

Surge Energy

CALGARY, April 27 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") (TSX-Venture Exchange: SGY) is pleased to announce upward revisions to its 2011 guidance, financial and operating results for the year ended December 31, 2010 and that it has filed its Annual Information Form ("AIF") for the year ended December 31, 2010 on SEDAR.

UPWARD REVISION TO 2011 GUIDANCE:

Based on recent light oil drilling and production successes at Valhalla South, Windfall, Waskada and Silver Lake, Surge is revising upward its 2011 exit production estimates from 6,500 to 7,500 boe per day (greater than 70 percent light/medium oil & NGLs). Surge is also revising upward the Company's 2011 annual production estimate from 5,500 to 6,000 boe per day (greater than 65 percent light/medium oil and NGLs).

Based on this increased 2011 guidance, Surge is now forecasting an increase in funds from operations of approximately 189 percent, a 98 percent increase in production and a 67 percent increase in exit production per share in 2011 as compared to 2010. Accordingly, Surge is pleased to provide the following increased guidance for 2011.

	Previous 2011 Guidance	Updated 2011 Guidance
Average Production:	5,500 boe/d (>65% light/medium oil & NGLs)	6,000 boe/d (>65% light/medium oil & NGLs)
Exit Production:	6,500 boe/d (>70% light/medium oil & NGLs)	7,500 boe/d (>70% light/medium oil & NGLs)
Capital Expenditures:	\$89 million	\$98 million
Acquisitions net of Dispositions (cash consideration):	(\$9 million)	\$22 million
Funds from Operations (FFO):		\$75 million ¹
Q4 Annualized FFO:		\$118 million ²
Q4 Annualized FFO per share (basic):		\$2.10 ²
Q4 Operating Netback:		\$47/boe ²
Anticipated 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:		0.8 times ²

By the end of May 2011, Surge anticipates finalizing its syndicated bank facility, increasing the Company's line of credit to \$120 million. Surge's 2010 year end net debt was \$46 million representing 0.6 times forecast 2011 funds flow, and Surge now forecasts 2011 year end net debt of \$91 million representing 0.8 times forecast annualized fourth quarter 2011 funds flow.

OUTLOOK - POSITIONED FOR LIGHT OIL GROWTH:

Surge has built a low decline, oil weighted production base and has positioned itself in several high impact, emerging light oil resource plays. Upon the closing of the recently announced North Dakota acquisitions expected on May 12, 2011, Surge will have: a significant undeveloped land base of more than 500,000 net acres, internally estimated DPIIP³ 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.

During 2010, since the recapitalization of Zapata on April 13, 2010, Surge management has focused the Company in three high impact light oil resource plays at Valhalla South (Doig), Windfall (Bluesky) and southwest Manitoba (Spearfish), adding more than 190 gross (175 net) light oil horizontal drilling locations, 80,000 net acres of undeveloped land and more than 245 million barrels (gross) of internally estimated DPIIP.

Surge's operational results in the first quarter 2011 have exceeded management's expectations. The Company continues to implement management's business plan of targeting per share growth by positioning the Company

in high impact oil resource plays with significant oil in place and applying its proven expertise and experience to build core areas. Surge continues to demonstrate this ability with the recent announcement of its expansion into North Dakota, where the Company significantly strengthened its position in the Spearfish light oil resource play by adding 205 gross (120 net) light oil horizontal drilling locations on 6,000 net acres of highly prospective lands. Management estimates DPIIP to be approximately 125 million barrels (gross) within these lands.

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 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. Additionally, the Company will continue to make accretive acquisitions that fit its business plan of positioning Surge in high impact, emerging crude 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. Surge looks forward to applying for listing of its common shares on the Toronto Stock Exchange in the fourth quarter of 2011.

