

## Surge Energy Inc. Announces Second Quarter 2010 Results

**CALGARY, Aug. 26 /CNW/ - Surge Energy Inc.** ("Surge" or the "Company") (TSX-Venture Exchange: SGY) is pleased to announce its financial and operating results for the three and six month periods ended June 30, 2010 and 2010 exit guidance.

Certain selected financial and operations information for the three and six month periods ended June 30, 2010 and the 2009 comparatives are outlined below and should be read in conjunction with Surge's unaudited interim Consolidated Financial Statements and accompanying Management Discussion and Analysis (MD&A).

The Company's financial and operating results for the three and six month periods ended June 30, 2010 do not include acquisitions made by the Company in the third quarter, 2010.

### FINANCIAL AND OPERATING SUMMARY:

|                  | 3 Months Ended June 30,<br>2010 |          |        | 6 Months Ended June 30,<br>2010 |          |        |
|------------------|---------------------------------|----------|--------|---------------------------------|----------|--------|
|                  | 2009                            | % Change |        | 2009                            | % Change |        |
| -----            |                                 |          |        |                                 |          |        |
| Financials       |                                 |          |        |                                 |          |        |
| (\$000s except   |                                 |          |        |                                 |          |        |
| per share        |                                 |          |        |                                 |          |        |
| amounts)         |                                 |          |        |                                 |          |        |
| Oil and          |                                 |          |        |                                 |          |        |
| NGL sales        | 9,818                           | 7,315    | 33%    | 20,930                          | 13,140   | 59%    |
| Natural gas      |                                 |          |        |                                 |          |        |
| sales            | 1,301                           | 2,478    | (47%)  | 4,051                           | 5,961    | (32%)  |
| Other revenue    | 22                              | 35       | 37%    | 138                             | 31       | 345%   |
| -----            |                                 |          |        |                                 |          |        |
| Total oil,       |                                 |          |        |                                 |          |        |
| natural gas &    |                                 |          |        |                                 |          |        |
| NGL revenue      | 11,141                          | 9,042    | 23%    | 25,119                          | 19,132   | 31%    |
| -----            |                                 |          |        |                                 |          |        |
| Funds from       |                                 |          |        |                                 |          |        |
| operations(1)    | 4,740                           | 3,853    | 23%    | 10,779                          | 7,372    | 46%    |
| Per share        |                                 |          |        |                                 |          |        |
| basic (\$)       | 0.17                            | 0.23     | (26%)  | 0.46                            | 0.44     | 5%     |
| Per share        |                                 |          |        |                                 |          |        |
| diluted (\$)     | 0.17                            | 0.23     | (26%)  | 0.46                            | 0.44     | 5%     |
| Net earnings     |                                 |          |        |                                 |          |        |
| (loss)           | (7,515)                         | (1,294)  | 481%   | (5,347)                         | (2,935)  | 82%    |
| Per share        |                                 |          |        |                                 |          |        |
| basic (\$)       | (0.27)                          | (0.08)   | 238%   | (0.23)                          | (0.18)   | 28%    |
| Per share        |                                 |          |        |                                 |          |        |
| diluted (\$)     | (0.27)                          | (0.08)   | 238%   | (0.23)                          | (0.18)   | 28%    |
| Capital          |                                 |          |        |                                 |          |        |
| expend-          |                                 |          |        |                                 |          |        |
| itures(2)        | 2,422                           | 2,806    | (14%)  | 8,776                           | 9,767    | (10%)  |
| Net debt (cash)  |                                 |          |        |                                 |          |        |
| at end of        |                                 |          |        |                                 |          |        |
| period           | (22,868)                        | 52,307   | (144%) | (22,868)                        | 52,307   | (144%) |
| -----            |                                 |          |        |                                 |          |        |
| Operating        |                                 |          |        |                                 |          |        |
| Highlights       |                                 |          |        |                                 |          |        |
| Production:      |                                 |          |        |                                 |          |        |
| Oil & NGL        |                                 |          |        |                                 |          |        |
| (bbls per        |                                 |          |        |                                 |          |        |
| day)             | 1,621                           | 1,374    | 18%    | 1,663                           | 1,433    | 16%    |
| Natural gas      |                                 |          |        |                                 |          |        |
| (mcf per day)    | 3,823                           | 7,586    | (50%)  | 4,843                           | 7,405    | (35%)  |
| -----            |                                 |          |        |                                 |          |        |
| Total (boe       |                                 |          |        |                                 |          |        |
| per day)         |                                 |          |        |                                 |          |        |
| (6:1)            | 2,258                           | 2,638    | (14%)  | 2,471                           | 2,667    | (7%)   |
| -----            |                                 |          |        |                                 |          |        |
| Average realized |                                 |          |        |                                 |          |        |
| price:           |                                 |          |        |                                 |          |        |
| Oil & NGL (\$    |                                 |          |        |                                 |          |        |
| per bbl)         | 66.57                           | 58.50    | 14%    | 69.52                           | 50.67    | 37%    |
| Natural gas      |                                 |          |        |                                 |          |        |
| (\$ per mcf)     | 3.74                            | 3.59     | 4%     | 4.62                            | 4.45     | 4%     |
| Realized gain/   |                                 |          |        |                                 |          |        |

