Program.

For conventional oil produced under the Transitional Program, the royalty reserved to the Alberta Crown is variable, depending on the pool's vintage (when the pool was discovered), oil density, well production volume, and the price of oil. The royalty is capped at 35 percent, which maximum is reached at an oil price of approximately Cdn \$30 per barrel, depending on other factors such as production rates.

For natural gas produced under the Transitional Program, the royalty reserved to the Alberta Crown varies depending on the vintage, production volume and the inflation adjusted price of gas less adjustments for the cost of processing the Crown's share of the gas. The royalty will vary between 15 percent to 35 percent, which maximum is reached at a natural gas price of approximately Cdn \$3.70 per gigajoule, depending on other factors such as production rates.

On March 3, 2009, the Government of Alberta announced an additional incentive program in respect of oil and gas wells drilled on Alberta Crown lands. This program provides that, in respect of any wells drilled between April 1st, 2009 and April 1, 2011, the operator will receive (a) a drilling credit equal \$200 of royalty per metre drilled on conventional oil and natural gas wells and (b) a maximum royalty rate of five percent on such wells until the first to occur of twelve calendar months, 50,000 barrels of oil production or 500 million cubic feet (MMcf) of gas production.

In April 2010, the Government of Alberta announced an additional royalty incentive program relating to horizontal oil well drilling projects. Horizontal oil wells drilled on or after May 1, 2010 qualify for the Horizontal Oil New Well Royalty Rate program. This incentive program provides a reduced royalty rate on new horizontal oil wells for the first 18 to 48 months of production, based on drilling depth, up to an established total production volume of 50,000 to 100,000 boe. (boe cap is calculated at 10:1).

British Columbia

Oil produced from Crown leases in British Columbia is subject to a Crown royalty which varies from zero percent to 40 percent. B.C. Crown royalty rates depend on the volume produced monthly, the vintage of the oil (whether it was produced from a pool discovered before or after October 31, 1975), whether the oil is considered third tier or produced from a well shut-in for at least 36 months immediately preceding January 1, 1981, meets locational requirements, and which resumed production on or after such date and the viscosity of oil produced. Oil produced from the discovery of pools discovered after June 30, 1974 may be exempt from the payment of a royalty for the first 36 months of production up to a certain monthly production threshold and thereafter is subject to royalty payments. Subject to the minimum royalties described in the following sentence, the royalty payable on natural gas is determined by a sliding scale based on a reference price, which is the greater of the amount obtained by the producer and a prescribed minimum price. Natural gas produced in association with oil has a minimum royalty of eight percent while the royalty in respect of other natural gas may not be less than nine percent. Natural gas wells drilled after May 1998 have a maximum royalty rate of 27 percent. Natural gas wells producing less than a specified daily volume of gas may be eligible for a reduction in the applicable royalty rate.

Land Tenure

Crude oil and natural gas located in the western Canadian provinces is owned predominantly by the respective provincial governments. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licenses and permits for varying periods and on conditions set forth in provincial legislation including requirements to perform specific work or make payments. Oil and natural gas located in such provinces can also be privately owned and rights to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

Environmental Regulation

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. Environmental legislation provides for restrictions and prohibitions on releases or emissions and regulation on the storage and transportation of various substances produced or utilized in association with certain oil and gas industry operations and can affect the location and operation of wells and facilities and the extent to which exploration and development is permitted. In addition, legislation requires that well and facilities sites be abandoned and reclaimed to the satisfaction of provincial authorities. As well, applicable environmental laws may impose remediation obligations with respect to property designated as a contaminated site upon certain responsible persons, which include persons responsible for the substance causing the contamination, persons who caused the release of the substance and any past or present owner, tenant or other person in possession of the site. Compliance with such legislation can require significant expenditures and a breach of such legislation may result in the suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, the imposition of fines and penalties or the issuance of clean up orders.

Environmental legislation in the Province of Alberta is governed by the *Environmental Protection and Enhancement Act* (Alberta) and the *Oil and Gas Conservation Act* (Alberta). British Columbia's *Environmental Assessment Act* became effective June 30, 1995. This legislation rolls the previous processes for the review of major energy projects into a single environmental assessment process with public participation in the environmental review process.

