January 18, 2013

Surge Energy Inc. Announces its 2013 Capital Budget and Guidance and Provides an Operations Update

CALGARY, ALBERTA (January 18, 2013) Surge Energy Inc. ("Surge" or the "Company") (TSX: SGY) is pleased to announce its 2013 capital budget and guidance and provide an operations update.

2013 BUDGET, GUIDANCE AND CORPORATE GOALS:

Surge's board of directors has approved a capital budget of $140 million for 2013 with a balanced approach of production growth (approximately 16 percent growth in average daily production per share) and unlocking additional value in its high quality, large DPIIP[1] light oil assets. Surge has allocated approximately $124 million to its 2013 drilling program, $9 million to waterflood implementation and optimization, $17 million to a combination of land, acquisitions, corporate and capitalized G&A expenditures and is planning $10 million of non-core dispositions late in the year. Surge is also pleased to announce that the Company's bank line was increased from $250 million to $290 million late in the fourth quarter of 2012, providing flexibility to execute the Company's 2013 capital program.

With this 2013 budget, Surge expects to achieve solid growth in average production per share and funds from operations per share while maintaining its balance sheet. Based on Surge's 2013 guidance, the Company is forecasting growth in funds from operation per basic share of more than 250 percent since the Company was recapitalized in 2010 with a compound annual growth rate of more than 50 percent over that time. Surge is forecasting growth in production per basic share of more than 70 percent since 2010 with a compound annual growth rate of 20 percent over that time. Surge's unaudited estimates for 2012 average production, funds from operations and year-end net debt are: 8,900 boe per day (70 percent oil and NGLs), $93 million and $220 million respectively.

2013 Guidance:[2]

Average Production:	10,300 (73% oil and NGLs)
Exit (December Average) Production:	11,500 (73% oil and NGLs)
Capital Expenditures:	$140 million
Average FFO:	$110 million
Average FFO per share (basic):	$1.55
Annualized December FFO:	$124 million

[1] Discovered Petroleum Initially In Place (DPIIP) is defined as quantity of hydrocarbons that are estimated to be in place within a known accumulation, plus those estimated quantities in accumulations yet to be discovered. There is no certainty that it will be commercially viable to produce any portion of the resources. A recovery project cannot be defined for this volume of DPIIP at this time, and as such it cannot be further sub-categorized.

[2] Based on US$90.00/bbl WTI, C$82.40/bbl Edm Par, $3.00/mcf AECO, US$/CDN$ exchange rate of 1.000.

Annualized December FFO per share (basic):	$1.74
Bank Line:	$290 million
Year End Net Debt:	$250 million
Year End Debt/Ann. December FFO:	2.0
Average Operating Netback:[3]	$36.01

2013 Quarterly Guidance:[4]

	Q1 2013	**Q2 2013**	**Q3 2013**	**Q4 2013**
Average Production:	9,600	10,100	10,350	11,165
% oil and NGLs:	72%	72%	73%	74%
Capital Expenditures:[5]	$43 million	$32 million	$42 million	$23 million
Average FFO:	$25 million	$27 million	$28 million	$30 million
Net Debt:	$239 million	$243 million	$257 million	$250 million

<u>In 2013, management's primary goals for Surge are:</u>

Goal 1 – Improve operational performance

- Surge is actively pursuing runtime optimization projects in each of its core areas. This includes a second gas processing agreement that Surge has made with another facility to mitigate the risk of relying on only one facility for Valhalla South. It also includes an additional compressor at Valhalla South and multiple well tie-in and facility upgrade initiatives occurring in South East Alberta. Management was not satisfied with the level of production downtime in 2012 and is committed to improvement in 2013.

Goal 2 – Improve capital efficiency performance

- There are significant opportunities to improve Surge's capital efficiency performance in 2013 through a combination of improved rig availability, improved service costs, improved well scheduling, leveraging off of additional operational synergies during each capital program and high-grading its oil drilling inventory based on 2012 drilling results.

Goal 3 – Confirm commercial viability of Surge's waterflood portfolio

- Surge will direct a total of $9 million in expenditures toward waterfloods in 2013. In addition to Surge's Windfall waterflood pilot, which commenced injection during the third quarter of 2012, Surge plans to implement a horizontal well waterflood pilot at Waskada and implement a waterflood program at Nipisi in 2013. Due to very low associated gas in the Slave Point and Spearfish oil plays and analogous waterflood projects directly offsetting, Surge expects to see

[3] Netback assumptions: Revenue/boe: $58.78/boe; Op. and Transportation Costs: $13.81/boe; Royalties/boe: $10.19/boe; Hedging/boe: $1.24 and calculated by subtracting royalties and operating costs from revenues.