|                                                                          |         |         |        |         |         |       |
|--------------------------------------------------------------------------|---------|---------|--------|---------|---------|-------|
| (loss) on<br>commodity<br>contracts (\$<br>per boe)                      | 4.57    | (1.05)  | (535%) | 2.62    | 1.59    | 65%   |
| Combined average<br>(including<br>processing<br>revenue)<br>(\$ per boe) | 54.22   | 40.94   | 32%    | 56.17   | 39.64   | 42%   |
| <hr/>                                                                    |         |         |        |         |         |       |
| Netback (\$<br>per boe)<br>Oil, natural<br>gas and NGL<br>sales          | 54.22   | 40.94   | 32%    | 56.17   | 39.64   | 42%   |
| Royalties                                                                | (10.30) | (4.83)  | 113%   | (8.95)  | (4.95)  | 81%   |
| Operating<br>expenses                                                    | (15.29) | (10.78) | 42%    | (15.73) | (13.22) | 19%   |
| Transportation<br>expenses                                               | (2.33)  | (1.92)  | 21%    | (2.81)  | (2.13)  | 32%   |
| <hr/>                                                                    |         |         |        |         |         |       |
| Operating<br>netback                                                     | 26.30   | 23.41   | 12%    | 28.68   | 19.34   | 48%   |
| <hr/>                                                                    |         |         |        |         |         |       |
| G&A expenses                                                             | (6.76)  | (4.21)  | 61%    | (5.58)  | (3.79)  | 47%   |
| Interest<br>expense                                                      | (0.94)  | (1.99)  | (53%)  | (1.37)  | (1.72)  | (20%) |
| <hr/>                                                                    |         |         |        |         |         |       |
| Corporate<br>netback                                                     | 18.60   | 17.21   | 8%     | 21.73   | 13.83   | 57%   |
| <hr/>                                                                    |         |         |        |         |         |       |
| Common Shares<br>(000s)                                                  |         |         |        |         |         |       |
| Common Shares<br>outstanding,<br>end of period                           | 31,109  | 16,667  | 87%    | 31,109  | 16,667  | 87%   |
| Weighted average<br>basic shares<br>outstanding                          | 27,589  | 16,669  | 66%    | 23,188  | 16,682  | 39%   |
| Stock option<br>dilution<br>(treasury<br>method)                         | -       | -       | -      | -       | -       | -     |
| Weighted average<br>diluted<br>shares<br>outstanding                     | 27,589  | 16,669  | 66%    | 23,188  | 16,682  | 39%   |
| <hr/>                                                                    |         |         |        |         |         |       |

(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 Canadian GAAP and, therefore, may not be comparable with the calculation of similar measures for other entities.

(2) Capital expenditures includes cash additions for the period including acquisition additions net of dispositions.

Excluding the non-recurring recapitalization costs, as well as the increase in stock-based compensation that resulted from the recapitalization, the Company's approximate net earnings (loss) would have been nil for the three months ended June 30, 2010 and \$2.2 million for the six months ended June 30, 2010.

## OVERVIEW AND HIGHLIGHTS:

- The second quarter 2010 was a transformational quarter for Surge. On April 13, 2010 the recapitalization of the Company was completed, which included the appointment of a new management team and board of directors and the completion of a \$17 million private placement

resulting in the issuance of 3.9 million common shares.

