

Surge Energy Inc. Announces First Quarter 2011 Results and Reiterates 2011 Guidance

CALGARY, June 16, 2011 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") (TSXV: SGY) is pleased to announce its financial and operating results for the three month period ended March 31, 2011 and to reiterate its 2011 guidance.

ACHIEVEMENTS, HIGHLIGHTS AND FORECAST:

The first quarter financial and operating data presented below includes little production from Surge's recent light oil horizontal multi-frac drilling at Valhalla South and Windfall, with certain wells not on stream until late in the quarter or in the second quarter 2011.

- Began executing the Company's 2011 drilling program targeting light oil, which is projected to significantly increase Surge's operating netbacks¹ and increase Surge's light/medium oil weighting to greater than 70 percent by the fourth quarter of 2011.
- Achieved a 100 percent success rate drilling four gross (four net) wells in the first quarter of 2011.
- Increased production by 89 percent from an average of 2,686 boe per day in the first quarter of 2010 to 5,076 boe per day in the first quarter of 2011.
- Increased production by 27 percent from an average of 4,005 boe per day in the fourth quarter of 2010 to 5,076 boe per day in the first quarter of 2011.
- Increased oil and NGL production weighting from 58 percent in the fourth quarter of 2010 to 61 percent in the first quarter of 2011.
- Approximately 84 percent of Surge's revenue in the first quarter of 2011 resulted from oil and natural gas liquids production, up from 81 percent in the fourth quarter of 2010.
- Increased guidance; management is now forecasting to exit 2011 at 7,500 boe per day, with oil and NGL production weighting increasing from 58 percent in the fourth quarter of 2010 to more than 70 percent in the fourth quarter of 2011.
- Increased Surge's operating netback by seven percent for the first quarter of 2011 as compared to the fourth quarter of 2010 from \$27.31 per boe to \$29.35 per boe. Surge's fourth quarter 2011 netback¹ is forecast to significantly increase per boe as a result of the Corporation's increasing light oil weighting in 2011 and decreasing combined operating and transportation costs, forecast to be \$13.00 per boe in the fourth quarter 2011.
- Increased funds from operations by 62 percent to \$9.8 million in the first quarter of 2011 from \$6.0 million in the first quarter of 2010.

- Increased funds from operations by 24 percent to \$9.8 million in the first quarter of 2011 from \$7.9 million in the fourth quarter of 2010, with a forecast to grow funds from operations in 2011 to \$75 million², and fourth quarter 2011 annualized funds from operations to \$118 million ¹.
- Established a non-core dispositions package which has successfully resulted in a total of more than \$3.0 million of proceeds for Surge in the fourth quarter of 2010 and the first quarter of 2011, with an additional \$4.9 million planned for the second quarter, and further dispositions of approximately \$2.0 million forecast for the second half of 2011.
- Subsequent to the first quarter of 2011, Surge increased its bank line to \$120 million.

REVISED 2011 GUIDANCE:

Surge has had an excellent start to 2011 with operational results in the first quarter exceeding management's expectations. During the first quarter, Surge upwardly revised its estimates as set forth below. Based on continued light oil drilling and production successes at Valhalla South, Windfall, Waskada and Silver Lake, Surge is well positioned to meet or exceed its 2011 guidance stated below:

	2011 Guidance
Average Production:	6,000 boe/d (>65% light/medium oil & NGLs)
Exit Production:	7,500 boe/d (>70% light/medium oil & NGLs)
Capital Expenditures:	\$98 million
Acquisitions net of Dispositions (cash consideration):	\$22 million
Funds from Operations (FFO) ³ :	\$75 million
Q4 Annualized FFO ⁴ :	\$118 million
Q4 Annualized FFO per share (basic) ⁴ :	\$2.10
Bank Line:	\$120 million
2011 Year End Net Debt:	\$91 million
Unused Bank Line at Year End:	\$29 million
Q4 Annualized Debt to Cash Flow ⁴ :	0.8 times

Surge has built a low decline, oil weighted production base and has positioned itself in several high impact, emerging light oil resource plays. With the closing of the recently announced North Dakota acquisitions Surge now has: a significant undeveloped land base of more than 500,000 net acres, internally estimated DPIIP⁵ of more than 460 million barrels (gross) and more than 460 gross (350 net) oil drilling locations, comprised of 85 percent light oil, with the remainder of the inventory being medium gravity oil.

¹ Based on April 18, 2011 forward strip for the fourth quarter: CDN \$103.95 Edmonton Par (US \$111.17 WTI) and CDN \$4.00/mcf AECO using a CAD/USD of \$1.0346.

² Based on April 18, 2011 forward strip: CDN \$99.06 Edmonton Par (US \$106.12 WTI) and CDN \$3.90/mcf AECO using a CAD/USD of \$1.0307.

³ Based on April 18, 2011 forward strip: CDN \$99.06 Edmonton Par (US\$106.12 WTI) and CDN \$3.90/mcf AECO using a CAD/USD of 1.0307.

