Surge Energy

CALGARY, May 9, 2012 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") (TSX:SGY) is pleased to announce its financial and operating results for the three month period ended March 31, 2012 and to reiterate its 2012 production guidance.

FINANCIAL AND OPERATING SUMMARY:

($000s except per share amounts)

	Three Months Ended March 31,		
	2012	2011	% change
Financial highlights			
Oil and NGL sales	**47,366**	21,650	119%
Natural gas sales	**3,678**	4,157	(12%)
Other revenue	**16**	65	(75%)
Total oil, natural gas, and NGL revenue	**51,060**	25,872	97%
Funds from Operations[1]	**24,007**	9,772	146%
Per share basic ($)	**0.34**	0.17	100%
Per share diluted ($)	**0.33**	0.17	94%
Net income (loss)	**2,657**	(502)	nm
Per share basic ($)	**0.04**	(0.01)	nm
Per share diluted ($)	**0.04**	(0.01)	nm
Capital expenditures - petroleum & natural gas properties[2]	**54,898**	35,538	54%
Capital expenditures - acquisitions & dispositions[2]	**104,398**	9,462	1,003%
Total capital expenditures[2]	**159,296**	45,000	254%
Net debt at end of period[3]	**158,769**	81,445	95%
Operating highlights			
Production:			
Oil and NGL (bbls per day)	**6,110**	3,090	98%
Natural gas (mcf per day)	**17,398**	11,915	46%
Total (boe per day) (6:1)	**9,009**	5,076	77%
Average realized price (excluding hedges):			
Oil and NGL ($ per bbl)	**85.19**	77.86	9%
Natural gas ($ per mcf)	**2.32**	3.88	(40%)
Realized loss on financial contracts ($ per boe)	**(0.94)**	(1.62)	(42%)
Net back (excluding hedges) ($ per boe)			
Oil, natural gas and NGL sales	**62.28**	56.64	10%
Royalties	**(12.22)**	(8.02)	52%
Operating expenses	**(11.66)**	(16.73)	(30%)
Transportation expenses	**(1.78)**	(2.54)	(30%)
Operating netback	**36.62**	29.35	25%
G&A expenses	**(3.63)**	(4.76)	(24%)
Interest expense	**(1.75)**	(0.98)	79%
Corporate netback	**31.24**	23.61	32%
Common shares (000s)			
Common shares outstanding, end of period	**71,033**	56,097	27%
Weighted average basic shares outstanding	**70,474**	56,095	26%
Stock option dilution (treasury method)	**1,711**	-	nm
Weighted average diluted shares outstanding	**72,185**	56,095	29%

[1] Management uses funds from operations (before changes in non-cash working capital) 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.

ACHIEVEMENTS AND HIGHLIGHTS:

- **Funds from operations increased 146 percent** to $24.0 million during the first quarter of 2012 from $9.8 million during the same period of 2011.

- **Funds from operations per share doubled** to $0.34 during the first quarter of 2012 from $0.17 during the same period of 2011.

- **Increased production by 77 percent** to 9,009 boe per day during the first quarter of 2012 from an average of 5,076 boe per day during the first quarter of 2011.

- **Increased production per basic share by over 40 percent** during the first quarter of 2012 as compared to the first quarter of 2011.

- Subsequent to the first quarter, **Surge's bank line increased from $175 million to $250 million**, providing Surge **considerable financial flexibility** to execute its 2012 capital program. With net debt of $158.8 million at the end of the first quarter, Surge now has $91.2 million of borrowing capacity remaining. Surge forecasts a year end debt to cash flow ratio of approximately 1.1.

- **Reduced both operating costs and transportation costs per boe by 30 percent** in the first quarter of 2012 as compared to the first quarter of 2011 with combined operating and transportation costs decreasing from $19.27 per boe in the first quarter of 2011 to $13.44 per boe in the first quarter of 2012.

- **Increased Surge's operating netback by 25 percent** to $36.62 per boe for the first quarter of 2012 as compared to $29.35 in the first quarter of 2011.