In addition to existing environmental legislation, a number of federal and provincial governments have announced intentions to regulate greenhouse gases and other air pollutants. These governments are currently developing the regulatory and policy frameworks to deliver on their announcements. In most cases there are few technical details regarding the implementation and coordination of these plans to regulate emissions. Additionally, it is anticipated that other federal and provincial announcements and regulatory frameworks to address emissions will continue to emerge. As these federal and regional programs are under development, the Corporation is unable to predict the total impact of the potential regulations upon its business.

The operations of the Corporation are, and will continue to be, affected in varying degrees by laws and regulations regarding environmental protection. The Corporation is committed to meeting its responsibilities to protect the environment and the Corporation will be taking such steps as required to ensure compliance with the environmental legislation and regulations in the jurisdictions in which it operates. The Corporation believes that it is reasonably likely that the trend towards stricter standards in environmental legislation and regulation will continue and anticipates making increased expenditures of both a

capital and an expense nature as a result of the increasingly stringent laws relating to the protection of the environment. However, it is not currently possible to quantify any such increased expenditures and it is not anticipated that The Corporation's competitive position will be adversely affected by current or future environmental laws and regulations governing its oil and natural gas operations.

RISK FACTORS

An investment in Common Shares would be subject to certain risks. Investors should carefully consider the following risk factors:

Operational Risks

Oil and natural gas exploration operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts and oil spills, each of which could result in substantial damage to oil and natural gas wells, producing facilities, other property and the environment or in personal injury. In accordance with industry practice, the Corporation is not fully insured against all of these risks, nor are all such risks insurable. Although the Corporation maintains liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities could exceed policy limits, in which event the Corporation could incur significant costs that could have a materially adverse effect upon its financial condition. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations.

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities.

To the extent the Corporation will not be the operator of its oil and natural gas properties, it will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators. Payments from production generally flow through the operator and there is a risk of delay and additional expense in receiving such revenues if the operator becomes insolvent. Although the Corporation intends to operate the majority of its properties, there is no guarantee that it will remain operator of such properties or that the Corporation will operate other properties it may acquire in the future.

In addition, the success of the Corporation will be largely dependent upon the performance of its management and key employees. The Corporation does not have any key man insurance policies and, therefore, there is a risk that the death or departure of any member of management or any key employee could have a material adverse affect on the company.

Sour Natural Gas

Some of the Corporation's current or future properties include or may include wells that produce sour natural gas and facilities that process sour natural gas. An accidental discharge or leak of sour natural gas can be fatal or cause serious injury. The dangers associated with drilling for, producing, processing and transporting sour natural gas necessitate increased environmental, health and safety compliance costs to the Corporation and any accidental discharge or leak of sour natural gas could lead to significant liabilities to the Corporation. The Corporation has implemented policies and protocols to address this risk, but it is not possible for any issuer to eliminate all of the risks associated with producing, processing and transporting sour natural gas.

Reserve Estimates

There are numerous uncertainties inherent in evaluating quantities of reserves and the net present value of future net revenue to be derived therefrom, including many factors beyond the control of the Corporation. The reserves information contained in the Sproule Report and set forth herein, including information respecting the net present value of future net revenue from reserves, represents an estimate only. This estimate is based on number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil and natural gas, operating costs and royalties and other

government levies that may be imposed over the producing life of the reserves. These assumptions were based on price forecasts in use at the date the Sproule Report was prepared and many of these assumptions are subject to change and are beyond the control of the Corporation. Ultimately, the actual reserves attributable to the Corporation's properties will vary from the estimates contained in the Sproule Report and those variations may be material and affect the market price of the Common Shares.

Reserve Replacement

The Corporation's future oil and natural gas reserves and production and the cash flows to be derived therefrom are highly dependent on successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves the Corporation may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in reserves will depend not only on the Corporation's ability to develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that the Corporation's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

Possible Failure to Realize Anticipated Benefits of the Valhalla Asset Acquisition

The Corporation has completed the Valhalla Asset Acquisition to strengthen its position in the oil and natural gas industry and to create the opportunity to realize certain benefits including, among other things, potential cost savings. Achieving the benefits of these and future acquisitions the Corporation may complete depends in part on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as the Corporation's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Corporation. The integration of acquired businesses requires the dedication of substantial management effort, time and resources, which may divert management's focus and resources from other strategic opportunities and from operational matters during this process.

