Surge Energy Inc. Announces Significant Increase in 2010 Year-End Reserves and Provides Operational Update

CALGARY, March 8 /CNW/ - Surge Energy Inc. ('Surge" or the "Company") (TSXV: SGY) is pleased to announce a significant increase in its 2010 year-end reserves (NI-51-101 compliant) and to provide an update on current operations.

2010 Year-End Reserves Highlights

Surge is pleased to report the following 2010 reserves highlights based on the Sproule Associates Limited ("Sproule") independent assessment of the Company's reserves dated December 31, 2010 (using forecast prices and costs). The results presented below are based on unaudited⁽¹⁾ estimated total capital expenditures for 2010 of \$231.1 million, 2010 average production of approximately 3,025 boe/d and estimated 2010 exit production of approximately 4,500 boe/d.

- Total Proved plus Probable reserves increased 114 percent to 21.2 million boe over December 31, 2009 reserves of 9.9 million boe.
- Oil and NGLs Proved plus Probable reserves increased 112 percent to 12.4 million boe over December 31, 2009 reserves of 5.8 million boe.
- Net Present Value discounted at 10 percent Before Tax (NPV10 BT) of Proved plus Probable reserves increased 90 percent to \$411.9 million compared to \$217.0 million as at December 31, 2009.
- Proved plus Probable finding and development costs (F&D), including a \$24.0 million change in Future Development Capital (FDC), were \$13.26 per boe.
- Surge's 2010 netback was estimated at \$27.65/boe. Surge's fourth quarter 2011 netback is forecast to be greater than \$40/boe based on recent oil and gas prices and as a result of the Company's increasing light oil weighting and decreasing operating costs in 2011.
- Achieved a recycle ratio of 2.1 times with F&D costs of \$13.26, including the \$24.0 million change in FDC.
- Attained a Proved plus Probable Reserve Life Index of 12.9 years based on the Company's estimated 2010 exit production rate of approximately 4,500 boe/d.
- Achieved a Proved plus Probable reserves replacement ratio of 11.2 based on the Company's estimated 2010 average production for the year of 3,025 boe/d.
- Surge estimates its Net Asset Value (NAV) is \$7.30 per basic share and \$7.18 per fully diluted share at December 31, 2010 based on the NPV10 BT value of its Proved plus Probable reserves.
- Surge had greater than 200 gross (greater than 180 net) unbooked oil drilling locations in inventory at December 31, 2010.

The following table outlines the Company's reserves at December 31, 2010:

Summary of Reserve	s ⁽²⁾				
	Oil and NGLs (mbbls)	Gas (mmcf)		Future Developm (\$000s)	ent Capital (FDC)
Proved Developed Producing	4,937	19,992	8,269	Discounted @ 10%	Non-Discounted
Proved Developed Non-Producing	709	6,859	1,853		
Proved Undeveloped	2,671	9,397	4,237		
Total Proved	8,318	36,248	14,359	\$59,681	\$63,815
Probable Additional	4,034	16,920	6,854		

Total	12,352	53,168 21,213	\$73,776	\$79,395
Proved plus				
Probable				

The following table outlines the estimated Company's gross and net booked and unbooked wells by property as at December 31, 2010:

Property	Gross				Net	
	Locations	Booked	Unbooked	Locations	Booked	Unbooked
Valhalla South	25	5	20	18.3	3.7	14.6
Waskada	124	12	112	111	12	99
Windfall	36	7	29	36	7	29
South East Alberta	67	23	44	64	22.5	41.5
Total Company	252	47	205	229.3	45.2	184.1

The following table is a before tax net present value summary as at December 31, 2010:

Before Tax Net Present Value Summary				
	NPV10 BT (\$000s)			
Proved Developed Producing	\$197,284			
Proved Developed Non- Producing	\$34,497			
Proved Undeveloped	\$71,082			
Total Proved	\$302,863			
Probable Additional	\$108,995			
Total Proved plus Probable	\$411,858			

The following table outlines the change in the Company's reserves year-over-year:

