Surge Energy

CALGARY, Nov. 24 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") (TSX-Venture Exchange: SGY) is pleased to announce its financial and operating results for the three and nine month periods ended September 30, 2010.

Certain selected financial and operations information for the three and nine month periods ended September 30, 2010 and the 2009 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).

The two private company acquisitions referred to below are included for only part of the Company's third quarter and year to date financial and operating results. The Valhalla South Doig light oil resource play asset acquisition referred to below is not included at all in the financial and operating results below.

FINANCIAL AND OPERATING SUMMARY:

	3 Months Ended September 30,			**9 Months Ended September 30,**		
	2010	2009	**% Change**	**2010**	2009	**% Change**
Financials ($000s except per share amounts)						
Oil and NGL sales	11,742	8,198	43%	32,671	21,337	53%
Natural gas sales	2,656	2,477	7%	6,707	8,438	(21%)
Other revenue	(134)	115	nm	5	147	(97%)
Total oil, natural gas & NGL revenue	14,264	10,790	32%	39,383	29,922	32%
Funds from operations[1]	7,002	4,800	46%	17,781	12,172	46%
Per share basic ($)	0.15	0.29	(48%)	0.58	0.73	(21%)
Per share diluted ($)	0.15	0.29	(48%)	0.58	0.73	(21%)
Net earnings (loss)[2]	(832)	844	nm	(6,179)	(2,091)	196%
Per share basic ($)	(0.02)	0.05	nm	(0.20)	(0.13)	54%
Per share diluted ($)	(0.02)	0.05	nm	(0.20)	(0.13)	54%
Capital expenditures[3]	105,993	2,968	3,471%	114,774	12,735	801%
Net debt (cash) at end of period	2,638	49,449	(95%)	2,638	49,449	(95%)
Operating Highlights						
Production:						
Oil & NGL (bbls per day)	1,841	1,428	29%	1,723	1,431	20%
Natural gas (mcf per day)	7,783	6,294	24%	5,834	7,031	(17%)
Total (boe per day) (6:1)	3,138	2,477	27%	2,695	2,603	4%
Average realized price:						
Oil & NGL ($ per bbl)	69.33	62.39	11%	69.45	54.62	27%
Natural gas ($ per mcf)	3.71	4.28	(13%)	4.21	4.40	(4%)
Realized gain/(loss) on commodity contracts ($ per boe)	3.17	(0.16)	nm	2.84	1.03	176%
Combined average (including processing revenue) ($ per boe)	49.41	47.34	4%	53.52	42.11	27%
Netback ($ per boe)						
Oil, natural gas and NGL sales	49.41	47.34	4%	53.52	42.11	27%
Royalties	(6.07)	(5.22)	16%	(7.82)	(5.04)	55%
Operating expenses	(14.98)	(11.85)	26%	(15.44)	(12.78)	21%
Transportation expenses	(1.86)	(2.05)	(9%)	(2.44)	(2.10)	16%
Operating netback	26.50	28.22	(6%)	27.82	22.19	25%
G&A expenses	(5.18)	(4.20)	23%	(5.42)	(3.92)	38%
Interest expense	(0.31)	(2.66)	(88%)	(0.96)	(2.02)	(52%)
Corporate netback	21.01	21.36	(2%)	21.44	16.25	32%
Common Shares (000s)						
Common Shares outstanding, end of period	47,701	16,667	186%	47,701	16,677	186%
Weighted average basic shares outstanding	45,998	16,667	176%	30,875	16,677	85%

Stock option dilution (treasury method)	-	69	nm	-	-	-
Weighted average diluted shares outstanding	45,998	16,736	175%	30,875	16,677	85%

OVERVIEW AND HIGHLIGHTS:

- Consistent with management's focused business plan to increase the Company's light oil weighting and opportunity base, the Company realized a 59 percent production weighting to oil and natural gas liquids in the third quarter of 2010, with a forecast to increase the weighting to more than 70 percent by the end of 2011.
- Closed two private company corporate acquisitions and an increase in bank line from $50 to $80 million. The two corporate acquisitions added the following to Surge's portfolio:
  - Three high impact, early stage light oil resource plays;
  - Low decline long life production base of approximately 1,150 boe per day;
  - High working interest and greater than 90 percent operated properties;
  - More than 140 gross (120 net) unbooked light oil horizontal drilling locations; and
  - A large contiguous land base with owned and operated infrastructure
- Acquired the remaining 25 percent unit interest in Waskada Unit No. 15 in Southwest Manitoba, which added 13 net unbooked light oil horizontal multi-frac locations and resulted in Surge owning 100 percent of the unit.
- Announced the Valhalla South Doig light oil resource play asset acquisition, $42 million bought deal financing, increased 2010 guidance, preliminary 2011 guidance, and plans for a further increase in bank line to $90 million. The Valhalla South Doig light oil acquisition added the following to Surge's portfolio:
  - A high impact, early stage light oil resource play;
  - Internally estimated TPIIP (Total Petroleum Initially In Place)[4]of more than 115 gross (92 net) mmbls (80 percent net to Surge);
  - Low decline (approximately 15 percent) long life production base of over 700 boe per day;
  - High working interest and greater than 90 percent operated properties;
  - 24 gross (15.3 net) unbooked light oil horizontal drilling locations (63.75 percent net to Surge); and
  - A large contiguous land base with underutilized infrastructure
- The Valhalla South Doig light oil acquisition, $42 million equity financing and increase in bank line were completed subsequent to the end of the third quarter of 2010.
- Achieved an average production rate of 3,138 boe per day for the quarter, a 27 percent increase as compared to the third quarter of 2009 production rate of 2,477 boe per day.
- Achieved funds from operations per basic share of $0.15 in the third quarter of 2010. Funds from operations were $7.0 million in the second quarter of 2010, a 46 percent increase as compared to $4.8 million in the third quarter of 2009.
- Surge's corporate netback increased by 13 percent from the second quarter of 2010 to the third quarter of 2010. The Company achieved reductions in each of royalty, operating cost, transportation, interest and G&A expenses on a per boe basis in the third quarter of 2010 as compared to the second quarter of 2010. The management team continues to focus on finding efficiencies within existing operations and expects both operating and corporate netbacks to continue to grow throughout the remainder of 2010 and into 2011.

OPERATIONS OVERVIEW:

Western Alberta

Windfall Bluesky

Surge commenced drilling on its Bluesky light oil play in Windfall Alberta during October, 2010. The first well has been drilled, cased and equipped for fracing. The horizontal portion of the well accessed approximately 1,000 meters of good sand pay and reached its programmed length of 1,065 meters observing section boundary setbacks. The second well from the pad is currently being drilled. Both wells are scheduled for completion in December, 2010 with production coming on stream in January, 2011. Twelve frac stages will be conducted on the first well.

Additionally, Surge has just closed the acquisition of the significant working interest of a joint venture partner in the southern portion of the lands at Windfall. The interests involved represent an additional three net sections and 7.5 net horizontal drilling locations to Surge and increases the Company's working interest throughout the Windfall area to 95 percent. Two wells on these lands are scheduled to drill in the first quarter of 2011. In addition, Surge plans to bring an existing and equipped vertical Bluesky oil well back on production late in the fourth quarter of 2010.

Valhalla South Doig

Surge closed the previously announced acquisition of the Valhalla South Doig asset on November 1, 2010. The acquisition added approximately 700 boe per day of low decline (less than 15 percent) production from existing vertical wells and internally estimated TPIIP of more than 115 gross (92 net) mmbls (80 percent net to Surge). Surge has identified approximately 24 gross (15.3 net) horizontal multi-frac infill drilling locations (63.75 percent net to Surge) on the high working interest and operated property that have the potential to more than quadruple production to over 3,000 boe per day over the next three years.

Surge is currently licensing the first horizontal multi-frac infill location at Valhalla. The first well is anticipated to spud in December, 2010 with completion and fracing planned for the first quarter 2011.

Manitoba

Waskada Spearfish

Surge has successfully drilled and cased five Spearfish horizontal multi-frac oil wells with each well accessing approximately 600 meters of horizontal section. Fracing and equipping operations are scheduled to commence on the wells in late November, 2010 (15 frac stages per well) with all five wells anticipated to be on production in December, 2010.