Availability of Services

The availability of the services necessary to drill and complete the types of horizontal oil wells that form a substantial portion of the Corporation's planned exploration and development activities in 2011 has becoming increasingly constrained due to increased demand and competition for such services. Such constraint may increase the costs of such services or result in the delay of planned exploration and development activities.

Adoption of International Financial Reporting Standards

The requirement for the Corporation, like all Canadian reporting issuers, to implement international financial reporting standards ("IFRS") to replace Canadian GAAP effective January 1, 2011 may materially affect the Corporation's financial results as reported in its financial statements.

Risks Associated with Acquisitions

Acquisitions of oil and natural gas properties or companies are based in large part on engineering, environmental and economic assessments made by the acquiror, independent engineers and consultants. These assessments include a series of assumptions regarding such factors as recoverability and marketability of oil and natural gas, environmental restrictions and prohibitions regarding releases and emissions of various substances, future prices of oil and natural gas and operating costs, future capital expenditures and royalties and other government levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the control of the Corporation. All such assessments involve a measure of geologic, engineering, environmental and regulatory uncertainty that could result in lower production and reserves or higher operating or capital expenditures than anticipated.

Although title and environmental reviews are conducted prior to any purchase of resource assets, such reviews cannot guarantee that any unforeseen defects in the chain of title will not arise to defeat the Corporation's title to certain assets or that environmental defect or deficiencies do not exist.

Market Conditions

The trading price of securities of oil and gas companies is subject to substantial volatility, and such trading prices have been particularly volatile in recent months. This volatility is often based on factors both related and unrelated to the financial performance or prospects of the companies involved. The market price of the Common Shares could be subject to significant fluctuations in response to variations in the Corporation's operating results, financial condition, liquidity and other internal factors. Factors that could affect the market price of the Common Shares that are unrelated to the Corporation's performance include domestic and global commodity prices and market perceptions of the attractiveness of particular industries. The price at which the Common Shares will trade cannot be accurately predicted.

Industry Regulation and Competition

There is strong competition relating to all aspects of the oil and natural gas industry. The Corporation will actively compete for capital, skilled personnel, undeveloped land, reserve acquisitions, access to drilling rigs, service rigs and other equipment, access to processing facilities and pipeline and refining capacity, and in all other aspects of its operations with a substantial number of other organizations, many of which may have greater technical and financial resources than the Corporation. Some of those organizations not only explore for, develop and produce oil and natural gas but also carry on refining operations and market petroleum and other products on a world-wide basis and as such have greater and more diverse resources on which to draw. The Corporation's ability to increase reserves and production in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling.

The marketability of oil and natural gas acquired or discovered will be affected by numerous factors beyond the control of the Corporation. These factors include reservoir characteristics, market fluctuations, the proximity and capacity of oil and natural gas pipelines and processing equipment and government regulation. Oil and natural gas operations (exploration, production, pricing, marketing, transportation and royalty rates) are subject to extensive controls and regulations imposed by various levels of government, including those described above under the heading "Industry Conditions", which may be amended from time to time. The Corporation's oil and natural gas operations may also be subject to compliance with federal, provincial and local laws and regulations controlling the discharge of materials into the environment or otherwise relating to the protection of the environment. Changes to the regulation of the oil and gas industry in jurisdictions in which the Corporation operates may adversely impact the Corporation's ability to economically develop existing reserves and add new reserves.

Volatility of Oil and Gas Prices and Markets

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 may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Corporation will not benefit from such increases.

Variations in Foreign Exchange Rates and Interest Rates

The Corporation's expenses will be denominated in Canadian dollars, while the price of oil and natural gas will generally be denominated in U.S. dollars or impacted by the Canadian dollar to U.S. dollar exchange rate. As the exchange rate for the Canadian dollar versus the U.S. dollar increases, the Corporation will generally receive fewer Canadian dollars for its production. If the value of the Canadian dollar against the U.S. dollar increases, the financial results of the Corporation may be negatively affected. The Corporation's management may initiate certain hedges to mitigate these risks. Future fluctuations in the Canadian/United States foreign exchange rate may impact the future value of the Corporation's reserves as determined by independent evaluators. In addition, variations in interest rates could result in a significant change in the amount the Corporation will pay to service debt, potentially adversely affecting the value of the Common Shares.