Reserves Reconciliation						
	Oil+NGLs	Oil+NGLs	Gas	Gas	Combined	Combined
	Total	Proved +	Total	Proved	Total	Proved +
	Proved	Probable			Proved	Probable
	(mbbls)	(mbbls)	(mmcf)	Probable	(mboe)	(mboe)
				(mmcf)		
December 31, 2009	4,183	5,826	15,967	24,470	6,844	9,904
Extensions	1,675	3,114	6,842	10,775	2,815	4,910
Improved Recovery	411	531	267	346	456	589
Technical Revision	222	(88)	705	(2,362)	339	(482)
Discoveries	-	-	-	-	-	-
Acquisitions	2,549	3,699	15,635	23,234	5,155	7,571
Dispositions	(39)	(47)	(641)	(766)	(146)	(174)
Economic Factors	-	-	-	-	-	-
Production	(683)	(683)	(2,528)	(2,528)	(1,104)	(1,104)
December 31, 2010	8,318	12,352	36,248	53,168	14,359	21,213

Percentage Increase in	99%	112%	127%	117%	110%	114%
Reserves						

The following table outlines forecasted future prices that Sproule has used in their evaluation of the Company's reserves at December 31, 2010:

Futui	Future Commodity Price Forecast								
	WTI Cushing (Oklahoma)	Edmonton Par Price 40° API	AB Hardisty Bow River 24.9° API	Cromer Medium 29.3° API	Natural Gas AECO Spot Price	Inflation Rate	Exchange Rate		
Year	(\$US/bbls)	(\$Cdn/bbls)	(\$Cdn/bbls)	(\$Cdn/bbls)	(\$Cdn/mmbtu)	(%/yr)	(\$US/\$Cdn)		
2011	88.4	93.08	81.91	85.63	4.04	1.5	0.932		
2012	89.14	93.85	82.59	86.34	4.66	1.5	0.932		
2013	88.77	93.43	81.28	85.02	4.99	1.5	0.932		
2014	88.88	93.54	80.44	84.18	6.58	1.5	0.932		
2015	90.22	94.95	81.66	85.45	6.69	1.5	0.932		
2016	91.57	96.38	82.89	86.74	6.80	1.5	0.932		
2017	92.94	97.84	84.14	88.05	6.91	1.5	0.932		
2018	94.34	99.32	85.41	89.38	7.02	1.5	0.932		
2019	95.75	100.81	86.70	90.73	7.14	1.5	0.932		
2020	97.19	102.34	88.10	92.10	7.26	1.5	0.932		

The following table outlines Surge's Finding and Development (F&D) and Finding, Development and Acquisitions (FD&A) Costs (unaudited 2010 capital costs):

Capital Costs (\$MM), unaudited	FD&A	F&D
2010 Capital Expenditures (excl. non-cash items):	\$231.1	\$42.5
Change in FDC ⁽³⁾		
Proved	\$47.0	\$34.8
Proved plus Probable	\$57.3	\$24.0
Total Capital (excl. non-cash items)		
Including Change in FDC (\$MM), unaudited ⁽³⁾		
Proved	\$278.1	\$77.4
Proved plus Probable	\$288.4	\$66.5

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FD&A and F&D Costs Without FDC (\$/boe)	FD&A	F&D
Proved	\$26.81	\$9.74
Proved plus Probable	\$18.62	\$8.48
FD&A and F&D Costs Including FDC		
(\$/boe) ⁽³⁾		
Proved	\$32.27	l ·
Proved plus Probable	\$23.23	\$13.26

The following table outlines Surge's recycle ratios based on an estimated 2010 netback of \$27.50/boe⁽³⁾ (unaudited):

Recycle Ratio Including FDC, unaudited ⁽³⁾	FD&A	F&D
Proved	0.9	1.6
Proved plus Probable	1.2	2.1

Surge's fourth quarter 2011 netback is forecast to be greater than \$40/boe based on recent oil and gas prices and as a result of the Company's increasing light oil weighting and decreasing operating costs in 2011.

The following table outlines Surge's NAV per Basic and Fully Diluted Share (unaudited) using the Proved plus Probable reserve value at December 31, 2010 and forecast pricing and costs:

(\$MM except share amounts)	
Proved Plus Probable Reserve Value NPV10 BT	
(incl. future capital)	\$411.9
Undeveloped Land (435,413 acres @ \$100/acre)	\$43.5
(5)	
Estimated Net Debt	(\$46.0)
Option Proceeds	\$27.3
Total Net Assets (basic)	409.4
Total Net Assets (fully diluted)	\$436.7
Basic Shares Outstanding (MM)	56.1
Fully Diluted Shares Outstanding (MM)	60.8
Estimated NAV per Basic Share	\$7.30
Estimated NAV per Fully Diluted Share	\$7.18

Operational Update

Valhalla South Doig Light Oil Play (Western Alberta)

The first two horizontal wells in the Valhalla South light oil (40 degree API) Doig pool have been successfully drilled. As previously announced, Surge's first horizontal well at 16-6-74-8W6 was completed with 13, 30 tonne fracs in a 1,250 meter horizontal section of the Doig Formation. The second horizontal well located at 2-7-74-8W6 encountered over 1,000 meters of Doig Formation and is waiting on completion.

