

Surge forecasts more than 40 percent production growth and more than 65 percent growth in FFO for 2014

/NOT FOR DISTRIBUTION TO U.S. NEWS WIRE SERVICES OR DISSEMINATION IN THE UNITED STATES./

CALGARY, Jan. 8, 2014 /CNW/ - The Board of Directors of Surge Energy Inc. ("Surge" or the "Company") ("SGY": TSX) has approved the Company's 2014 capital expenditure program.

In 2014 Surge will spend a budgeted \$114.5 million, and deliver the following:

- Growth in annual production of more than 40% over 2013; in 2014 Surge is targeting record annual production of 15,250 boepd (15,500 boepd exit rate);
- A production mix of over 83% light and medium gravity crude oil;
- Growth in annual funds flow from operations ("FFO") of more than 65% over 2013 to an estimated \$221 million (\$1.33 FFO per share), based on guidance pricing set forth below;
- A low "all-in" payout/sustainability ratio of 92.1% , based on guidance pricing set forth below;
- Capital efficiencies of \$29,650 per boepd;
- A low 2014 exit debt to FFO ratio of less than 1.39 times (with over \$180 million of unutilized credit availability on the Company's bank line);
- A high quality, low risk, development drilling program of approximately 38 drilling locations for light and medium gravity crude oil (selected out of Surge's deep inventory of over 600 net drilling locations);
- Top quartile operating costs of \$12.75 per boe, and G&A costs of \$2.05 per boe; and
- A significant portion of 2014 capital spending will be strategically focussed to waterflood projects relating to Surge's high quality, large original oil in place reservoirs ("OOIP")¹; by the end of 2014 Surge now anticipates that more than 80% of the Company's producing assets will be under waterflood.

Capital Spending Breakdown

In 2014 Surge is planning to spend \$114.5 million focussed to high quality, light and medium gravity crude oil projects. This capital will be strategically allocated over the Company's elite, operated, crude oil assets at Valhalla, Nipisi, Silver, Macoun, Manson and Dodsland.

The breakdown for 2014 capital expenditures is set forth below:

Capex for 2014	(\$mm)
Development Drilling and Completions	81.2
Facilities/Plant	8.0
Waterflood	15.7
Land/Seismic	3.0
Corporate/G&A	6.6
TOTAL	\$114.5

Record Production in 2014

Surge is budgeting record average production of 15,250 boepd in 2014 - with an exit rate of 15,500 boepd. This represents growth of more than 40% over 2013 average production volumes.

The Company's production mix in 2014 is expected to increase to over 83% high netback, light and medium gravity crude oil - up from 79% in 2013.

Given Surge's high quality, large OOIP reservoirs, disciplined capital spending program, and diligent focus on waterflood activities, management now believes that the Company's corporate decline rate has dropped to approximately 24% today as a modest growth/dividend paying company.

Excellent Sustainability; Financial

Surge has a low "all-in" payout/sustainability ratio of 92.1% based on guidance pricing. The Company has no dividend reinvestment plan.

The Company also has an excellent balance sheet with a low 2014 exit debt to FFO ratio of less than 1.39 times. Surge has attractive replacement metrics estimated at \$29,650 boepd, and an operating netback of over \$44 per boe.

Surge also has a disciplined, ongoing risk management program with over 43% of 2014 net crude oil volumes locked in at an attractive average price of C\$95.98 WTI per barrel. This program secures the availability of cash flow for capital expenditures and dividends.

The following summarizes Surge's 2014 guidance pricing estimates, and the Company's 2014 hedging activities:

Guidance Pricing Assumptions:

WTI USD	\$95.50
CAD/USD FX	\$0.94
WTI CAD	\$101.60
WTI-to-EDM Differential	- \$8.00
EDM Light	\$93.60

2014 Hedging Activities:

Surge has 4,500 barrels per day of WTI oil hedged at CAD\$96.54 in the first half of 2014, 4,350 barrels per day of WTI oil hedged at CAD\$95.42 in the second half of 2014 and 2,000 barrels per day of WTI oil hedged at CAD\$93.27 for 2015.

In addition the Company has 2,000 barrels per day of WCS oil differential hedged at WTI less US\$22.71 for 2014 and 2015, and 1,000 barrels per day of sweet oil differential hedged at WTI less US\$8.00 for February to June, 2014. Surge has 7,586 mcf per day of AECO natural gas hedged at CAD\$3.61 for 2014.

Costs Reduction Initiatives

Surge has had excellent results with respect to managing and reducing costs. The Company's G&A costs have dropped from over \$3.50 per boe in the second quarter of 2013 to an estimated \$2.05 per boe in Surge's 2014 budget.

The Company's initiative of lowering operating cost has also met with good early results. In the Company's 2014 budget, however, Surge management have elected to keep operating costs flat with 2013 levels (i.e \$12.75 per boe) until the Company has demonstrated tangible results from its 2014 operating cost saving initiatives over several months.