- **Increased Surge's total oil drilling inventory to more than 570 gross (435 net) locations** and its internally estimated DPIIP[4] ("Discovered Petroleum Initially In Place") to 550 million barrels of oil.

- **Achieved a 100 percent success rate** drilling 18 gross (13.9 net) wells in the first quarter of 2012. Only 14 of the 18 wells drilled in the first quarter were producing at quarter end, with the remainder to be completed and brought on production during the second quarter of 2012.

- The combination of drilling in early 2012 and closing of the light oil acquisition in January 2012 drove the increase in Surge's **oil and natural gas liquids production weighting to 68 percent in the first quarter**.

- **Approximately 93 percent of Surge's revenue resulted from oil and natural gas liquids production**, with less than seven percent derived from natural gas production.

- During the first quarter of 2012, **Surge closed the accretive acquisition of a private company with 1,200 barrels per day of light oil production** in the Nipisi/Gift area of Western Alberta, targeting the Slave Point/Gilwood Formations.

[4] "Discovered Resources" or "Discovered Petroleum Initially-In-Place" ("DPIIP"), are those quantities of petroleum estimated, as of a given date, to be contained in known accumulations prior to production. The recoverable portion of discovered petroleum initially-in-place includes production, reserves and contingent resources; the remainder is unrecoverable. "Contingent resources" are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters, or a lack of markets. It is also appropriate to classify as Contingent Resources the estimated discovered recoverable quantities associated with a project in the early evaluation stage. There is no

certainty that it will be commercially viable to produce any portion of the Contingent Resources. A recovery project cannot be defined for this volume of DPIIP at this time, and as such it cannot be further sub-categorized.

OPERATIONS OVERVIEW:

Surge was active in each of its three core areas during the first quarter of 2012. The Corporation achieved a 100 percent success rate, with 18 gross (13.9 net) wells drilled, averaging just over 9,000 boe per day in the quarter.

Through a combination of encouraging well results, extensive technical review, increasing land position and increasing working interest, Surge has expanded its oil drilling inventory from 490 gross (350 net) locations to 570 gross (435 net) locations and its internally estimated DPIIP from greater than 440 gross million barrels of oil to 550 gross million barrels of oil. Surge will focus its capital program, in the short-term, on drilling at each of its high netback, 100 percent oil properties.

Nipisi/Gift (Slave Point/Gilwood), Western Alberta:

During the first quarter of 2012, Surge drilled its first two horizontal multi-frac wells into the Slave Point Formation and completed its first two directional wells into the Gilwood Formation. The two Slave Point wells were completed and on production early in the second quarter and are currently recovering very encouraging light oil volumes and minor remaining frac-fluid volumes. Surge expects these two wells to exceed its well type curve expectations of best month production rates of approximately 310 barrels per day of light oil, estimated ultimate recovery of approximately 240 mbbls per well, with an all-in capital cost of $4.2 million per well.

Surge is pleased to announce that it has increased its working interest from approximately 88 percent to 100 percent on its existing lands at Nipisi through two asset acquisitions. After completing an extensive technical review of these lands, Surge is increasing its internal DPIIP estimate from 65 million barrels to 85 million barrels of light oil in the Slave Point Formation with a cumulative oil recovery of less than one percent of DPIIP recovered to date.

Surge also recently expanded its land position in the Slave Point trend, two miles south of the Company's existing Slave Point pool by purchasing four net sections of land. These lands have existing vertical well control with historical production profiles and an internally estimated DPIIP of approximately 30 million barrels.

Surge has significantly increased its drilling inventory in the Slave Point Formation from 16 gross (15.7 net) to 44 gross (43.5 net) horizontal multi-frac wells. Of these 44 gross (43.5 net) locations, 24 gross (23.5 net) are unbooked on a combined internal DPIIP estimate of approximately 115 million barrels. The well type curve of approximately 310 barrels per day of light oil and estimated ultimate reserves of approximately 240 mbbls for the area represents an average of the total identified locations.