⁴ Based on April 18, 2011 forward strip: CDN \$103.95 Edmonton Par (US \$111.17 WTI) and CDN \$4.00/mcf AECO using a CAD/USD of \$1.0346 for the fourth quarter

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 economically viable or technically feasible to produce any portion of this DPIIP except for those identified as proved or probable reserves. There is no certainty that it will be commercially viable to produce any portion of the resources.

OPERATIONS OVERVIEW:

Surge drilled and rig released four gross (four net) horizontal multi-frac wells and completed four re-fracs on existing vertical wells in the first quarter 2011 with a 100 percent success rate. The four horizontal multi-frac wells drilled in the first quarter include two wells at Valhalla South and two wells at Windfall. Operational highlights by area are highlighted below:

Valhalla South (Doig)

Surge brought two horizontal multi-frac wells on stream and successfully completed four vertical re-fracs in the Doig pool during the first quarter 2011. Surge recently spud its fourth horizontal multi-frac well in early June 2011 and expects the well to be completed and on production early in August 2011. The Company currently has a total of six horizontal multi-frac wells budgeted in 2011.

Surge has identified 25 gross (18.3 net) horizontal multi-frac drilling locations on the property to date and will have 21 gross (14.8 net) locations remaining in inventory after the completion of the fourth horizontal multi-frac well. Additionally, the team now views half of the remaining 18 vertical Doig wells as attractive re-frac candidates. The costs of these re-fracs are forecasted to be approximately \$300,000 per well and these opportunities will be blended in with the future drilling and multi-frac operations in the Doig light oil pool. Surge is also evaluating plans for a secondary recovery pilot program in the area.

Due to third party turnarounds at the Sexsmith gas plant, production at Valhalla South was curtailed on May 24, 2011 and restored on June 12, 2011. The curtailed production was anticipated by Surge and accounted for in the Company's 2011 average and exit production guidance.

Windfall (Bluesky)

Surge successfully drilled two and completed three horizontal multi-frac wells at Windfall in the first quarter of 2011. To date, Surge has drilled a total of five horizontal multi-frac wells with a success rate of 100 percent. All five wells are currently on production and tied into Surge's expanded battery that now has capacity to handle greater than 4,000 boe per day (3,000 bbls per day of oil).

Surge was successful in purchasing an additional two 100 percent working interest sections of land at Windfall through a land sale on June 1, 2011. The Company has now identified a total of 39 gross (38 net) horizontal multi-frac drilling locations on its lands in this area.

Surge plans to commence drilling at Windfall in July 2011 and has plans to drill at least four additional horizontal multi-frac wells during the remainder of 2011 and is evaluating plans for secondary recovery pilot programs in the area. After the recent five drills at Windfall, the Company has 34 gross (33 net) horizontal multi-frac locations remaining in inventory.

Waskada and North Dakota (Spearfish)

At Waskada, Surge has secured a rig to drill ten horizontal multi-frac wells targeting the Spearfish, scheduled to commence in early July 2011. One vertical water disposal well will also be drilled as part of the program. Approval has been received for construction of a centralized battery to be commissioned in September 2011. The battery will have the capacity for processing 1,500 bbl per day of oil with associated water disposal capacity. The new battery will substantially reduce transportation and operating costs in the area. The Company is also evaluating plans for a secondary recovery pilot program at Waskada later in the year.

Production from the five horizontal multi-frac wells drilled and completed at Waskada in 2010 has been shut-in since mid April 2011 due to road closures and flooding in southern Manitoba. Surge anticipates that production from these five wells will be back on stream by late June 2011.

In the first quarter of 2011, Surge announced two significant light oil asset acquisitions in North Dakota. With the first acquisition closed in the first quarter and the second acquisition closed in the second quarter, Surge more than doubled its inventory of Spearfish locations to approximately 329 gross (231 net) from 124 gross (111 net) and added 6,000 net acres of highly prospective land in the Spearfish light oil resource play.

In addition to the 6,000 net acres of highly prospective land in the Spearfish light oil resource play, the Company also acquired more than 100,000 net undeveloped acres of continuous exploratory land that is prospective for three shallow light oil targets (Spearfish, Basal Spearfish and Madison). Currently there is no capital budgeted in 2011 for operations in North Dakota; however, the Company expects to commence operating in North Dakota early in the first quarter of 2012.

The Company currently has 324 gross (226 net) horizontal multi-frac Spearfish locations remaining in inventory.

South East Alberta

Complementing Surge's light oil resource plays at Valhalla South (Doig), Windfall (Bluesky) and southwest Manitoba/North

Dakota (Spearfish) are the low cost, low decline, high rate of return, crude oil assets in southeast Alberta that have considerable secondary recovery potential. The infill drilling and secondary recovery programs that have been implemented to date provide significant internally generated cash flow and enable Surge to execute its capital program in each of its core areas. In the first quarter 2011, the existing waterflood at Silver was expanded by the commencement of injection into two injectors that were previously drilled.

