Surge Energy

Canada NewsWire
Edmonton

CALGARY, Sept. 23 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") (TSX-V: SGY) is pleased to announce that it has entered into an agreement with a major independent Canadian corporation to acquire a high working interest, operated property currently producing 726 boe/d in the Valhalla South area located in western Alberta (the "Property") for a total consideration of $75 million (the "Acquisition"). The current production consists of vertical oil wells producing from an extensive tight sand with up to 50 meters of gross light oil pay in the Triassic Doig Formation. Management has a proven track record of optimizing value in the tight, compartmentalized Doig Formation (Fireweed) and plans to drill the Property using horizontal multi-frac technology. The Acquisition adds a fourth early stage, high impact, light oil resource play to Surge's portfolio.

Surge is also pleased to announce a $40 million bought deal financing of 7,620,000 Subscription Receipts at a price of $5.25 per Subscription Receipt (the "Financing"), increased 2010 guidance, and preliminary 2011 guidance.

ACQUISITION HIGHLIGHTS & STRATEGIC RATIONALE

Through the Acquisition, Surge is acquiring a low decline asset (<15%) with all season access that has significant light oil (40 degree API) upside with internal company estimates of more than 100 million barrels of Total Petroleum Initially In Place (1)("TPIIP"), and cumulative oil recovery to date of less than three percent of TPIIP. The Doig field is approximately 12 kilometers long by two kilometers wide and up to 50 meters thick. Using existing vertical well control and complete 3D seismic coverage, management has identified up to 24 horizontal multi-frac infill drilling locations, which have the potential to more than quadruple production on the Property to over 3000 boe/d (>60% oil and NGL's) over the next three years. The Property is a light oil analogue to the Fireweed Doig gas asset which management successfully developed in 2009 at a previous entity. Production in the Fireweed Doig was increased from approximately 800 boe/d to greater than 2,500 boe/d by drilling three infill horizontal multi-frac wells.

To date, the Property has only been drilled with vertical wells and has recovered less than three percent of TPIIP. The company plans to significantly increase recovery utilizing horizontal multi-frac technology. Surge plans to drill, complete, and tie-in infill horizontal multi-frac wells at a cost of approximately $4.2 million with internally estimated rates of return in excess of 200% and approximate recoveries between 600,000 and 800,000 boe per well. Management forecasts full cycle finding, development and acquisition (FD&A) costs of less than $10.00/boe resulting in a recycle ratio of greater than three times. Surge plans to drill its first horizontal multi-frac well on the Property before year end with production coming on stream by the end of the first quarter in 2011.

As a result of the Acquisition, Surge is increasing its guidance for 2010 exit production to 4,500 Boe/d (>60% oil and NGL's) from 3,800 boe/d (>60% oil and NGL's) and forecasting a 2011 exit production rate of 6,500 boe/d (>70% oil and NGL's).

The Acquisition has the following characteristics:

Current Production:	726 boe/d (approximately 37% light oil and NGL's)
Proved plus Probable Reserves:(2)	3,308 mboe
Proved plus Probable Reserves Metric:(2)	$22.67/boe
Gross (Net) Land:	10,560 (8,613) acres
Total Unbooked Light Oil Horizontal Multi-Frac Drilling Locations:	24
Operating Netback per boe:(3)	$18.88/boe
Proved plus Probable RLI:	12.5 years
Company Estimated TPIIP:	> 100 million barrels
Recovery Factor to Date:	< 3%

Rates of Return: (per infill horizontal wells with multi-stage fracs):	>200%
Effective Date:	July 1, 2010
Expected Closing Date:	November 1, 2010

The Acquisition is forecast to be accretive to Surge in 2011 on several key metrics, including cash flow per share (fully diluted) and production per share (fully diluted).

INCREASED 2010 GUIDANCE

Surge's revised 2010 guidance below includes the addition of the Property's forecast production volumes with capital included to drill one infill horizontal multi-frac well on the Property, which is scheduled to commence production by the end of the first quarter in 2011.

Average 2010 Production:	3,000 boe/d (>60% oil and NGL's)
Exit 2010 Production:	4,500 boe/d (>60% oil and NGL's)
2010 Capital Expenditure:	$226 million ($40 million net of acquisitions)
2010 Cash Flow(4):	$27 million
Year End Shares Outstanding:	55.5 basic, 59.5 fully diluted
Year End Net Debt:	$47 million
Anticipated Bank Line:	$90 million
Anticipated Unutilized Bank Line:	$43 million

2011 GUIDANCE

Average 2011 Production:	5,500 boe/d (>65% oil and NGL's)
Exit 2011 Production:	6,500 boe/d (>70% oil and NGL's)
2010 Capital Expenditure (net of dispositions):	$80 million
2011 Cash Flow(5):	$58
2011 Cash Flow per Share (basic):	$1.04
Annualized 2011 Exit FFO:(6)	$77 million
Annualized 2011 Exit FFO per share (basic):( )	$1.40
Proved plus Probable Reserves:(7)	17.6 mmboe
Proved plus Probable RLI:(6)	10 years
Net Undeveloped Land:	~400,000 acres
Total Development Drilling Locations:	>200 gross (170 net)
Operating Netback:	$34.40