TIMELINE OF MAJOR EVENTS:

- Completed a \$17 million non-brokered private placement in conjunction with the recapitalization of Zapata Energy Corporation and named the new board of directors and management team.
- Re-named the Corporation Surge Energy Inc. and changed the stock ticker symbol to SGY.
- Closed acquisitions that added three high impact light oil resource plays, more than 190 gross (175 net) light oil horizontal drilling locations, 80,000 acres of net undeveloped land and more than 245 million barrels (gross) of DPIIP.
- Closed two bought deal equity financings for a total of \$92 million.
- Increased the Company's credit facility from \$50 to \$90 million with plans to enter into a syndicated bank facility of \$120 million.
- Surge had greater than 245 gross (more than 220 net) oil drilling locations in inventory at December 31, 2010, currently has more than 350 gross (more than 265 net) oil drilling locations and forecasts having more than 460 gross (more than 350 net) oil drilling locations in inventory after the closing of the previously announced acquisitions in North Dakota expected for May 12, 2011.
- Established a non-core dispositions package which has successfully resulted in approximately \$6.5 million of proceeds for Surge to date.

ACHIEVEMENTS, HIGHLIGHTS AND FORECAST:

- Increased production by 125 percent from approximately 2,000 boe per day shortly after the recapitalization in April 2010 to a 2010 exit production rate of more than 4,500 boe per day with a forecast to exit 2011 at 7,500 boe per day, with oil and NGL weighting increasing from 60 percent to more than 70 percent.
- Realized an average production rate of 4,005 boe per day in the fourth quarter 2010, a 45 percent increase as compared to 2009 production rate of 2,762 boe per day with a forecast to grow exit production by 67 percent to 7,500 boe per day in 2011.
- Realized an average production rate of 3,026 boe per day for the year ended December 31, 2010, a 14 percent increase as compared to the 2009 production rate of 2,643 boe per day, with a forecast to grow production by 98 percent to an average of 6,000 boe per day in 2011.
- More than 80 percent of Surge's revenue resulted from oil and natural gas liquids production, with less than 20 percent derived from natural gas production.
- Increased Proved plus Probable reserves by 114 percent from 9.9 million boe at December 31 2009 to 21.2 million boe at December 31, 2010.
- Increased the Net Present Value discounted at ten percent Before Tax (NPV10 BT) of Proved plus Probable reserves by 90 percent from \$217 million as at December 31, 2009 to \$412 million⁴ as at December 31, 2010.
- Achieved Proved plus Probable Finding and Development ("F&D") costs of \$13.26 per boe, including a \$24.0 million change in Future Development Capital ("FDC").
- Achieved a F&D recycle ratio for 2010 of 2.1 times.
- Attained a Proved plus Probable Reserve Life Index of 12.9 years based on the Corporation's estimated 2010 exit production rate of approximately 4,500 boe per day.
- Achieved a Proved plus Probable reserves replacement ratio of 11.2 based on the Corporation's estimated 2010 average production for the year of 3,026 boe per day.
- Achieved a 100 percent success rate drilling ten gross (ten net) wells in the fourth quarter 2010; realized a

gross success rate of 91 percent drilling by 22 gross (21.5 net) wells in 2010.

- Executed preparation for 2011 drilling program targeting light oil, which is projected to increase operating netbacks to approximately \$47.00 by the fourth quarter of 2011 based on recent 2011 strip oil and gas prices and increase light/medium oil weighting to greater than 70 percent.
- Reduced operating expenses per boe by five percent and transportation expenses per boe by seven percent in the fourth quarter of 2010 as compared to the fourth quarter of 2009, with a forecast to reduce combined operating and transportation costs by 21 percent to \$13.00 per boe in the fourth quarter of 2011.
- Increased Surge's operating netback by 17 percent for the year ended December 31, 2010 as compared to the year ended December 31, 2009 from \$23.64 to \$27.65 per boe. Surge's fourth quarter 2011 netback is forecast to be approximately \$47.00 per boe based on recent 2011 strip oil and gas prices and as a result of the Company's increasing light oil weighting and decreasing costs in 2011.
- Increased funds from operations by 49 percent to \$8.0 million in the fourth quarter of 2010 from \$5.3 million in the fourth quarter of 2009. Increased funds from operations by 47 percent to \$25.7 million in 2010 from \$17.5 million in 2009 with a forecast to grow funds from operations by 189 percent to \$75 million in 2011.