- On May 5, 2010, the Company completed a \$50 million equity financing issuing 6.9 million common shares.
- On June 22, 2010, the Company announced two acquisitions that added the following to Surge's asset portfolio:
  - Three high impact, early stage light oil resource plays;
  - Internally estimated net TPIIP (Total Petroleum Initially In Place) of more than 160 million barrels;
  - Low decline long life production base of approximately 1,150 boe per day;
  - More than 90 percent operated;
  - More than 90 percent working interest;
  - Approximately 4.2 mmboe proved plus probable reserves;
  - A reserve life index of 10 years;
  - 80,000 net acres of undeveloped land;
  - More than 90 net unbooked light oil horizontal drilling locations; and
  - A large contiguous land base with owned and operated infrastructure
- Subsequent to the end of the second quarter 2010, the Company announced an increase in its bank line from \$50 to \$80 million.
- On June 25, 2010, shareholders approved the change of name to Surge Energy Inc. at the Company's annual general meeting. Shortly thereafter, the Company's stock symbol changed to SGY (TSX-Venture Exchange).
- Achieved an 83 percent success rate drilling six gross (six net) wells in the second quarter of 2010.
- Realized an average production rate of 2,258 boe per day and a 72 percent production weighting to oil and natural gas liquids in the second quarter of 2010.
- Achieved funds from operations per basic share of \$0.17 in the second quarter of 2010. Funds from operations were \$4.7 million in the second quarter of 2010, a 23 percent increase as compared to \$3.8 million in the second quarter of 2009.
- Realized a 32 percent increase in revenue per boe in the second quarter of 2010. The increase in revenue contributed to a 12 percent increase in Surge's operating netback (defined as revenue excluding realized and unrealized gain/(losses) on commodity contracts per boe less royalties, operating and transportation expenses on a per boe basis) which averaged \$26.30 per boe in the second quarter of 2010.
- Surge has a low decline, oil-weighted production base of more than 3,100 boe per day, an undeveloped land base of more than 420,000 net acres of land, an undrawn \$80 million credit facility, a cash position of approximately \$3 million, and no debt. Surge has positioned itself in several emerging light oil resource plays with more than 180 gross (154 net) oil drilling locations identified. Management is forecasting a December 2010 average production rate of 3,800 boe per day weighted to greater than 60 percent oil.

## OPERATIONS OVERVIEW:

Surge initiated a ten well drilling program in the Silver lake area, completing six wells in the second quarter, 2010. Five of the wells drilled were targeting the Lloydminster BB pool, which is currently under waterflood. Two of these five wells were brought on production late in the second quarter while one was on production early in the third quarter of 2010. As of mid August, the three wells continue to produce at a combined rate of 160 boe per day. Initial pressures from the wells suggest that the current waterflood was successful in increasing overall pool pressure, which is key to improved oil recovery from the pool. The remaining two wells were drilled as injection wells to optimize the waterflood and are injecting into the east side of the pool, more evenly distributing the water injected and optimizing sweep efficiencies. Surge has seen excellent response from wells in the west side of the pool that are near four existing water injectors. The sixth well was drilled as a step out well to the pool and was abandoned after failing to encounter productive reservoir.

The remaining four wells in the program were drilled in the third quarter. Two were brought on production in mid August from the Cummings Formation and are producing at attractive rates. One well was drilled as an exploration well for the Cummings and Lloydminster Formations and is currently being evaluated, while the fourth well was drilled and abandoned after failing to find productive Cummings reservoir.

#### Southern Alberta

Subsequent to the second quarter, Surge successfully drilled a horizontal well at Conrad targeting the Sawtooth Formation. Data gathered while drilling the well has met the Company's expectations and the well is currently being completed and equipped for production.

#### Western Alberta

Surge has identified 28 gross (20.5 net) locations on its Mannville light oil play in western Alberta and will initiate a four well drilling program in the third quarter 2010, with the first well expected to spud in mid to late September. A horizontal multi-stage frac well was drilled in the first quarter of 2010 by the private company acquired by Surge. The well initially produced at an average rate of more than 300 boe per day and was still flowing at 140 boe per day after three months. Surge installed a pump jack on the well in the third quarter of 2010 and is currently optimizing the production rate.

