Surge Energy

Surge Energy Inc. Announces Record Year-End Results, Provides Operational Update and Files Annual Information Form

CALGARY, March 22, 2012 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") (TSX: SGY) is pleased to announce its financial and operating results for the year ended December 31, 2011 and to provide an operational update. In addition, Surge has filed its Annual Information Form ("AIF") for the year ended December 31, 2011 on SEDAR.

FINANCIAL AND OPERATING SUMMARY:

Certain selected financial and operations information for three months and year ended December 31, 2011 and the 2010 comparatives are outlined below and should be read in conjunction with Surge's audited annual and unaudited interim Consolidated Financial Statements and accompanying Management Discussion and Analysis ("MD&A").

	Three Months Ended December 31,			Years Ended December 31,		
($000s except per share amounts)	**2011**	2010	% change	**2011**	2010	% change
Financials highlights						
Oil and NGL sales	**36,954**	15,014	146%	**111,705**	47,685	134%
Natural gas sales	**5,741**	3,322	73%	**19,548**	10,029	95%
Other revenue	**117**	208	(43%)	**239**	213	12%
Total oil, natural gas, and NGL revenue	**42,812**	18,544	131%	**131,492**	57,927	127%
Funds from Operations[1]	**22,088**	977	2,161%	**57,789**	18,764	208%
Per share basic ($)	**0.36**	0.02	1,700%	**1.00**	0.51	96%
Per share diluted ($)	**0.35**	0.02	1,650%	**0.98**	0.51	92%
Net income (loss)	**(5,531)**	(3,999)	nm	**2,095**	(7,695)	nm
Per share basic ($)	**(0.09)**	(0.08)	nm	**0.04**	(0.21)	nm
Per share diluted ($)	**(0.09)**	(0.08)	nm	**0.04**	(0.21)	nm
Total cash-based capital expenditures[2]	**46,741**	66,239	(29%)	**165,158**	117,339	41%
Net debt at end of period[3]	**97,204**	46,240	110%	**97,204**	46,240	110%
Operating highlights						
Production:						
Oil and NGL (bbls per day)	**4,534**	2,308	96%	**3,604**	1,871	93%
Natural gas (mcf per day)	**17,885**	10,182	76%	**14,133**	6,930	104%
Total (boe per day) (6:1)	**7,514**	4,005	88%	**5,960**	3,026	97%
Average realized price (excluding hedges):						
Oil and NGL ($per bbl)	**88.60**	70.70	25%	**84.91**	69.83	22%
Natural gas ($ per mcf)	**3.49**	3.55	(2%)	**3.79**	3.96	(4%)
Realized gain(loss) on financial contracts ($ per boe)	**(1.62)**	1.92	nm	**(1.62)**	2.53	nm
Net back (excluding hedges) ($ per boe)						
Oil, natural gas and NGL sales	**61.93**	50.33	23%	**60.45**	52.45	15%
Royalties	**(7.05)**	(6.43)	10%	**(8.06)**	(7.35)	10%
Operating expenses	**(14.92)**	(14.87)	0%	**(15.58)**	(15.25)	2%
Transportation expenses	**(1.41)**	(1.72)	(18%)	**(2.23)**	(2.20)	1%
Operating netback	**38.55**	27.31	41%	**34.58**	27.65	25%
G&A expenses	**(3.00)**	(7.02)	(57%)	**(4.37)**	(6.06)	(28%)
Interest expense	**(1.22)**	(0.80)	53%	**(1.46)**	(0.90)	62%
Corporate netback	**34.33**	19.49	76%	**28.75**	20.69	39%

Common shares (000s)

Common shares outstanding, end of period	**63,040**	56,095	12%	**63,040**	56,095	12%
Weighted average basic shares outstanding	**62,125**	53,065	17%	**57,622**	36,468	58%
Stock option dilution (treasury method)	**1,190**	-	nm	**1,136**	-	nm
Weighted average diluted shares outstanding	**63,314**	53,065	19%	**58,758**	36,468	61%

1 Management uses funds from operations (before changes in non-cash working capital and non-recurring recapitalization costs) to analyze operating performance and leverage. Funds from operations as presented does not have any standardized meaning prescribed by IFRS and, therefore, may not be comparable with the calculation of similar measures for other entities.

2 Please see capital expenditures note.

3 The Corporation defines net debt as outstanding bank debt plus or minus working capital excluding the fair value of financial contracts.

2011 ACHIEVEMENTS & HIGHLIGHTS:

Surge drilled at each of its light oil plays during 2011 with continued excellent results. The Corporation drilled a total of 38 gross (35.36 net) wells, achieving a 100 percent success rate and averaged more than 7,500 boe per day in the fourth quarter. As a result of this successful drilling, Surge more than tripled funds from operations, almost doubled production and achieved leading capital efficiencies in 2011.