Price Volatility of Publicly Traded Securities

In recent years, the securities markets in Canada and the United States have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered to be development stage companies, have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It is likely that the market price for the Common Shares will be subject to market trends generally, notwithstanding the financial and operational performance of the Corporation.

Substantial Capital Requirements; Liquidity

The Corporation may have to make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If revenues or reserves decline, the Corporation may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the company. Moreover, future activities may require the Corporation to alter its capitalization significantly. The inability of the company to access sufficient capital for its operations could have a material adverse effect on its financial condition, results of operations or prospects.

Issuance of Debt

From time to time the Corporation may enter into transactions to acquire assets or shares of other corporations. These transactions may be financed partially or wholly through debt, which may increase debt levels above industry standards. The Corporation's articles and by-laws do not limit the amount of indebtedness it may incur. The level of the Corporation's indebtedness from time to time could impair its ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Environmental Concerns

Many aspects of the oil and natural gas business present environmental risks and hazards, including the risk that the Corporation may be in noncompliance with an environmental law, regulation, permit, licence, or other regulatory approval, possibly unintentionally or without knowledge. Such risks may expose the Corporation to fines or penalties, third party liabilities or to the requirement to remediate, which could be material.

The operational hazards associated with possible blowouts, accidents, oil spills, natural gas leaks, fires, or other damage to a well or a pipeline may require the Corporation to incur costs and delays to undertake corrective actions, could result in environmental damage or contamination or could result in serious injury or death to employees, consultants, contractors or members of the public, creating the potential for significant liability to the Corporation. Also, the occurrence of any such

incident, which is located in a populated area, could damage the Corporation's reputation in the surrounding communities and make it more difficult for the Corporation to pursue its operations in those areas.

Compliance with environmental laws and regulations could materially increase the Corporation's costs. The Corporation may incur substantial capital and operating costs to comply with increasingly complex laws and regulations covering the protection of the environment and human health and safety. In particular, the Corporation may be required to incur significant costs to comply with future federal or provincial greenhouse gas emissions reduction requirements or other regulations, if enacted. Although it is not expected that the costs of complying with environmental legislation will have a material adverse effect on the Corporation's financial condition or results of operations, no assurance can be made that the costs of complying with environmental legislation in the future will not have such an effect.

Although the Corporation maintains insurance consistent with prudent industry practice, it is not fully insured against certain environmental risks, either because such insurance is not available or because of high premium costs. In particular, insurance against risks from environmental pollution occurring over time (as opposed to sudden and catastrophic damages) is not available on economically reasonable terms. Accordingly, the Corporation's properties may be subject to liability due to hazards that cannot be insured against, or that have not been insured against due to prohibitive premium costs or for other reasons. It is also possible that changing regulatory requirements or emerging jurisprudence could render such insurance of less benefit to the Corporation.

In 1994, the United Nations' Framework Convention on Climate Change came into force and three years later led to the Kyoto Protocol which requires participating countries, upon ratification, to reduce their emissions of carbon dioxide and other greenhouse gases. Canada ratified the Kyoto Protocol in late 2002, and the Canadian federal government and various Canadian provincial governments are currently evaluating other proposals and legislative measures that would achieve similar objectives. However, until a detailed implementation plan is developed, it is difficult to determine what, if any, impact future environmental laws and regulations may have on the Corporation's environmental liabilities, on prices for oil and natural gas or on other general economic factors which may affect the Corporation's financial position and results. It is possible that the Corporation could face increased operating costs in order to comply with emissions legislation.

Abandonment and Reclamation Costs

The Corporation will be responsible for compliance with terms and conditions of environmental and regulatory approvals and all laws and regulations regarding abandonment and reclamation in respect of its properties, which abandonment and reclamation costs may be substantial. A breach of such legislation or regulations may result in the imposition of fines and penalties, including an order for cessation of operations at the site until satisfactory remedies are made.

Possible Failure to Realize Anticipated Benefits of Future Acquisitions

The Corporation may complete acquisitions to strengthen its position in the oil and natural gas industry and to create the opportunity to realize certain benefits including, among other things, potential cost savings. Achieving the benefits of any future acquisitions depends, in part, on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as the Corporation's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with its own. The integration of acquired businesses requires the dedication of substantial management effort, time and resources which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. The integration process may result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect the Corporation's ability to achieve the anticipated benefits of these and future acquisitions.