Surge continues to make progress on the Nipisi Slave Point waterflood pilot. The Company anticipates submitting a waterflood application during the third quarter of 2012 with the first injection potentially by the end of 2012, pending regulatory approvals. Based on successful waterflood implementation, Surge anticipates that it will ultimately recover up to 20 percent of the 115 million barrels of DPIIP.

Sounding Lake and Silver Lake (Cretaceous Sands), South East Alberta:

During the first quarter, Surge drilled, completed and brought on production three gross/net horizontal wells and evaluated the application of horizontal technology in some of these new oil fairways. The Company has also been actively executing tuck-in acquisitions in specific play fairways over the past year and a half, which has added to its land position and drilling inventory in the area.

Based on encouraging results from these wells, coupled with results from similar drill results in the second half of 2011, Surge is pleased to announce a new horizontal drilling location inventory of 78 gross (78 net) wells. Only three gross (three net) wells have booked reserves. These 27-29 degree API oil wells have robust economics, including best month forecasted production rates of 110 barrels of oil per day, estimated ultimate recovery of 100 mbbls and an all-in cost of $1.4 million per well.

The Company also initiated a waterflood facility expansion at Silver Lake. The scope of the expansion includes two new water injection wells, one well conversion and facility expansion to handle an additional 12,000 barrels of water per day. The expansion project is expected to be completed during the third quarter of 2012.

Valhalla South (Doig), Western Alberta:

The Company drilled two gross (1.44 net) horizontal multi-frac wells in the first quarter of 2012. The first well (102/10-07-074-08W6; 100 percent working interest) was brought on production during the first quarter and the second well (100/05-30-074-08W6, 44 percent working interest) was brought on production during the second quarter. During the first quarter of 2012, the Company continued drilling its third budgeted well (100/05-31-074-08W6, 44 percent working interest), with completion expected to occur in May.

Surge's 10-7 well is the Company's best performing well to date. The well came on production February 21, 2012 and flowed back at an average rate 2,300 boe per day (81 percent light oil and NGLs) over a seven day period. After 73 days of being on production, the well is producing at an average rate of 1,070 boe per day (59 percent light oil and NGLs). The well was completed with 12 frac stages over the 1,070 meter horizontal section.

As at December 31, 2011, Surge had 32 gross (23.9 net) horizontal multi-frac wells remaining in inventory, of which 19 gross (14.3 net) wells were unbooked.

Williston Basin (Spearfish), Manitoba and North Dakota:

At Waskada, Surge drilled, completed and brought on production, three gross/net horizontal multi-frac Spearfish light oil wells during the first quarter. Including these three wells, Surge has a total of 21 gross/net Spearfish oil wells producing to the Company's recently completed 16-3 battery. Based on the results of these most recent wells, as well as historical production, Surge has adjusted its well type curve at Waskada to reflect 100 barrels per day best month average production with recoverable reserves of 70 mbbls and all-in costs of $1.3 million, generating an IRR greater than 60 percent. Surge plans to implement a waterflood at Waskada during the first quarter of 2013, pending waterflood study results and production performance.

In North Dakota, Surge participated in the drilling and completion of seven gross (2.5 net) non-operated horizontal multi-frac wells with two of its working interest partners. Surge maintained a working interest of 40 percent in six of the wells drilled and 15 percent in one of the wells drilled. Four of the 40 percent working interest wells are now on production. Initial results are very encouraging and they appear that they will exceed the Company's best month average production well type curve of 125 barrels of oil per day. All wells drilled are expected to be on production during the second quarter of 2012.

As at December 31, 2011, Surge had 334 gross (212.6 net) horizontal multi-frac Spearfish wells remaining in inventory, of which 297 gross (186.2 net) wells were unbooked.

Windfall (Bluesky):

The Energy Resources Conservation Board (ERCB) has approved the waterflood pilot at Windfall. The original horizontal multi-frac well (9-9-59-15W5, 100 percent working interest) has now been converted for water injection, the water source application has been submitted and all major equipment for the injection facility has been ordered. Surge expects to commence injection during the third quarter, pending all regulatory approvals.