Surge will use its technical expertise and experience in drilling horizontal multi-stage frac wells to optimize the drilling and completion of wells on this play utilizing longer horizontal sections and applying more and larger fracs compared to the initial well. The Company plans to drill horizontal multi-stage frac wells at vertical depths of 1,950 meters and 1,300 meter laterals with 14 frac stages per lateral utilizing 40 ton fracs per stage. Surge estimates net resource potential of 39 mmbbls of TPIIP (Total Petroleum Initially In Place) and identified net locations are based on drilling four wells per section. The pool has up to 16 meters of pay with greater than eight percent porosity and permeability ranging from 0.5 mD to 5 mD. Surge is currently evaluating the results of a recent 3D seismic shoot on the northern part of the play.

#### Manitoba

Surge has identified 74 gross (74 net) horizontal well drilling locations targeting the Spearfish/Lower Amaranth light oil resource play in southwest Manitoba. Horizontal completion design has significantly enhanced the oil potential of tight Spearfish/Lower Amaranth Formation over the past two years. Based on public data, between January 2008 and April 2010, approximately 100 horizontal wells have been drilled and completed in the Spearfish/Lower Amaranth Formation in southwest Manitoba. Over this time period, these new horizontal producers have increased total Spearfish/Lower Amaranth oil production in southwest Manitoba from approximately 1,700 to bbls per day to more than 7,000 bbls per day.

Horizontal producers adjacent to Surge's acreage in the Waskada light oil field have achieved first month initial production rates between 120 and 188 bbls per day from the Spearfish/Lower Amaranth Formation. Surge will initiate a five well drilling program in the Waskada light oil field in the third quarter of 2010 with the first wells expected to spud in mid to late September. Two of the five wells will be drilled on Crown land and will benefit from the current royalty incentive, which is a zero percent royalty on the first 63 mmbbls of oil produced per well.

Surge estimates resource potential of 76 mmbbls of TPIIP utilizing a 0.1 mD core cut off. The play has an average of 15 meters of pay with 13 percent porosity applying the same permeability core cut off of 0.1 mD. Identified net locations are based on drilling 16 wells per section. Another area operator has disclosed plans to down space to 24 wells per section. The Company plans to drill horizontal multi-stage frac wells at vertical depths of 950 meters and 700 meter laterals with 12 frac stages per lateral utilizing 5-15 ton fracs per stage. Previous conventional drilling activity at Waskada provides Surge with extensive vertical well control which will aid in horizontal well production performance prediction.

## OUTLOOK & GUIDANCE:

Solid Growth Platform:

Surge has built a solid growth platform by capturing low decline oil weighted assets of more than 3,100 boe per day and positioning itself in several emerging light oil resource plays. Currently, the Company has identified more than 180 gross (154 net) oil drilling locations and management is currently high grading its 420,000 net acres of undeveloped land for additional drilling opportunities.

Additionally, Surge currently has an undrawn bank line of \$80 million and approximately \$3 million in cash, allowing the team to execute the Company's strategy of growing by making oil resource play acquisitions, implementing its oil resource play exploration strategy, and exploiting/developing its current asset base through the drill bit. Guidance provided for 2010 is outlined below:

Average 2010 Production: 2,850 boe/d (greater than 60% oil)

Exit 2010 Production: 3,800 boe/d (greater than 60% oil)

2010 Capital Expenditures: \$142 million (\$34 million net of acquisitions)

Annualized 2010 Exit FFO : (1) \$45 million

Annualized 2010 Exit FFO per share (basic) : (1) \$0.95

Bank Line: \$80 million

Year End Net Debt: nil

(1) Based on US\$75.00/Bbl WTI, \$5.00/mcf AECO, US\$/CDN\$ exchange rate of 1.00 and calculated by subtracting royalties and operating costs from revenues.

## FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS:

Surge has filed with Canadian securities regulatory authorities its unaudited financial statements for the three and six month periods ended June 30, 2010 and the accompanying Management's Discussion and Analysis ("MD&A"). These filings are available for review at [www.sedar.com](http://www.sedar.com) or [www.surgeenergy.ca](http://www.surgeenergy.ca).

Surge Energy Inc. is an oil focused oil and gas company operating in western Canada. Surge's common shares trade on the TSX Venture Exchange under the symbol SGY and currently has 47.6 million basic and 51.8 fully diluted shares outstanding at August 26, 2010.

## FORWARD LOOKING STATEMENTS:

This press release contains forward-looking statements. More particularly, this press release contains statements concerning anticipated: (i) capital expenditures for 2010, (ii) exploration, development, and acquisition activities, and (iii) average oil & natural gas production during 2010.

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](http://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) mmbboe means million barrels of oil equivalent

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

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