Third Party Credit Risk

The Corporation may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Corporation, such failures could have a material adverse effect on the Corporation. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Corporation's ongoing capital program, potentially delaying the program and the results of such program until the Corporation finds a suitable alternative partner.

On July 22, 2008, SemGroup LP filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code and two of SemGroup LP's Canadian subsidiaries, SemCanada Crude Corporation and SemCAMS ULC filed for creditor protection under the *Companies' Creditors Arrangement Act* in Canada. The Corporation sold crude oil to SemCanada Crude Corporation and natural gas to a party which sold natural gas to SemCAMS ULC, and has a financial exposure to these two entities totalling approximately \$4.0 million at December 31, 2009. At this time, the Corporation is unable to ascertain the amount of June and July 2008 revenues that will be recoverable but has recorded a provision in the financial statements equal to approximately 96 percent of the amount owed at December 31, 2009. The \$3.84 million provision is based on the final court order but is subject to change based on final payments yet to be received.

Delay in Cash Receipts and Credit Worthiness of Counterparties

In addition to the usual delays in payment by purchasers of oil and natural gas to the operators of the Corporation's properties, and by the operator to the Corporation, payments between any of such parties may also be delayed by restrictions imposed by lenders, delays in the sale or delivery of products, delays in the connection of wells to a gathering system, blowouts or other accidents, recovery by the operator of expenses incurred in the operation of the Corporation's properties or the establishment by the operator of reserves for such expenses. In addition, the insolvency or financial impairment of any counterparty owing money to the Corporation, including industry partners and marketing agents, could prevent the Corporation from collecting such debts.

Dilution

Common Shares, including rights, warrants, special warrants, subscription receipts and other securities to purchase, to convert into or to exchange into Common Shares, may be created, issued, sold and delivered on such terms and conditions and at such times as the Board may determine. In addition, the Corporation may issue additional Common Shares from time to time pursuant to the Corporation's stock option plan. The issuance of these Common Shares would result in dilution to holders of Common Shares.

Net Asset Value

The Corporation's net asset value will vary depending upon a number of factors beyond the control of the Corporation's management, including oil and natural gas prices. The trading price of the Common Shares is also determined by a number of factors which are beyond the control of management and such trading price may be greater than or less than the net asset value of the Corporation.

Reliance on Management

Shareholders will be dependent on the management of the Corporation in respect of the administration and management of all matters relating to the Corporation and its properties and operations. Investors who are not willing to rely on the management of the Corporation should not invest in Common Shares.

Permits and Licenses

The operations of the Corporation may require licenses and permits from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at its projects.

Title to Properties

Although title reviews will be done according to industry standards prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells as determined appropriate by management, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat a claim of the Corporation which could result in a reduction of the revenue received by the Corporation.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights to resources and various properties in western Canada. Such claims, in relation to any of the Corporation's lands, if successful, could have an adverse effect on its operations.

Corporate Matters

To date, the Corporation has not paid any dividends on its outstanding Common Shares. Certain of the directors and officers of the Corporation are also directors and officers of other oil and gas companies involved in natural resource exploration and development, and conflicts of interest may arise between their duties as officers and directors of the Corporation, as the case may be, and as officers and directors of such other companies.

Failure to Maintain Listing of the Common Shares

The Common Shares are currently listed for trading on the facilities of the TSXV. The failure of the Corporation to meet the applicable listing or other requirements of the TSXV in the future may result in the Common Shares ceasing to be listed for trading on the TSXV, which would have a material adverse effect on the value of the Common Shares. There can be no assurance that the Common Shares will continue to be listed for trading on the TSXV.

Structure of the Corporation

From time to time, the Corporation may take steps to organize its affairs in a manner that minimizes taxes and other expenses payable with respect to the operation of the Corporation and its subsidiaries. If the manner in which the Corporation structures its affairs is successfully challenged by a taxation or other authority, the Corporation and the holders of Common Shares may be adversely affected.

Changes in Legislation

It is possible that the Canadian federal and provincial government or regulatory authorities could choose to change the Canadian federal income tax laws, royalty regimes, environmental laws or other laws applicable to oil and gas companies and that any such changes could materially adversely affect the Corporation, its shareholders and the market value of the Common Shares.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no legal proceedings involving claims for damages for which the potential exposure is more than 10% of the Corporation's current assets to which the Corporation is or was a party or in respect of which any of its properties are or were subject during the year ended December 31, 2010, nor are there any such proceedings known to the Corporation to be contemplated.