- **Funds from operations more than tripled** to $57.8 million during 2011 from $18.8 million during 2010.
- **Increased funds from operations per share by 96 percent** to $1.00 during 2011 from $0.51 during 2010.
- **Increased production by 97 percent** to 5,960 boe per day during 2011 from an average of 3,026 boe per day during 2010.
- **Increased production per basic share by 25 percent** during 2011 as compared to 2010.
- **Increased 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.
- **Increased Proved plus Probable Reserves per share by 32 percent** (fully diluted).
- **Increased Proved plus Probable reserves by 52 percent** to 32.2 million boe over December 31, 2010 reserves of 21.2 million boe.
- **Increased Surge's operating netback by 41 percent** to $38.55 for the fourth quarter of 2011 as compared to $27.31 in the fourth quarter of 2010.
- **Achieved a recycle ratio of 2.7** with Proved plus Probable **F&D costs of $14.02 per boe**, including the change in FDC and based on Surge's fourth quarter 2011 netback of $38.55 per boe.
- **Increased production by 88 percent** to 7,514 boe per day in the fourth quarter of 2011 from an average of 4,005 boe per day in the fourth quarter of 2010.
- **Surge exceeded its upwardly revised 2011 exit production rate** of 7,800 boe per day, **a 73 percent increase** over the 2010 exit of approximately 4,500 boe per day.
- In the fourth quarter of 2011, **approximately 87 percent of revenue resulted from oil and natural gas liquids production.**
- Achieved Proved plus Probable finding, development and acquisition costs **(FD&A) of $16.65 per boe**, including the change in FDC, resulting in a recycle ratio of 2.3 based on Surge's fourth quarter 2011 netback of $38.55 per boe.
- Achieved a **Proved plus Probable reserves replacement ratio of 6.1** based on 2011 average production for the year of 5,960 boe per day.
- Achieved a **Proved plus Probable Reserve Life Index (RLI) of 11.7 years** based on 2011 fourth quarter average production rate of 7,514 boe per day.
- **Achieved a 100 percent success rate** drilling 15 gross (13.11 net) wells in the fourth quarter of 2011. During 2011, Surge achieved a 100 percent success rate drilling 38 gross (35.36 net) wells.

- In the fourth quarter of 2011, Surge issued 6,897,000 shares at a price of $8.70 per share for gross proceeds of $60 million. The increase in bank line during the third quarter to $150 million (currently $175 million), combined with the equity issue, gives Surge considerable financial flexibility as it begins to execute on its 2012 capital program.

- **Surge obtained a Toronto Stock Exchange (TSX) listing** and began trading on the TSX under the symbol SGY on October 21, 2011.

- During the fourth quarter of 2011, **Surge announced the accretive acquisition of a private company with 1,200 barrels per day of light oil production**. The acquisition and the increase in its bank line from $150 million to $175 million closed in January of 2012.

OUTLOOK & GUIDANCE - POSITIONED FOR CONTINUED LIGHT OIL GROWTH:

In less than two years, Surge has positioned itself in three core areas, assembled more than 490 gross oil drilling locations and gained exposure to an internally estimated DPIIP ("Discovered Petroleum Initially In Place")[1] of more than 440 (gross) million barrels of oil.

In 2012, Surge will continue to grow organically by drilling in each of its core areas and will continue to make accretive acquisitions that fit its business plan. 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.

As a result of our very successful development drilling results and strategic acquisitions, Surge is well positioned to meet or exceed its 2012 exit production rate of 11,000 barrels per day, with oil and NGLs growing to 77 percent of total production. Annualized 2012 exit funds from operations are forecast at $166 million[2] ($2.34 per share), and a debt to cash flow ratio[3] of less than one times.

OPERATIONS OVERVIEW:

Surge drilled at each of its light oil resource plays during 2011 with continued excellent results.

Surge drilled 38 gross (35.36 net) wells in 2011 with a 100 percent success rate. The 2011 drilling activity included eight horizontal, multi-frac development oil wells at Valhalla, five horizontal multi-frac oil wells at Windfall, 14 horizontal multi-frac oil wells at Waskada, four horizontal and two vertical development oil wells at Silver and Sounding Lakes, and two exploratory wells at Sounding Lake and Goose River. Surge also drilled two vertical injection wells at Silver and one vertical water disposal well at Waskada.