Surge plans to drill two vertical wells and two horizontal wells at Silver Lake and two horizontal wells at Sounding Lake in third quarter of 2011.

FINANCIAL AND OPERATING SUMMARY:

Certain selected financial and operations information for the three month period ended March 31, 2011 and the 2010 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).

	3 Months Ended March 31		
	2011	2010	% Change
Financial highlights			
Oil and NGL sales	21,650	11,112	95%
Natural gas sales	4,156	2,750	51%
Other revenue	66	116	(43%)
Total oil, natural gas, and NGL revenue	25,872	13,978	85%
Funds from Operations ¹	9,772	6,039	62%
Per share basic (\$)	0.17	0.33	(48%)
Per share diluted (\$)	0.17	0.32	(47%)
Net income	(502)	2,749	nm
Per share basic (\$)	(0.01)	0.15	nm
Per share diluted (\$)	(0.01)	0.15	nm
Capital Expenditures - Petroleum & natural gas properties ²	35,538	6,469	449%
Capital Expenditures - Exploration & evaluation assets ²	10,763	-	nm
Capital Expenditures - Asset dispositions ²	(1,301)	-	nm
Net debt at end of period ³	81,445	44,355	84%
Operating highlights			
Production:			
Oil and NGL (bbls per day)	3,090	1,707	81%
Natural gas (mcf per day)	11,915	5,874	103%
Total (boe per day) (6:1)	5,076	2,686	89%
Average realized price (excluding commodity contracts):			
Oil and NGL (\$per bbl)	77.86	72.35	8%
Natural gas (\$ per mcf)	3.88	5.20	(25%)
Realized gain (loss) on commodity contracts (\$ per boe)	(1.62)	0.96	nm
Net back (excluding commodity contracts) (\$ per boe):			
Oil, natural gas and NGL sales	56.64	57.83	(2%)
Royalties	(8.02)	(7.80)	3%
Operating expenses	(16.73)	(16.11)	4%
Transportation expenses	(2.54)	(3.21)	(21%)
Operating netback	29.35	30.71	(4%)
G&A expenses	(4.76)	(4.55)	5%
Interest expense	(0.98)	(1.74)	(44%)
Corporate netback	23.61	24.42	(3%)
Common shares (000s)			
Common shares outstanding, end of period	56,097	18,842	198%
Weighted average basic shares outstanding	56,095	18,576	202%
Stock option dilution (treasury method)	-	457	nm
Weighted average diluted shares outstanding	56,095	19,033	195%

- 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 in the Q1 2011 MD&A filed on SEDAR.
- 3 The Corporation defines net debt as outstanding bank debt plus or minus working capital excluding the fair value of financial contracts.

OUTLOOK - POSITIONED FOR CONTINUED LIGHT OIL GROWTH

Surge is well positioned for significant growth in the third and fourth quarters of 2011. The Company has budgeted to drill, complete and tie-in an additional three horizontal multi-frac wells at Valhalla South, four horizontal multi-frac wells at Windfall, ten horizontal multi-frac wells at Waskada, two vertical wells and two horizontal wells at Silver Lake and two horizontal wells at Sounding Lake during the remainder of 2011.

In 2011, Surge will continue to grow the Company organically by drilling in each of its core areas, continuing the development of secondary recovery programs in southeast Alberta and by evaluating plans for secondary recovery pilot programs on its new light oil resource plays.

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 and is well positioned to meet or exceed 2011 average and exit production guidance. Surge looks forward to applying for listing of its common shares on the Toronto Stock Exchange in the fourth quarter of 2011.

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS:

Surge has filed with Canadian securities regulatory authorities its unaudited financial statements for the three month period ended March 31, 2011 and the accompanying Management's Discussion and Analysis ("MD&A"). 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 10:00am Mountain Standard Time today, June 16, 2011 at the Petroleum Club, Viking Room located at 319 - 5th Avenue SW, Calgary AB.

Surge is an oil focused oil and gas company with operations throughout Alberta, southwest Manitoba and North Dakota. Surge's common shares trade on the TSX Venture Exchange under the symbol SGY and currently has 56.1 million basic and 61.5 million fully diluted common shares outstanding.

FORWARD LOOKING STATEMENTS:

This press release contains forward-looking statements. More particularly, this press release contains statements concerning anticipated: (1) capital expenditures for the remainder 2011, (2) exploration, development, and acquisition activities, (3) average and exit oil, NGLs and natural gas production during 2011, (4) production weighting for 2011 (5) construction of new facilities, (6) funds from operations, (7) debt and bank facilities, (8) operating and transportation costs and (9) netbacks.

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 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.

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

 [**Surge Energy Inc. Announces First Quarter 2011 Results and Reiterates 2011 Guidance**](#)
(204 KB)

<https://surgeenergy.mediaroom.com/index.php?s=10448&item=41903>