During the year ended December 31, 2010, there were (i) no penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority; (ii) no other penalties or sanctions imposed by a court or regulatory body against the Corporation that it believes would likely be considered important to a reasonable investor in making an investment decision; and (iii) no settlement agreements entered into by the Corporation with a court relating to securities legislation or with a securities regulatory authority.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

In connection with the Recapitalization, on April 13, 2010, the current directors and officers of the Corporation, with the exception of Murray Smith and Colin Davies, purchased 20,452 Common Shares at a price of \$4.40 per Common Share, 1,099,413 Units at a price of \$4.40 per Unit and 661,951 FT Units at a price of \$4.40 per FT Unit. Each Unit consists of one Common Share and Performance Warrant while each FT Unit consists of one Common Share issued on a "flow-through" basis in accordance with the Tax Act and one Performance Warrant.

James Pasieka, a director of the Corporation, is a partner of Heenan Blaikie LLP, which law firm renders legal services to the Corporation.

Except as disclosed above or as may be disclosed elsewhere in this AIF, none of the directors, executive officers or principal shareholders of the Corporation, and no associate or affiliate of any of them, has or has had any material interest in any transaction or any proposed transaction which has materially affected or is reasonably expected to materially affect the Corporation or any of its affiliates.

AUDITOR, TRANSFER AGENT AND REGISTRAR

The auditor of the Corporation is KPMG LLP who has been the auditor since May 5, 2010.

The transfer agent and registrar for the Common Shares is Olympia Trust Company at its principal offices in Calgary, Alberta and Toronto, Ontario.

INTEREST OF EXPERTS

The Sproule Report and certain reserves estimates contained in filings made by the Corporation under National Instrument 51-102 – Continuous Disclosure Requirements during the year ended December 31, 2010 were prepared by Sproule. As at the date of this Annual Information Form, the directors, officers, employees and consultants of Sproule who participated in the preparation of the Sproule Report or such reserves estimates or who were in a position to directly influence the preparation or outcome of the preparation of the Sproule Report or such reserves estimates, as a group, owned, directly or indirectly, less than 1% of the outstanding Common Shares.

Certain audit reports contained in filings made by the Corporation under National Instrument 51-102 – Continuous Disclosure Requirements during the year ended December 31, 2009 were prepared by Collins Barrow Calgary LLP. KPMG LLP were appointed auditors of the Corporation on May 5, 2010. KPMG LLP are independent of the Corporation pursuant to the rules of professional conduct of the Institute of Chartered Accountants of Alberta. The previous auditors of the Corporation, Collins Barrow Calgary LLP, were independent of the Corporation pursuant to the rules of professional conduct of the Institute of Chartered Accountants of Alberta for the period during which they were the auditors of the Corporation.

MATERIAL CONTRACTS

The Corporation has not entered into any contracts or agreements during the most recently completed financial year or prior to the most recently completed financial year but which remain in effect which would be considered to be material to the Corporation except as set forth below:

1. the Purchase Agreement;
2. the underwriting agreement dated September 23, 2010, between the Corporation and a syndicate of underwriters relating to the Offering;
3. the Subscription Receipt Agreement;
4. the Acquisition Agreement;
5. the underwriting agreement dated April 20, 2010 between the Corporation and a syndicate of underwriters with respect to a prospectus offering which was completed on May 5, 2010 as more particularly described under the heading “Development of the Business – Prospectus Financing”; and
6. the Reorganization Agreement.

Copies of such agreements are available on SEDAR at www.sedar.com or may be requested by contacting the Corporation c/o Suite 2300, 635 – 8th Avenue S.W., Calgary, Alberta T2P 3M3, telephone (403) 930-1010.

ADDITIONAL INFORMATION

Additional information concerning the Corporation may be found under the Corporation's profile on SEDAR at www.sedar.com. Additional information, including information concerning directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans, will be contained in the information circular of The Corporation for the annual general and special meeting of the holders of Common Shares scheduled for June 16, 2011. Additional financial information is provided in the Corporation's comparative financial statements and management's discussion and analysis for the year ended December 31, 2010.