Exciting Outlook for 2014

Surge will continue to implement the Company's disciplined business strategy of focussing capital towards elite, large OOIP crude oil reservoirs. The Company will also pursue continued, year over year increases in recovery factors from these high quality assets through low risk development activities, including:

- in-fill and step out development drilling;
- up to date completion techniques, including horizontal frac technology;
- optimizations; and
- waterfloods.

Pursuant to this focussed business strategy, Surge targets conservative annual per share growth in reserves, production and cash flow of 3 to 5%. In addition, Surge provides an attractive cash yield of 7.8% based on the Company's current trading price of its shares.

Accretive acquisitions of other elite assets will provide incremental growth over and above these estimates.

Surge 2014E Guidance^{2 3}

As a result of continued successful drilling results, accretive acquisitions, and optimization/waterflood activities, Surge is well positioned to meet or exceed the Company's 2014 guidance estimates as set forth below:

Operational:

2014E Average Production (boe/d)	15,250 (83% Oil/NGLs)
2014E Exit Production (boe/d)	15,500 (83% Oil/NGLs)
RLI (based on 2013E exit production)	>12.5 years

2014E Capital Spending	\$114.5 million
2014E Wells Drilled (gross/net)	38/36.1 wells
2014 Decline	24%

Financial:

2014E Funds from Operations ("FFO")	\$221 (\$1.33 per share)
2014E Operational Netback	\$44.04/boe
2014E Cash Flow Netback	\$39.69/boe
Basic Shares Outstanding	167 million
Annual Dividend	\$87 million
Annual Dividend per share	\$0.52
Yield ⁴	7.8%
Basic Payout Ratio 2014E	39.6%
"All-in" Payout Ratio	92.1%
2014E Exit Net Debt	\$287 million
2014E Exit Net Debt/FFO	<1.39x
Bank Line	\$470 million

FORWARD LOOKING STATEMENTS:

This press release contains forward-looking statements. More particularly, it contains forward-looking statements concerning: (i) targeted growth in reserves, production and cash flow per share, (ii) the payment and sustainability of dividends, (iii) potential growth through acquisitions, (iv) ultimate recovery factors at certain of Surge's properties, (v) planned drilling, development and waterflood activities, (vi) the potential number of drilling locations at certain of Surge's properties, (vii) estimated 2014 average and exit rates of production, and (viii) estimated 2014 capital expenditures, wells drilled, decline rates, funds from operations, operating netback, cash flow netback and payout ratio, estimated 2014 year end net debt and net debt to funds from operations ratio.

The forward-looking statements contained in this press release are based on certain key expectations and assumptions made by Surge, including expectations and assumptions concerning the success of future drilling, development and completion activities, the performance of existing wells, the performance of new wells, the viability of waterflood projects, the availability and performance of facilities and pipelines, the geological characteristics of Surge's properties, the successful application of drilling, completion and seismic technology, prevailing weather conditions, commodity prices, royalty regimes and exchange rates, the application of regulatory and licensing requirements and the availability of capital, labour and services.

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.

Financial Outlooks

The estimates of 2014 year end net debt, 2014 funds from operations and 2014 operating netback and cash flow netback contained in this press release are financial outlooks within the meaning of applicable securities laws. These financial outlooks have been prepared by management of Surge to provide an outlook of Surge's anticipated funds from operations and netbacks for a full year of operations with its current assets and based on management's expectations and assumptions as to a number of factors, including commodity pricing, production, operating expenses and royalties. Readers are cautioned that this information may not be appropriate for any other purpose. Management does not have firm commitments for all of the costs,

expenditures, prices or other financial assumptions used to prepare the financial outlooks or assurance that such results will be achieved. The actual results of Surge will likely vary from the amounts set forth in the financial outlooks and such variation may be material.

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.

1 Original Oil in Place (OOIP) is the equivalent to Discovered Petroleum Initially In Place (DPIIP) for the purposes of this press release. 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 2014 Edmonton Par \$93.60/bbl; 2014 AECO gas \$3.69/mcf and a 2014 CAD/USD exchange rate of \$0.94.

3 Management uses funds from operations (cash flow from operations before changes in non-cash working capital, legal settlement expenses, transaction costs and current tax on disposition) 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.

4 Based on a Surge share price of \$6.70.

SOURCE Surge Energy Inc.

For further information:

Paul Colborne, President & CEO

Surge Energy Inc.

Phone: (403) 930-1507

Fax: (403) 930-1011

Email: pcolborne@surgeenergy.ca

Max Lof, CFO

Surge Energy Inc.

Phone: (403) 930-1021

Fax: (403) 930-1011

Email: mlof@surgeenergy.ca

<https://surgeenergy.mediaroom.com/index.php?s=10448&item=135221>