Surge Energy

Surge Energy Inc. Announces Significant Increase in 2011 Year-End Reserves and Provides Operational Update

CALGARY, March 1, 2012 /CNW/ - Surge Energy Inc. ("**Surge**" or the "**Company**") (TSX: SGY) is pleased to announce its 2011 year-end reserves evaluation (NI-51-101 compliant) and to provide an update on current operations.

The following highlights and reserves information DO NOT INCLUDE the recent private company acquisition that closed on January 6, 2012. The proforma reserves summary and associated Net Asset Value (NAV) including the private company acquisition are disclosed on page four of this press release.

2011 Year-End Reserves Highlights:

Surge is pleased to report the following 2011 year-end reserves highlights based on the Sproule Associates Limited ("Sproule") independent assessment of the Company's reserves dated effective December 31, 2011 (using forecast prices and costs) (the "Surge Sproule Report"). The results presented below used the following unaudited[(1)] estimated values: total capital expenditures for 2011 of approximately $165.6 million, 2011 average production of approximately 5,960 boe per day and estimated 2011 exit production of approximately 7,800 boe per day.

In 2011, Surge:

- **Increased Proved plus Probable reserves by 52 percent** to 32.2 million boe over December 31, 2010 reserves of 21.2 million boe.
- **Increased Proved plus Probable Reserves per share by 32 percent** (fully diluted).
- **Increased Proved plus Probable Oil and NGLs reserves by 55 percent** to 19.2 million barrels over December 31, 2010 reserves of 12.4 million barrels.
- Achieved Proved plus Probable finding and development costs **(F&D) of $14.02 per boe**, including the change in Future Development Capital (FDC).
- Achieved Proved plus Probable finding, development and acquisition costs **(FD&A) of $16.65 per boe**, including the change in FDC.
- **Achieved a recycle ratio of 2.7** with F&D costs of $14.02 per boe, including the change in FDC and based on Surge's estimated fourth quarter 2011 netback. Surge's estimated **fourth quarter 2011 netback increased by 41 percent to $38.55 per boe** over the fourth quarter 2010 netback of $27.31 per boe.
- **Increased Net Present Value discounted at 10 percent Before Tax** (NPV10 BT) of Proved plus Probable reserves **by 43 percent to $587.6 million** compared to $411.9 million as at December 31, 2010.
- Achieved a **Proved plus Probable Reserve Life Index (RLI) of 11.7 years** based on the Company's 2011 fourth quarter average production rate of approximately 7,500 boe per day.
- Achieved a **Proved plus Probable reserves replacement ratio of 6.1** based on the Company's estimated 2011 average production for the year of 5,960 boe per day.
- **Increased Surge's estimated Net Asset Value (NAV) by 20 percent to $8.75 per basic share** at December 31, 2011 based on the NPV10 BT value of its Proved plus Probable reserves.

The following table summarizes the Company's reserves prepared by Sproule at December 31, 2011 and **does not include** the recent private company acquisition. The Surge Sproule Report was prepared in accordance with definitions, standards and

procedures contained in the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook") and National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101"). Additional reserve information as required under NI-51-101 will be included in the Company's Annual Information Form, which will be filed on SEDAR by March 30, 2012.

Summary of Reserves[2]					
	Oil and NGLs (mbbls)	Gas (mmcf)	Combined (mboe)	Future Development Capital (FDC) ($MM)	
				Discounted @ 10%	Undiscounted
Proved Developed Producing	6,721	25,924	11,042	-	-
Proved Developed Non-Producing	587	2,965	1,081	$1.5	$1.7
Proved Undeveloped	5,126	19,641	8,400	$104.0	$113.7
Total Proved	**12,434**	**48,530**	**20,523**	**$105.6**	**$115.4**
Probable Additional	6,760	29,548	11,684	$22.0	$24.7
Total Proved plus Probable	19,194	78,078	32,207	**$127.6**	**$140.1**

The following table is a before tax net present value (at a discount rate of ten percent) summary as at December 31, 2011:

Before Tax Net Present Value Summary	
	NPV10 BT ($000s)
Proved Developed Producing	$269,838
Proved Developed Non-Producing	$23,134
Proved Undeveloped	$131,284
Total Proved	**$424,256**
Probable Additional	$163,365
Total Proved plus Probable	**$587,621**