[4] Based on US$90.00/bbl WTI, C$82.40/bbl Edm Par, $3.00/mcf AECO, US$/CDN$ exchange rate of 1.000.

[5] Net of $10.5 million of dispositions.

an early positive oil production response to each of these waterflood pilots within 2013 and has already received government approvals to its applications for each of these waterfloods. First injection will commence as soon as practical. In South East Alberta, two existing waterflood schemes will be optimized in 2013 and Surge will build new facilities and submit applications to commence two new schemes. The implementation of the waterflood pilots are an integral piece of Surge's strategy of increasing oil recovery factor throughout the Company's oil portfolio, lowering corporate decline rate and maximizing shareholder value.

Goal 4 – Proactively maintain the Company's balance sheet flexibility

- Management continues to protect Surge's balance sheet with a strong risk management program. Surge has set floors on approximately 50 percent of net 2013 oil & ngl production at an average price of approximately C$92.90 WTI per barrel as well as 50 percent of net 2013 natural gas production at an average price of C$3.40 AECO per mcf. Management expects the Company's 2013 year end debt to cash flow ratio to be 2.0 times[6].

OPERATIONS UPDATE AND 2013 BUDGET PLAN:

December 2012 Outages

As previously disclosed, Valhalla South experienced an unplanned outage, impacting fourth quarter production by approximately 600 boe per day and December production by approximately 1,200 boe per day. These volumes came back on stream December 11, 2012.

In addition, extensive freeze-offs in late December and a three day compressor outage at Windfall negatively impacted December production and the 2012 exit rate. After restoring production from the previously announced outage at Valhalla South, Surge achieved a best one week average production rate of more than 10,230 boe per day with approximately 340 boe per day of additional downtime for a total 10,570 boe per day. These estimates do not include a 44 percent working interest Valhalla well which was brought on production in early January 2013 and is performing to Surge's type curve expectations.

Western Alberta:

Valhalla South (Doig)

Third Party Objection at Valhalla South

Surge has received objections to holding applications before the ERCB, which are necessary to further downspace the Doig pool to its optimal development well density**.** This matter will be the subject of an ERCB Hearing scheduled to commence on February 26, 2013. Allegations are made that Halfway gas cross-flows into the Doig Formation as a result of Doig fracturing activities. Analysis of Surge's fracturing activities shows no evidence of propagation into the Halfway reservoir. In Surge's view, the amount of potential compensation for historic Halfway gas cross-flow is less than $600,000. Surge is confident that this matter will be resolved during the third quarter of 2013, allowing the Company to proceed with the optimal development of the southern portion of the field.

Although this matter is not material to Surge, it has caused Surge to temporarily alter the timing of the development for the southern portion of the Valhalla South pool. Surge is currently focusing on

[6] Based on US$90.00/bbl WTI, C$82.40/bbl Edm Par, $3.00/mcf AECO, US$/CDN$ exchange rate of 1.000.

drilling in the northern portion of the field, where the Halfway gas pool does not exist. Surge has two gross (1.44 net) wells licensed without objection and a third pending (100 percent working interest) for the first quarter of 2013 and has an additional one gross (0.44 net) wells planned for the second quarter of 2013. In the second half of 2013, Surge has four gross (2.5 net) wells budgeted.

Surge recently completed its 14th horizontal multi-frac well (8-25-74-9W6; 44 percent working interest), which was brought on production January 6, 2013; and is currently drilling its 15th horizontal multi-frac well (104/13-07-075-08W6; 100 percent working interest).

During the latter part of the fourth quarter in 2012, Surge installed additional compression at the 6-18 battery site. The 1,400 horsepower unit increased the field compression for solution gas total by 40 percent to 3,500 horsepower. The additional unit was necessary to reduce field operating pressures and to accommodate the next two years of planned development. Five days of downtime to tie-in the compressor occurred during the second week of January and has been factored into the Company's 2013 budget and guidance. There is no additional scheduled downtime at Valhalla South for the remainder of 2013. Currently, Valhalla produces approximately 53 percent oil and NGLs and 47 percent solution gas.