¹ 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.

² 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

³ 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.

⁴ The estimated values disclosed do not represent fair market value.

OPERATIONS OVERVIEW:

Surge drilled 22 gross (21.5 net) wells in 2010 with a 91 percent success rate. The 2010 drilling activity included 12 development wells in south east Alberta, three horizontal multi-frac wells at Windfall, five horizontal multi-frac wells at Waskada and two exploratory wells. In the fourth quarter of 2010, the Company drilled ten gross (ten net) oil wells resulting in a success rate of 100 percent. The fourth quarter drilling activity included three horizontal multi-frac wells at Windfall, five horizontal multi-frac wells at Waskada, one vertical exploration well at Silver Lake and one horizontal well at Conrad.

In addition to drilling operations in 2010, Surge added a number of additional drilling locations and increased its working interest at each of its core operating areas at Valhalla South, Windfall, and south west Manitoba.

Valhalla South (Doig)

Surge closed the Valhalla South light oil (40 degree API) asset acquisition on November 1, 2010. At the time of the acquisition, the operated property consisted of approximately 700 boe per day production, 10,240 gross (7,900 net) acres of land with 82 percent working interest and a battery and compression facilities that have capacity for processing 4,500 boe per day (3,000 bbls per day). Using existing 3-D seismic that covers the entire pool, Surge has identified 25 gross (18.3 net) horizontal multi-frac drilling locations on the property to date.

In 2011, Surge successfully drilled and completed two 100 percent working interest horizontal multi-frac wells (16-6-74-8W6M and 2-7-74-8W6M) in the Valhalla South light oil pool and has recently completed drilling its third well (14-19-74-8W6M, 53.5 percent working interest) which is expected to be completed after spring break-up. In early 2011, Surge completed a re-frac of an existing vertical well (9-7-74-8W6M) in the pool that paid out in just over one month. As a follow up to the initial success of the first re-frac, Surge has performed an additional three vertical re-fracs, which are all currently on production and being evaluated.

Surge plans to drill at least three more horizontal multi-frac wells and to perform additional vertical re-fracs and vertical well reactivations during the remainder of 2011. Surge is also evaluating plans for a secondary

recovery pilot program in the area.

Windfall (Bluesky)

Surge commenced drilling at Windfall in October 2010, and to date has drilled a total of five horizontal multi-frac wells with a success rate of 100 percent. The Company drilled three of the five horizontal multi-frac wells at Windfall in the fourth quarter of 2010. All five wells are currently on production and tied into Surge's recently expanded battery that has the capacity to handle greater than 4,000 boe per day (3,000 bbls per day).

Surge plans to drill an additional four horizontal multi-frac wells at Windfall during the remainder of 2011 and to evaluate plans for a secondary recovery pilot program in the area late in the year.

Waskada (Spearfish)

Surge drilled five horizontal multi-frac wells at Waskada targeting the Spearfish light oil Formation in south west Manitoba in the fourth quarter of 2010. Surge plans to drill an additional ten horizontal multi-frac wells at Waskada during the remainder of 2011 and to build a battery in the third quarter of 2011. The battery will have the capacity for processing 2,000 bbl per day of fluid and is forecast to substantially reduce transportation and operating costs.

Surge is evaluating plans for a secondary recovery pilot program in the area late in the year.

SUBSEQUENT OPERATIONAL EVENTS:

On April 7, 2011, Surge announced the acquisition of adjoining Spearfish light oil assets in Bottineau County, North Dakota through two key transactions. Through the acquisitions, the Company is acquiring 100 bbl per day of high quality, high netback light oil production, 6,000 net acres of highly prospective land in the Spearfish light oil resource play with more than 205 gross (120 net) horizontal drilling locations. The acquisitions also include a high working interest, contiguous undeveloped land base of more than 100,000 acres that is exploratory in nature and prospective for light oil in the Spearfish, Basal Spearfish and the Madison Formations.