The following table outlines Surge's F&D and FD&A Costs (unaudited 2011 capital costs):

Capital Costs ($MM), unaudited	**FD&A**	**F&D**
2011 Capital Expenditures (excl. non-cash items): (1)	165.5	150.5
Δ in FDC[3]		
Proved	45.9	45.9
Proved plus Probable	53.8	53.8
Total Capital (excl. non-cash items) **Including Δ in FDC ($MM), unaudited**[3]		
Proved	211.4	196.4
Proved plus Probable	219.3	204.3

FD&A and F&D Costs Without Δ in FDC ($/boe)	**FD&A**	**F&D**
Proved	$19.85	$16.20
Proved plus Probable	$12.57	$10.33
FD&A and F&D Costs Including Δ in FDC ($/boe)[3]		
Proved	$25.35	$21.14
Proved plus Probable	$16.65	$14.02

The following table outlines Surge's recycle ratios based on Surge's fourth quarter 2011 netback estimated at $38.55/boe[1][4] (unaudited):

Recycle Ratio Including Δ FDC, unaudited[3]	**FD&A**	**F&D**

Proved	1.5	1.8
Proved plus Probable	2.3	2.7

The following table outlines Surge's NAV per Basic and Fully Diluted Share (unaudited) using the Proved plus Probable reserve value at December 31, 2011 and forecast pricing and costs:

($MM except share amounts)	
Proved Plus Probable Reserve Value NPV10 BT (incl. future capital)	$587.6
Undeveloped Land (494,209 acres @ $125/acre)	$61.8
Estimated Net Debt (unaudited)	($97.5)
Option Proceeds	$48.0
Total Net Assets (basic)	$551.9
Total Net Assets (fully diluted)	$599.9
Basic Shares Outstanding (MM)	63.0
Fully Diluted Shares Outstanding (MM)	70.1
Estimated NAV per Basic Share	**$8.75**
Estimated NAV per Fully Diluted Share	**$8.56**

Pro-forma Reserves Information including the Recent Private Company Acquisition:

The following table summarizes the Company's reserves prepared by Sproule at December 31, 2011 and includes a summary of the recent private company acquisition reserves, mechanically updated by Sproule to December 31, 2011.

Proforma Summary of Reserves Including the Recent Private Company Acquisition					
	Oil and NGLs (mbbls)	Gas (mmcf)	Combined (mboe)	Future Development Capital (FDC) ($MM)	
				Discounted @ 10%	Undiscounted
Proved Developed Producing	7,764	25,924	12,085	-	-
Proved Developed Non-Producing	699	2,965	1,193	$1.5	$1.7
Proved Undeveloped	6,884	19,641	10,157	$129.4	$140.1
Total Proved	**15,347**	**48,530**	**23,435**	**$131.0**	**$141.8**
Probable Additional	8,308	29,548	13,233	$37.2	$40.7
Total Proved plus Probable	23,655	78,078	36,668	**$168.2**	**$182.5**

The following table outlines Surge's NAV per Basic and Fully Diluted Share (unaudited) using the Proved plus Probable reserve value at December 31, 2011, **including** the recent private company acquisition and utilizing forecast pricing and costs:

($MM except share amounts)	
Proved Plus Probable Reserve Value NPV10 BT (incl. future capital)	$723.8
Undeveloped Land (509,079 acres @ $125/acre)	$63.6
Estimated Net Debt (unaudited)	($131.4)
Option Proceeds	$48.0
Total Net Assets (basic)	$656.0
Total Net Assets (fully diluted)	$704.0
Basic Shares Outstanding (MM)	71.0
Fully Diluted Shares Outstanding (MM)	78.0
Estimated Proforma NAV per Basic Share	**$9.24**
Estimated Proforma NAV per Fully Diluted Share	**$9.03**

Exciting Operational Update:

Valhalla South (Doig) - Western Alberta

Surge is pleased to report a material well result from its ninth horizontal multi-frac well drilled at Valhalla South in the Doig Light Oil Pool (40 degree API), which has **115 million barrels of internally estimated gross DPIIP**[(5)] (99 million barrels net).