Wembley (Doig)

At Wembley, Surge will drill one horizontal multi-frac well in the Doig formation during the third quarter of 2013. Surge expects an initial, best month average production rate of 465 boe per day (85 percent oil and NGLs) and reserves of 480 thousand boe (60 percent oil and NGLs) from this well. This will be Surge's first well on these lands where Surge estimates the DPIIP to be 18 million barrels of 40 API oil. Surge has approximately six horizontal multi-frac well locations on its lands at Wembley.

Nipisi/Gift (Slave Point/Gilwood)

During 2012, Surge drilled and completed nine gross (nine net) Slave Point horizontal mult-frac wells, which now all have a minimum of 90 days of production data. With no additional load fluid expected to be recovered, the nine wells average water cut continues to trend down with a most recent average of 33 percent. On average, these wells achieved a best month producing oil rate of 195 barrels of oil per day with a range of 35 to 399 barrels of oil per day. Surge believes the variation in production performance is best correlated to variation in reservoir pressure as the two poorest producers encountered low reservoir pressure relative to the other seven wells as a result of immediately offsetting historical production. The 2012 drilling results have allowed Surge to optimize primary well spacing, frac density, and confirm reservoir continuity, which is vital to successful implementation of a full scale waterflood in the Slave Point play.

Early implementation of waterflood is critical to the development of the Slave Point pool. As such, Surge plans to initiative a waterflood in 2013 with the conversion of two existing horizontal wells to injectors. Due to the extremely low gas-oil ratio of the Slave Point, Surge expects to see positive waterflood response within six to nine months of injection. This estimate is consistent with simulation modeling that has been completed and with the response time seen from the analogue Slave Point waterflood at Gift Lake, which is adjacent to Nipisi.

In addition, Surge plans to drill four gross (four net) Slave Point horizontal multi-frac wells at a minimum of 300 meter inter-well spacing in 2013. The 2013 drills have been budgeted at 175 barrels of oil per day best month average with estimated ultimate recovery of 200,000 barrels of oil per well. Capital costs have been forecast to improve from $4.2 million to $3.8 million due to service cost

reductions and reduced fracs per well from 14 to eight. The number of required fracs per well were reduced as a result of observed reservoir permeability.

Nipisi South (Slave Point)
Surge will drill its first (0.73 net) Slave Point horizontal multi-frac well during the first quarter of 2013. The well will offset the vertical Slave point well that has cumulatively produced approximately 31 thousand barrels of oil to date and demonstrated similar reservoir characteristics to other successfully frac'd horizontal wells in the area. Surge estimates a total DPIIP of 30 million barrels of oil at Nipisi South.

Utikuma (Slave Point)
Surge has executed a farm-in on two sections of Slave Point rights and recently acquired another 1.5 sections at a crown sale in the Utikuma area, just northwest of Surge's main block at Nipisi. The lands directly offset a vertically developed Slave Point pool where cumulative well production ranges from 10 to over 80 thousand barrels of oil per well. Surge estimates that there are 14 million barrels of DPIIP on the lands. An earning well (0.70 net) is planned for the third quarter of 2013.

Windfall (Bluesky)
Waterflood pilot injection into the initial horizontal multi-frac injector has been underway for approximately four months. The injector (9-9-59-15W5) continues to take water at rates consistent with the simulation forecast.

Surge expects to see a response in the offsetting horizontal wells during the second quarter of 2013. Upon response, Surge expects to convert an additional horizontal multi-frac producer into an injector later in the second quarter. A horizontal multi-frac development well is planned to be drilled in the fourth quarter of 2013. Assuming a full field commercial waterflood is viable; Surge estimates that it can ultimately recover between 23 and 28 percent of the estimated 60 million barrels of DPIIP in this pool based on a third party simulation study.

<u>Williston Basin:</u>

North Dakota (Spearfish)
Surge successfully drilled and brought on production its operated, 100 percent working interest five well pad during the fourth quarter of 2012. By using a fit for purpose rig and a multi-well pad configuration, Surge was able to reduce the all-in average cost of these wells to $1.5 million. The accomplishment of this goal is a major step forward in the advancement of the value of these North Dakota assets.

Also during the fourth quarter of 2012, Surge participated in 11 non-operated wells (4.3 net) that were brought on production. All 16 (9.3 net) wells drilling and completed during the fourth quarter of 2012 achieved type curve average best first month production of 125 barrels of oil per day.