The 16-6 well is currently flowing at rates in excess of 550 boe/d (56% oil and NGLs) - with less than half of the wellbore contributing (i.e. due to certain mechanical difficulties, Management believes 7 of the 13 frac intervals are likely not contributing). A program and cost estimate for an operation to cleanout the last half of the wellbore is currently being prepared and evaluated.

An alternative liner completion system has been run in the 2-7 wellbore. This system should alleviate potential flow restriction problems going forward. The plan is to multi-frac this wellbore prior to the end of March 2011.

Surge plans to spud its third horizontal Doig well by the end of March 2011, and has at least three additional horizontals planned for later this year at Valhalla South.

Surge's first vertical re-frac into the Doig light oil pool at 9-7-74-8W6 has averaged greater than 250 boe/d in its first full month of production. Prior to the re-frac the well was producing 20 boe/d. The re-frac initiative is very close to paying out with just over one month's incremental production. Surge believes the majority of the 23 gross (17.1 net) vertical wells originally completed in the Doig are re-frac candidates and will be adding these initiatives to the Company's go forward capital development plans.

Surge will have 22 gross (15.8) net horizontal multi-frac drilling locations remaining in inventory after the completion of the current three wells at Valhalla South.

Windfall Bluesky Light Oil Play (Western Alberta)

At Windfall, Surge completed the battery upgrade at 16-3-59-15W5 and artificial lift installation on the second and third horizontal wells (1-4-10-59-15W5 and 13-10-59-15W5) during the third week of February 2011. Surge's fourth horizontal well was recently drilled into the Bluesky light oil pool (36 degree API), two miles south of the existing production (16-29-58-15W5), has been successfully multi-fraced with eight stages, and is currently flowing to a single well battery at attractive rates.

Surge's fifth well (6-9-58-15W5), approximately five miles south of the battery, encountered over 1,000 meters of horizontal section in the Bluesky. The well has been rig released and is currently scheduled for fracing after March 15, 2011.

Pipeline construction has begun to tie in the wells 16-29 and 6-9 to the battery, which is required to facilitate gas conservation. Surge will re-commence its 2011 drilling program at Windfall after spring breakup.

Prior to Surge's development program, the Windfall property was producing approximately 225 boe/d (approximately 65 percent oil). This property is now currently producing over 1,000 boe/d (greater than 75 percent oil).

Surge will have 31 gross (31 net) horizontal multi-frac drilling locations remaining in inventory after the completion of the current five wells at Windfall.

Waskada Spearfish Light Oil Play (Southwest Manitoba)

Surge continues to optimize the pumping of its initial five well program in its Spearfish light oil play (34 degree API) at Waskada. Surge's light oil production from Waskada is currently varying between 475 and 500 bbl/d depending on individual well run time efficiency and accurately reflects the Company's type curve expectations after approximately two months of production.

Surge has 119 gross (106 net) horizontal multi-frac drilling locations remaining in inventory in this operated, low risk, repeatable light oil resource play in southwest Manitoba.

Guidance

Surge is reiterating its 2011 average and exit production guidance of 5,500 boe/d (greater than 65 percent weighted to oil and NGLs) and 6,500 boe/d (greater than 70 percent oil and NGLs).

Surge is a light oil focused energy production company with operations throughout Alberta and southwest Manitoba. Surge's common shares trade on the TSX Venture Exchange under the symbol SGY and has 56.1 million basic and 61.2 million fully diluted common shares outstanding at the date of this press release.

Footnotes:

- (1) As Surge plans to release its audited financial statements before the end of April 2011, 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 Associates Limited (Sproule) prepared the Surge Sproule Report. This report evaluated, as at December 31, 2010, 100 percent of Surge's oil, natural gas, and natural gas liquids reserves. 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 undiscounted 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) Internal estimate equivalent to \$100 per net corporate undeveloped acre.

Forward Looking Statements:

This press release contains forward-looking statements. More particularly, this press release contains statements concerning anticipated capital expenditures for the remainder of 2011, potential geological characteristics of the Company's properties, 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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