The well (10-7-74-8W6, 100 percent working interest) came on production February 21, 2012 and has flowed up the 4.5 inch tie-back string at an average rate 2,300 boe per day (81 percent light oil and NGLs) over the last seven days. On the ninth day of production, the well had improved to over 2,600 boe per day (78 percent light oil and NGLs). The well was completed with 12 frac stages over 1,070 meters of horizontal section.

Surge is currently drilling its tenth well at Valhalla South and has at least five more wells planned for the remainder of 2012. With the completion of the new Surge Sproule report, **Surge has at least 19 gross (14.3 net) unbooked horizontal multi-frac wells in inventory at Valhalla**.

Nipisi (Slavepoint/Gilwood) - Western Alberta

Successful operations are underway at Nipisi, which was acquired on January 6, 2012. Surge has drilled, completed and brought on production, two vertical Gilwood wells with combined initial production rates of over 300 bbls per day of light oil (42 degree API). These exploratory wells will ultimately be utilized as water source wells for future waterflood development in the Slave Point Formation.

The first of two horizontal multi-frac Slave Point wells planned for the first quarter of 2012 has been drilled. The well encountered 1,325 meters of horizontal section and will be fraced with up to 13 stages. The second Slave Point well is currently drilling from the same pad. Completions on these wells are anticipated before the end of March 2012. At least three more horizontal multi-frac Slave Point wells are planned for 2012.

Waskada (Spearfish) - Williston Basin

Surge drilled and completed seven horizontal multi-frac Spearfish light oil (36 degree API) wells during the first quarter of 2012. Four of these wells were brought on production in February, with the remaining three wells anticipated to be on production in early March. With these three wells on in March, Surge will have a total of 21 gross (21 net) Spearfish oil wells producing to the recently completed Battery.

Outlook & Guidance:

As a result of the Company's very successful first quarter 2012 drilling program and the January 6, 2012 closing of the private company acquisition, Surge is on track to meet or exceed management's 2012 production exit rate of 11,000 boe per day (77 percent oil and NGLs).

Footnotes:

(1) As Surge plans to release its audited financial statements before the end of March 2012, certain financial estimates have been made herein. Readers are advised to that these financial estimates are subject to audit and may be revised.

(2) In accordance with National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities (NI 51-101), Sproule prepared the Surge Sproule Report. This report evaluated, as at December 31, 2011, approximately 93 percent of Surge's oil, natural gas, and natural gas liquids reserves, with the remainder having been audited by Sproule. Certain totals disclosed may not add-up exactly due to rounding.

The tables in this press release disclose in the aggregate, the Corporation's gross and net proved and proved plus probable reserves and Net Present Value (NPV) as estimated in the Surge Sproule Report. These estimates were calculated using forecast prices and costs.

"Forecast prices and costs" means future prices and costs used by Sproule in the Sproule Report that are generally accepted as being a reasonable outlook of the future, or fixed or currently determinable future prices or costs to which the Corporation is bound.

"Gross" reserves equate to those reserves that are referred to as "Company Gross" reserves by the Canadian Securities Administrators (CSA) in NI 51-101. Gross Reserves are Company gross reserves, which are the Company's working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of the Company.

"Net After Royalty" reserves are the Company's working interest (operating or non-operating) share after deduction of royalty obligations plus the Company's royalty interests in reserves.

The net present value of future net revenue attributable to Surge's 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 Surge's reserves estimated by Sproule represent the fair market value of those reserves. The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to effects of aggregations. Other assumptions and qualifications relating to costs, prices and future production and other matters are summarized herein. The recovery and reserve estimates of Surge's oil, natural gas, and NGL reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater than or less than the estimates provided herein.

(3) Calculated using the Company's discounted future development capital cost.

(4) Operating netback is calculated as forecast revenue per boe less forecast royalties, operating and transportation expenses on a per boe basis.

(5) 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. 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.

Forward Looking Statements:

This press release contains forward-looking statements. More particularly, this press release contains statements concerning future development capital, the potential for enhanced recovery and production from the application of completion and reservoir management techniques, and exploration, development, and acquisition activities.

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.

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; * mboe means thousand barrels of oil equivalent; and (xi) mmboe means million barrels of oil equivalent.

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