Shares Outstanding:	55.5 basic, 59.5 fully diluted
Year End Debt:	$70 million
Anticipated Bank Line:	$90 million
Anticipated Unutilized Bank Line:	$20 million

THE FINANCING

In conjunction with the Acquisition, Surge is also pleased to announce that it has entered into an agreement with a syndicate of underwriters led by National Bank Financial Inc. and including FirstEnergy Capital Corp., GMP Securities L.P., Macquarie Capital Markets Canada Ltd., BMO Capital Markets Corp., Scotia Capital Inc., CIBC World Markets Inc., and Peters & Co. Limited (collectively, the "Underwriters") pursuant to which the Underwriters have agreed to purchase 7,620,000 subscription receipts ("Subscription Receipts") at a price of $5.25 per Subscription Receipt for gross proceeds of $40,005,000. The Underwriters will have the option to acquire up to an additional 381,000 Subscription Receipts at the same issue price for additional gross proceeds of $2,000,250, for total gross proceeds of $42,005,250.

Each Subscription Receipt shall entitle the holder thereof to receive, for no additional consideration and without further action, one common share ("Common Share") of the Company, upon satisfaction of the Escrow Release Conditions (defined below). The gross proceeds of the Subscription Receipt offering (the "Escrowed Funds") will be held in escrow and will be released to the Company upon satisfaction of the following conditions ("Escrow Release Conditions"): (i) the closing of the Acquisition in accordance with the terms and conditions of the definitive agreement; and (ii) receipt by the Company of all necessary regulatory and other approvals for the Financing and Acquisition. In the event that the Escrow Release Conditions are not satisfied at or before 5:00 pm (Calgary time) on December 1, 2010, the Escrowed Funds, together with accrued interest thereon, shall be returned to the holders of the Subscription Receipts.

Pursuant to the Financing, the Subscription Receipts will be offered by way of private placement in all provinces of Canada (except Quebec) and by way of private placement in the United States pursuant to exemptions from the registration requirements pursuant to Rule 144A and/or Regulation D of the United States Securities Act of 1933.

Surge has also agreed to use its commercially reasonable efforts to file and obtain a receipt for a (final) short form prospectus (the "Receipt") qualifying the Common Shares issuable pursuant to the Subscription Receipts in all provinces of Canada, except Quebec, within 45 days of the closing of the Financing (the "Prospectus Deadline Date"). If the Receipt is not issued by the Prospectus Deadline Date, the Company shall issue to each holder of Subscription Receipts, for no additional cost to and without further action on the part of such holder, an additional 0.1 of a Common Share for each Common Share to be issued to such holder pursuant to the Subscription Receipts held by such holder.

The Subscription Receipt offering is expected to close on or about October 20, 2010, and the Acquisition is expected to close on or about November 1, 2010.

The Acquisition will be financed with the Company's bank line, which is expected to be increased to $90 million upon the closing of the Acquisition.

Surge is an oil focused junior oil and gas company with operations throughout Alberta and southwest Manitoba. Surge's Common Shares trade on the TSX Venture Exchange under the symbol SGY. Upon closing of the Acquisition, Surge will have approximately 55.5 million basic and 59.5 million fully diluted shares outstanding.

Forward Looking Statements:

This press release contains forward-looking statements. More particularly, this press release contains statements concerning the potential exploration and development opportunities associated with the Acquisition, the anticipated accretive impact of the Acquisition on Surge, the potential impact of technology and techniques on production and recovery, the anticipated bank line increase from $80 million to $90 million, the anticipated date for the closing of the Acquisition, the anticipated date for the closing of the Financing, the anticipated date for the closing of the anticipated bank line increase from $80 million to $90 million, and Surge's projected 2010 and 2011 exit and average rates of production. 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, the failure to obtain necessary regulatory approvals or satisfy the conditions to closing the bank line increase, 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 reserves 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 document 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.

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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(1) Total Petroleum Initially in Place (TPIIP) is defined as the 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 TPIIP except for those identified as proved or probable reserves.

(2) Reserves evaluated by GLJ as at July 1, 2010. Gross Company Reserves means the Company's working interest reserves before the calculation of royalties, and before the consideration of the Company's royalty interests.

(3) Based on September 20, 2010 forward strip and calculated by subtracting royalties and operating costs from revenues

(4) Based on CDN $74.99 Edmonton Par (US$77.08 WTI) and CDN $3.93/mcf AECO

(5) Based CDN $80.71 Edmonton Par (US$80.00 WTI) and CDN $4.00/mcf AECO using a CAD/USD of 0.95

(6) Based on forecast exit 2010 production

(7) Evaluated by GLJ as at July 1, 2010

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SGY Announces Acq of Light Oil Resource Play Asset, $40MM Bought Deal Financing, Increased 2010 Guidance, & Prelim 2011 Guidance
(204 KB)