In addition to drilling operations in 2011, Surge successfully added drilling locations and increased its working interest at each of its core operating areas of Valhalla South, Windfall, Sounding Lake and within the Williston Basin.

During the fourth quarter Surge drilled 15 wells. Only eight, of the 15 wells drilled, were producing at quarter end with the remaining seven wells to be completed and brought on production during the first quarter of 2012. The fourth quarter activity is summarized by area:

Valhalla South (Doig):

Surge commenced drilling at Valhalla during the fourth quarter of 2010 and had drilled a total of eight gross (6.96 net) horizontal multi-frac wells to year end 2011, for a 100 percent success rate. Three gross (2.7 net) horizontal multi-frac wells were drilled during the fourth quarter of 2011. Two of the three wells were completed during the fourth quarter while one was completed during the first quarter of 2012. On average, the wells have performed above Surge's type curve expectations and are tied into Surge's battery. Surge plans to expand the battery capacity at Valhalla South.

Surge recently disclosed a material production result from its ninth horizontal well (10-7-74-8W6, 100 percent working interest), which flowed back at an average of 2,300 boe per day (81 percent light oil and NGLs) over a seven day period. After 30 producing days, the well has averaged greater than 1,900 boe per day (73 percent light oil and NGLs).

Surge is currently drilling its 11th well at Valhalla South with multi-frac completion operations underway on the 10th drill. The production from these two wells (2 gross / 0.9 net) is scheduled to be on early in the second quarter.

There are at least four more wells planned for the remainder of 2012. Three wells are 100% WI wells and one is 71% WI.

The Company has identified to date a total of 40 gross (30.9 net) drilling locations on its lands at Valhalla South, and had a total of 32 gross (23.9 net) wells remaining in inventory as of December 31, 2011.

Windfall (Bluesky):

Surge commenced drilling at Windfall in October of 2010, and has drilled a total of eight gross (eight net) horizontal multi-frac wells for a 100 percent success rate to date. The eighth well drilled implemented a monobore technique, which resulted in a 20 percent reduction in drilling costs. Surge plans to drill all future wells at Windfall using this same technique.

On average, the wells have performed to Surge's type curve expectations and are tied into Surge's expanded battery that has the capacity to handle greater than 4,000 boe per day (3,000 bbls per day of oil).

During the fourth quarter of 2011, Surge also completed a significant consolidation acquisition at Windfall that added ten net sections (6,400 net acres) to the Company's current land position and eight gross (eight net) additional horizontal multi-frac locations to its inventory.

The Company has identified 47 gross (47 net) drilling locations on its lands at Windfall and had a total of 39 gross (39 net) wells remaining in inventory as of December 31, 2011.

During 2012, Surge will focus on waterflood development at Windfall. Currently the pool has recovered less than one percent of the internally estimated DPIIP of 60 million barrels (gross). The Company will commence its pilot project during the second quarter of 2012 and monitor its progress and performance through the remainder of the year. Surge expects the complete waterflood design to be finalized by end of 2012 and anticipates an ultimate light oil recovery of 25 percent of the internally estimated DPIIP of 60 million barrels (gross).

Williston Basin (Spearfish):

Surge commenced drilling operations at Waskada in Southwest Manitoba during the fourth quarter of 2010 and has drilled 21 gross (21 net) horizontal multi-frac wells for a 100 percent success rate to date. Of the 21 wells, two gross (two net) were drilled and completed in the fourth quarter of 2011 and three gross (three net) were completed during the first quarter of 2012. All wells are tied into the Company's new central gathering system, oil battery and water disposal facility. The design of these new facilities and infrastructure should accommodate production rates of 1,500 barrels per day of oil and will increase 2012 netbacks by significantly reducing operating costs, third party fluid processing and water disposal.

The three wells (100% WI) drilled and completed during the first quarter of 2012 at Waskada have commenced production and will add significantly to second quarter production. Surge has an additional nine wells (100% WI) budgeted for the remainder of the year. In addition, Surge is continuing its work on the water flood secondary recovery plan for the Spearsfish. The Company plans to implement a waterflood pilot during the first quarter of 2013. Surge currently has 106 gross (93 net) undrilled locations in Waskada.

In North Dakota, Surge participated in two (0.4 net) non-operated wells during the fourth quarter of 2011. The Company expects to participate in an additional six to eight gross non-operated wells during 2012 and plans to commence drilling its 100 percent operated wells during the third quarter. During the first quarter of 2012 Surge is also participating in a North Dakota 14.2 square mile 3D seismic program, which will aid in the execution of the 2012 Spearfish horizontal well drilling program.

The Company has identified 230 gross (120 net) drilling locations on its lands in North Dakota and had a total of 228 gross (119.6 net) wells remaining in inventory as at December 31, 2011.