As at December 31, 2011, Surge had 38 gross (38 net) horizontal multi-frac Bluesky wells remaining in inventory, of which 31 gross (31 net) wells were unbooked.

Goose River (Nordegg/Duvernay):

Surge has now completed its evaluation of the horizontal multi-frac Nordegg well (100/14-11-69-19W5M). The horizontal leg encountered better than anticipated reservoir quality in two different Nordegg zones in the 1,080 meter lateral and the well was stimulated with 14 frac stages that averaged approximately ten tons per stage. Approximately 50 barrels of 18-21 degree API oil was recovered and the well has subsequently been suspended. With only one hz well drilled on the 131 sections (83,840 acres) of land at Goose River, Surge remains encouraged about the potential of the Nordegg and is currently evaluating new completion techniques to allow for the production of the lower API oil and plans to explore for potential lighter oil (higher API gravity) on its lands. As the area is mostly winter only access, Surge continues to formulate plans for late Q4 2012 and Q1 2013.

The recent industry announcement of a successful Duvernay well at Kaybob that produced 650 boe per day (60 percent light oil) after a 16 day test period, 20 miles south of Surge's Goose River lands, continues to provide optimism that significant Duvernay oil potential exists on the Company's lands. Surge believes that its lands at Goose River are located in the oil generation window for the Duvernay and is finalizing a strategy to evaluate the Duvernay potential on its lands.

For further details on updated well economics discussed throughout this press release, please see Surge's corporate presentation available on its website at www.surgeenergy.ca.

OUTLOOK - POSITIONED FOR CONTINUED LIGHT OIL GROWTH

In just more than two years, Surge has positioned itself in three core areas, assembled more than 570 gross (435 net) oil drilling locations and gained exposure to an internally estimated DPIIP of more than 550 gross million barrels of oil. Surge continues to add light oil resource to its portfolio as shown with the accretive acquisition of a private company ("the Pradera Acquisition") in January 2012. Through the acquisition, Surge acquired 1,200 barrels 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 now estimates there to be 115 million barrels of DPIIP in the Slave Point pools with less than one percent of the oil recovered to date. Surge believes there is potential to grow production to 2,500 barrels 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.

Pro-forma the Pradera Acquisition that closed in early January, Surge has more than 36.7 million boe of proved plus probable reserves, of which, more than 23 million barrels are crude oil and NGLs. Additionally, the Corporation has the potential to recover more than 82 million barrels of light oil through its unbooked drilling inventory and the successful implementation of waterflood programs at Valhalla South, Windfall, Nipisi/Gift, Williston Basin and South East Alberta.

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 successful development drilling results and strategic acquisitions, Surge is well positioned to meet or exceed its 2012 guidance.

	2012 Guidance[5]
Average Production:	9,750 boe/d (~72% oil & NGLs)
Exit Production:	11,000 boe/d (~77% oil & NGLs)
Capital Expenditures Including Acquisitions:	$270 million
Capital Expenditures Excluding Acquisitions:	$155 million
Funds from Operations ("FFO"):	$120 million
FFO per basic share:	$1.69
Annualized Exit FFO:	$155 million
Annualized Exit FFO per basic share:	$2.19
Bank Line:	$250 million
Year End Net Debt:	$175 million

[5] Based on US$104.50/bbl WTI, Edm Par C$94.68, $1.98/GJ AECO, US$/CDN$ exchange rate of $0.9989.

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, 2012 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 3:00pm Mountain Standard Time (MST) on Thursday May 10, 2012 at the Petroleum Club in the Devonian Room, located at 319 - 5th Avenue SW, Calgary AB.

Surge is an oil focused oil and gas company with operations throughout Alberta and in the Williston Basin. Surge's common shares trade on the Toronto Stock Exchange under the symbol SGY. On May 8, 2012 Surge had 71.1 million basic shares 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) primary and secondary recovery potentials and implementation thereof, (vii) regulatory applications and the expected success thereof, and (viii) 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

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Surge Energy Inc. Announces Record Q1 2012 Results; Doubling of Funds Flow per Share; Reiterates 2012 Production Guidance
(91 KB)