SCHEDULE "A"

REPORT ON RESERVES DATA BY SPROULE ASSOCIATES LIMITED

Form 51-101F2

Report on Reserves Data by Independent Qualified Reserves Evaluator or Auditor

Report on Reserves Data

To the Board of Directors of Surge Energy Inc. (the "Company"):

1. We have evaluated and audited the Company's Reserves Data as at December 31, 2010. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2010, estimated using forecast prices and costs.
2. The Reserves Data are the responsibility of the Company's management. Our responsibility is to express an opinion on the Reserves Data based on our evaluation.

We carried out our evaluation and audit in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook"), prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation and an audit to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation or audit also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.

4. The following table sets forth the estimated future net revenue attributed to proved plus probable reserves, estimated using forecast prices and costs on a before tax basis and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us as of December 31, 2010, and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Company's management and Board of Directors:

Independent Qualified Reserves Evaluator or Auditor	Description and Preparation Date of Evaluation Report	Location of Reserves (Country)	Net Present Value of Future Net Revenue Before Income Taxes (10% Discount Rate)			
			Audited (M\$)	Evaluated (M\$)	Reviewed (M\$)	Total (M\$)
Sproule	Evaluation of the P&NG Reserves of Surge Energy Inc., As of December 31, 2010, prepared November 2010 to February 2011	Canada				
Total			41,275	370,582	Nil	411,858

5. In our opinion, the reserves data evaluated by us have, in all material respects, been determined and are presented in accordance with the COGE Handbook.
6. We have no responsibility to update the report referred to in paragraph 4 for events and circumstances occurring after its preparation date.
7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

Executed as to our report referred to above:

Sproule Associates Limited
Calgary, Alberta
February 25, 2011

Original Signed by Khani Ghaffari, P.Eng.

Khani Ghaffari, P.Eng.
Senior Petroleum Engineer
and Associate

Original Signed by Jim E. Nemrava, R.E.T.

Jim E. Nemrava, R.E.T.
Senior Petroleum Technologist
and Shareholder

Original Signed by Meghan M. Klein, P.Eng.

Meghan M. Klein, P.Eng.
Petroleum Engineer and Associate

Original Signed by George Strother-Stewart, P.Geol.

George Strother-Stewart, P.Geol.
Senior Petroleum Geologist
and Associate

Original Signed by Harry J. Helwerda, P.Eng., FEC
on behalf of Robert N. Johnson, P.Eng.

Robert N. Johnson, P.Eng.
Vice-President, Engineering
and Director

SCHEDULE "B"

REPORT OF MANAGEMENT AND DIRECTORS ON RESERVES DATA AND OTHER INFORMATION

Terms to which a meaning is ascribed in National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities have the same meaning herein.

Management of Surge Energy Inc. (the "**Corporation**") is responsible for the preparation and disclosure of information with respect to the Corporation's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2010, estimated using forecast prices and costs.

An independent qualified reserves evaluator has evaluated and reviewed the Corporation's reserves data. The report of the independent qualified reserves evaluator is presented in Schedule "A" to the Annual Information Form of the Corporation for the year ended December 31, 2010 (the "**AIF**").

The Reserves Committee of the Board of Directors of the Corporation has:

- (a) reviewed the Corporation's procedures for providing information to the independent qualified reserves evaluator, Sproule Associates Limited ("**Sproule**");
- (b) met with Sproule to determine whether any restrictions affected the ability of Sproule to report without reservation; and
- (c) reviewed the reserves data with management and with Sproule.

The Reserves Committee of the Board of Directors has reviewed the Corporation's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The Board of Directors has, on the recommendation of the Reserves Committee, approved:

- (d) the content and filing with securities regulatory authorities of Form 51-101F1, incorporated into the AIF, containing reserves data and other oil and gas information;
- (e) the filing of Form 51-101F2, which is the report of Sproule on the reserves data; and
- (f) the content and filing of this report.

Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

(signed) "P. Daniel O'Neil"

P. Daniel O'Neil, President & Chief Executive Officer

(signed) "Maxwell Lof"

Maxwell Lof, Vice-President, Finance and Chief Financial Officer

(signed) "Peter Bannister"

Peter Bannister, Director & Chairman of the Reserves Committee

(signed) "Paul Colborne"

Paul Colborne, Director & Chairman of the Board of Directors

April 26, 2011