South East Alberta (Lloyd/Cummings)

During the fourth quarter of 2011, Surge drilled and completed two (100% WI) unfraced horizontal wells at Silver Lake and drilled one (100% WI) horizontal, multi-frac well at Sounding Lake. The two wells at Silver Lake were on production during December 2011. The well at Sounding Lake was completed in January 2012 and was on production during February. Surge has 12 gross (12 net) wells budgeted in South East Alberta for 2012.

During the first quarter of 2012 at Sounding Lake, Surge successfully drilled and placed on production two additional, horizontal multi-frac wells (100 % WI) and one unfraced horizontal well (100 % WI).

Surge has continued to optimize two water flood schemes in the Silver Lake area by adding two additional water injection wells in both the Cummings and Lloydminster oil pools. A minor expansion of the battery at Silver Lake was also completed to increase water handling capacity.

SUBSEQUENT OPERATIONAL EVENTS:

On December 15, 2011, Surge announced the acquisition of a private oil and gas company ("Pradera"). The acquisition closed on January 6, 2012. Through the acquisition, Surge acquired 1,200 bbls per day of high quality, high netback, focused Slave Point/Gilwood light oil assets in the early stages of primary development in the Nipisi/Gift area of Western Alberta. Surge estimates there to be 65 million barrels of DPIIP in the Slave Point pool, with less than one percent of the oil recovered to date. Surge believes there is potential to grow production to 2,500 bbls per day of oil over the next two years under primary development, and to more than 4,000 barrels per day of oil over the next few years with the implementation of a successful waterflood program.

Surge drilled and completed two vertical Gilwood wells and drilled two horizontal Slave Point wells during the first quarter of 2012. The multi-frac completion of both Slave Point horizontal wells is expected for the end of March 2012, and will contribute significantly to second quarter production.

The Company has identified a total of 16 gross (15.7 net) horizontal multi-frac Slave Point wells and 11 gross (7.9 net) vertical Gilwood wells at Nipsi/Gift. Surge plans to drill at least three more (100% WI) horizontal multi-frac wells into the Slave Point pool and two more (100%) vertical Gilwood wells at Nipisi/Gift during the remainder of 2012. The Company is currently working on the Slave Point waterflood application and plans to commence waterflooding in 2013.

Surge has 14 gross (10.5 net) horizontal oil wells that will be coming on stream either late in the first quarter of 2012 or early in the second quarter of 2012:

- Valhalla: 2 gross (0.9 net)
- Williston Basin: 7 gross (4.6 net)
- Sounding Lake: 3 gross (3 net)
- Slave Point: 2 gross (2 net)

AUDITED FINANCIAL STATEMENTS, MD&A AND AIF:

Surge has filed with Canadian securities regulatory authorities its audited financial statements and accompanying MD&A for the three months and year ended December 31, 2011. Surge has also filed the Company's AIF for the year ended December 31, 2011. These filings are available for review at www.sedar.com or www.surgeenergy.ca.

ANNUAL GENERAL MEETING:

Surge's Annual General Meeting is scheduled for 3:00pm Mountain Standard Time on May 10, 2012 at the Petroleum Club, Devonian Room located at 319 - 5th Avenue SW, Calgary AB.

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 and currently has 71.0 million basic and 78.1 million fully diluted 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 2012, (ii) exploration, development, drilling, construction and acquisition activities, (iii) average and exit oil & natural gas production during 2012, (iv) funds from operations, (v) debt and bank facilities, (vi) operating and transportation costs, (vii) royalties, (viii) hedging results, (ix) foreign exchange rates, * netbacks (xi) primary and secondary recovery potentials and implementation thereof, (xii) the weighting of Surge's production between oil and natural gas, (xiii) regulatory applications and the expected success thereof, and (xiv) realization of anticipated benefits of acquisitions.

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

Neither the TSX nor its Regulation Services Provider (as that term is defined in the policies of the TSX) accepts responsibility for the adequacy or accuracy of this release.

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[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. 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$105.00/bbl WTI, $2.95/GJ AECO, US$/CDN$ exchange rate of $1.00.

[3] Based on a 2012 forecast year-end net debt of $144 million and forecast 2012 annualized exit funds from operations of $166 million.

For further information:

Dan O'Neil, President and CEO
Surge Energy Inc.
Phone: (403) 930-1020
Fax: (403) 930-1011
Email: doneil@surgeenergy.ca

Max Lof, CFO
Surge Energy Inc.
Phone: (403) 930-1021
Fax: (403) 930-1011
Email: mlof@surgeenergy.ca

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