South East Alberta

Silver Lake Lloydminster/Cummings

Surge has completed a ten well drilling program in the Silver Lake area during the third quarter of 2010 with an overall success rate of 70 percent and all-in costs of approximately $3.6 million. The drilling program resulted in five producers, two injectors, two step out wells that were abandoned, and an exploration well that was drilled, cased, evaluated, and suspended after commercial production rates were not established. Total production from the five producers is approximately 190 boe per day and in line with Surge's expectations for the program.

The Company continues to a see positive response from the waterflood in the Lloydminster BB pool which has yielded a 20 percent increase in production (from 700 to 850 boe per day) since it was first implemented in March, 2008. An additional two injectors are currently being completed and equipped for water injection and will provide pressure support on the east side on the pool. Water injection in these two wells is expected to commence by year end.

Additionally, Surge intends to implement a waterflood in the Cummings pool late in 2011. The existing infrastructure for source water and fluid handling is anticipated to be sufficient to accommodate the implementation of this pressure support scheme.

Conrad Sawtooth

At Conrad, Surge successfully drilled a 1,200 meter horizontal well in the Sawtooth formation which was brought on production in September, 2010 and is currently producing at a stabilized rate of 60 bbl/d. A second well from the same pad location is scheduled to be drilled by year end.

OUTLOOK & GUIDANCE:

Solid Growth Platform:

Surge has built a low decline (approximately 15 percent) oil-weighted production base of more than 4,000 boe per day, positioned itself in several emerging light oil resource plays, identified more than 200 oil drill locations on its lands, and maintains a significant undeveloped land base of more than 400,000 net acres. Surge has a $90 million bank facility and is forecasting a year end net debt position of approximately $47 million, 2010 exit production of 4,500 boe per day (weighted more than 60 percent to oil and natural gas liquids) and 2011 exit production of 6,500 boe per day (weighted more than 70 percent to oil and natural gas liquids).

Guidance provided for 2010 and 2011 is outlined below:

	2010 Guidance	**2011 Guidance**
Average Production:	3,000 boe/d (> 60% oil)	5,500 boe/d (> 65% oil & NGL's)
Exit Production:	4,500 boe/d (> 60% oil)	6,500 boe/d (> 70% oil & NGL's)
Capital Expenditures:	$226 million ($40 million net of acquisitions)	$80 million (net of divestitures in 2011)

Average FFO:	$27 million	$58 million[6]
Annualized Exit FFO:	$45 million[5]	$77 million[6]
Annualized Exit FFO per share (basic):	$0.95[5]	$1.40[6]
Bank Line:	$90 million	$90 million
Year End Net Debt:	$47 million	$70 million

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS:

Surge has filed with Canadian securities regulatory authorities its unaudited financial statements for the three and nine month periods ended September 30, 2010 and the accompanying Management's Discussion and Analysis ("MD&A"). These filings are available for review at www.sedar.com or www.surgeenergy.ca.

Surge is an oil focused 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 and currently has 55.8 million basic and 60.2 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: (i) capital expenditures for the remainder of 2010 and 2011, (ii) exploration, development, and acquisition activities, (iii) average oil & natural gas production during the remainder of 2010 and 2011, (iv) funds from operations, (v) debt and bank facilities, and (vi) 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.

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[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 Canadian GAAP and, therefore, may not be comparable with the calculation of similar measures for other entities.

[2] Excluding the non-recurring recapitalization costs, as well as the increase in stock-based compensation that resulted from the recapitalization, the Company's approximate net income (loss) before tax would have been ($0.8 million) for the three months ended September 30, 2010 and $2.8 million for the nine months ended September 30, 2010.

[3] Capital expenditures includes cash additions for the period including acquisition additions net of dispositions.

[4] 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.

[5] Based on US$75.00/Bbl WTI, $5.00/mcf AECO, US$/CDN$ exchange rate of 1.00.

[6] Based on CDN $80.71 Edmonton Par (US$80.00 WTI) and CDN $4.00/mcf AECO using a CAD/USD exchange rate of 0.95.

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