Surge also participated in the drilling and casing of four (1.7 net) non-operated wells that will be completed during the first quarter of 2013. Surge plans to drill an additional three (1.26 net) horizontal multi-frac wells during the first quarter of 2013. Fracing and equipping of all seven (2.96 net) horizontal multi-frac wells is scheduled to commence in late January, with all wells on production during February.

In the first quarter of 2013, Surge will also drill two vertical wells to test the Spearfish and Madison Formations in order to high grade future Spearfish development areas. With the positive performance of the Spearfish in North Dakota, Surge will continue to participate in several non-operated wells anticipated for the second half of 2013.

Waskada (Spearfish)
During the first quarter of 2013, Surge will be implementing a horizontal waterflood pilot scheme at Unit 15 by converting two horizontal producers to injectors. Water injection is expected to commence in February. Response is anticipated within six months in a quarter section waterflood area (with an estimated DPIIP of ten million barrels per section). The goal of the waterflood scheme is to demonstrate the technical and economic feasibility of an expected incremental recovery of approximately ten percent of DPIIP in the waterflood project area, based on a reservoir simulation study. If the project is successful, water injection will be expanded in other Surge Unit and non-Unit lands (2.5 Sections).

<u>South East Alberta:</u>

Provost (Cretaceous Sands)
During 2012, Surge established a new Cretaceous oil pool on approximately five sections of land, which the Company estimates to contain DPIIP of 28 million barrels of 29 degree API oil. During the fourth quarter of 2012, Surge completed two (100 percent working interest) horizontal multi-frac wells within this pool. The wells have been performing to type curve expectations of 125 barrels of oil per day with anticipated recovery of 110 thousand barrels of oil per well at a cost of $1.7 million per well. No reserves were booked to this asset in last year's independent engineering report dated December 31, 2011.

In 2013, Surge will drill four development wells, one vertical well, one disposal/water source well and upgrade its existing facilities. Surge expects to develop the property on a primary basis with up to 14 wells on 400 meter inter-well spacing. A horizontal well waterflood pilot will likely be initiated in 2014. Numerous analogous waterflood projects exist in similar pools in the area and have demonstrated recovery factors between 20 and 30 percent of DPIIP.

Sounding Lake (Cretaceous Sands)
At Sounding Lake, a Cretaceous oil pool was established with the drilling of two horizontal wells in the fourth quarter of 2012. The pool is estimated to contain DPIIP of five million barrels of 31 degree API oil. Surge has just finished drilling a third well in this pool and initial production is anticipated for February 2013. In 2013, Surge will drill a total of four wells on this property. The best month average production rate is estimated to be 100 barrels of oil per day with anticipated recovery of 60 thousand barrels of oil at a cost $1.25 million per well, yielding attractive economic returns.

Sounding Lake East (Cretaceous Sands)
At Sounding Lake East, Surge has acquired and farmed in on 3.75 sections of land that contain a new Cretaceous oil pool with estimated DPIIP of 47 million barrels of 29 degree API oil. The lands are offset directly by vertical well production and contain bypassed pay in numerous wellbores that provide extensive control for the mapping. The pool is analogous to the Provost pool.

Surge will drill a horizontal multi-frac earning well in the first quarter of 2013. The type curve expectation is marginally reduced from that at Provost, with estimated best month average production rates of 100 barrels of oil per day and risked expected recovery of 100 thousand barrels of oil. The

primary development of the pool is estimated to require up to 22 wells on 400 meter inter-well spacing. Waterflood implementation is expected after successful primary well development is confirmed. Based on numerous successful offsetting waterfloods in the area, incremental recovery of 20 and 30 percent could be anticipated.

Long Coulee (Cretaceous Sands)
In 2013, Surge will drill its first horizontal well into a Cretaceous oil pool at Long Coulee. The best month average production rate is estimated to be 100 barrels of oil per day with anticipated recovery of 72 thousand barrels of oil at a cost $1.5 million per well. Surge estimates that there are an additional five horizontal follow-up locations and more than 10 million barrels of DPIIP in this Cretaceous oil pool. Surge will also pilot a waterflood to support the newly drilled horizontal well with improved oil recovery targets in excess of 30 percent of DPIIP.

MANAGEMENT UPDATE:

Mr. Daniel O'Neil, CEO and President of Surge Energy Inc., announced at the January 17, 2013 board meeting that he will have to take a short-term medical leave of absence to undertake routine tests. We expect Mr. O'Neil to be back in short order.

OUTLOOK – A BALANCED APPROACH TO VALUE CREATION:

Surge's 2013 budget achieves a balance between improving operational performance, improving capital efficiency and proving commercial viability of the Company's large waterflood portfolio, while achieving growth in cash flow and production per share and maintaining the Company's balance sheet flexibility.

Surge has assembled more than 570 gross (435 net) oil drilling locations, made significant progress in reducing its cost structure, increasing netbacks and gaining exposure to an internally estimated DPIIP of more than 550 gross million barrels of oil. The Company also has multiple waterflood opportunities and exploration initiatives in its portfolio.

Surge is committed to delivering top quartile corporate performance and creating value for shareholders by growing reserves, cash flow and production on a per share basis.

Surge is an oil focused oil and gas company with operations throughout Alberta, Manitoba and North Dakota. Surge's common shares trade on the Toronto Stock Exchange under the symbol SGY. Surge currently has 71.2 million basic and 79.8 million fully diluted common shares outstanding.

FORWARD-LOOKING STATEMENTS:

This press release contains forward-looking statements. More particularly, this press release contains statements concerning anticipated: (i) capital expenditures for 2013, including the breakdown of planned capital expenditures by class and area, (ii) estimates of 2012 average production, funds from operations and year end debt; (iiii) exploration, development, drilling, runtimes and downtimes, construction of facilities and disposition activities, (iv) average and exit oil & natural gas production during 2013, (v) funds from operations and netbacks during 2013, (vi) operating costs, (vii) debt and bank facilities (viii) primary and secondary recovery potentials and implementation thereof and (ix) regulatory applications and the expected success thereof.

The forward-looking statements are based on certain key expectations and assumptions made by Surge, including expectations and assumptions concerning the performance of existing wells and success obtained in drilling new wells, anticipated expenses, cash flow and capital expenditures and the application of regulatory and royalty regimes.

Although Surge believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Surge can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), commodity price and exchange rate fluctuations and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures. Certain of these risks are set out in more detail in Surge's Annual Information Form which has been filed on SEDAR and can be accessed at www.sedar.com.

The forward-looking statements contained in this press release are made as of the date hereof and Surge undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

Note: Boe means barrel of oil equivalent on the basis of 1 boe to 6,000 cubic feet of natural gas. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 1 boe for 6,000 cubic feet of natural gas 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 means barrel of oil equivalent per day.

This press release contains the terms "funds flow from operations" and "netbacks" which are not terms recognized under IFRS Generally Accepted Accounting Principles ("GAAP"). The Company uses these measures to help evaluate its performance as well as to evaluate acquisitions. The Company considers funds flow from operations a key measure as it demonstrates the Company's ability to generate funds necessary to repay debt and to fund future growth through capital investment. Funds generated from operations should not be considered as an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with International Financial Reporting Standards as an indicator of Surge's performance. Surge's determination of funds flow from operations may not be comparable to that reported by other companies. The reconciliation between net income or loss and cash flow from operations can be found in the statement of cash flows in the financial statements. Surge also presents funds generated from operations per share whereby per share amounts are calculated using weighted average shares (basic and diluted) outstanding consistent with the calculation of net earnings (loss) per share, which per share amounts are calculated under GAAP. The Company considers netbacks as a key measure as it demonstrates its profitability relative to current commodity prices. Operating netbacks are calculated by taking total revenues (excluding derivative

gains and losses) and subtracting royalties, operating expenses and transportations costs on a per boe basis. Funds flow netbacks are calculated by taking the operating netback, adding finance income and then subtracting interest costs, and general and administrative costs on a per boe basis.

Funds flow from operations is calculated as cash provided by operating activities from the statement of cash flows, adding the change in non-cash working capital and decommissioning expenditures. Funds flow from operations is used to analyze the Company's operating performance and leverage. Funds flow from operations does not have a standardized measure prescribed by GAAP and therefore may not be comparable with the calculations of similar measures for other companies.

In this press release: (i) mcf means thousand cubic feet; (ii) mcf/d means thousand cubic feet per day (iii) mmcf means million cubic feet; (iv) mmcf/d means million cubic feet per day; (v) bbls means barrels; (vi) mbbls means thousand barrels; (vii) mmbbls means million barrels; (viii) bbls/d means barrels per day; (ix) bcf means billion cubic feet; (x) mboe means thousand barrels of oil equivalent; and (xi) mmboe means million barrels of oil equivalent.

Further Information

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