FINANCIAL AND OPERATING SUMMARY:

The fourth quarter and year-end financial and operating data presented below includes only two months base production associated with the Valhalla South Doig acquisition, which closed on November 1, 2010, and does not include any of Surge's recent light oil horizontal multi-frac drilling results from Valhalla South and only very minor production volume increases from Windfall and Waskada drilling.

Certain selected financial and operations information for three months and year ended December 31, 2010 and the 2009 comparatives are outlined below and should be read in conjunction with Surge's audited annual and unaudited interim Consolidated Financial Statements and accompanying Management Discussion and Analysis ("MD&A").

	3 Months Ended December 31, Years Ended December 31,					
	2010	2009	% Change	2010	2009	% Change
Financials (\$000s except per share amounts)						
Oil and NGL sales	15,014	9,999	50%	47,685	30,697	55%
Natural gas sales	3,322	2,934	13%	10,029	12,156	(17%)
Other revenue	208	-	nm	213	-	nm
Total oil, natural gas, and NGL revenue	18,544	12,933	43%	57,927	42,853	35%
Funds from Operations ⁵	7,907	5,320	49%	25,688	17,492	47%
Per share basic (\$)	0.15	0.32	(53%)	0.70	1.05	(33%)
Per share diluted (\$)	0.15	0.32	(53%)	0.70	1.05	(33%)
Net loss excluding non-recurring charges relating to the recapitalization ⁶	(4,147)	(21)	nm	(1,307)	(2,112)	(38%)
Net earning (loss)	(4,147)	(21)	nm	(10,326)	(2,112)	389%
Per share basic (\$)	(0.08)	-	nm	(0.28)	(0.13)	115%
Per share diluted (\$)	(0.08)	-	nm	(0.28)	(0.13)	115%
Corporate & asset acquisitions ⁷	66,239	-	nm	188,812	-	nm
(cash consideration)						
Capital expenditures	26,465	5,154	414%	41,996	17,888	135%
Net debt at end of period ⁸	46,240	46,902	(1%)	46,240	46,902	(1%)

Operating highlights

Production:

Oil and NGL (bbls per day)	2,308	1,614	43%	1,871	1,477	27%
Natural gas (mcf per day)	10,182	6,887	48%	6,930	6,995	(1%)
Total (boe per day) (6:1)	4,005	2,762	45%	3,026	2,643	14%

Average realized price (excluding hedges):

Oil and NGL (\$ per bbl)	70.70	67.35	5%	69.83	56.93	23%
Natural gas (\$ per mcf)	3.55	4.63	(23%)	3.96	4.76	(17%)

Realized gain (loss) on commodity contracts (\$ per boe)	1.92	0.54	256%	2.53	0.90	181%
--	-------------	------	------	-------------	------	------

Net back (excluding hedges) (\$ per boe)

Oil, natural gas and NGL sales	50.33	50.90	(1%)	52.45	44.42	18%
Royalties	(6.43)	(5.77)	11%	(7.35)	(5.23)	41%
Operating expenses	(14.87)	(15.60)	(5%)	(15.25)	(13.52)	13%
Transportation expenses	(1.72)	(1.84)	(7%)	(2.20)	(2.03)	8%
Operating netback	27.31	27.69	(1%)	27.65	23.64	17%
G&A expenses	(5.96)	(4.32)	38%	(5.60)	(4.03)	39%
Interest expense	(0.80)	(2.37)	(66%)	(0.90)	(2.11)	(57%)
Corporate netback	20.55	21.00	(2%)	21.15	17.50	21%

Common shares (000s)

Common shares outstanding, end of period	56,095	17,836	215%	56,095	17,836	215%
Weighted average basic shares outstanding	53,065	16,667	218%	36,468	16,700	118%
Stock option dilution (treasury method)	-	(69)	nm	-	-	nm
Weighted average diluted shares outstanding	53,065	16,736	217%	36,468	16,700	118%

⁵ 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.

⁶ Excluding the non-recurring recapitalization costs, as well as the increase in stock-based compensation that resulted from the recapitalization. Please see Net Income (Loss) note in the MD&A.

⁷ Please see capital expenditures note in financial statements and MD&A.

⁸ The Company defines net debt as outstanding bank debt plus or minus cash-based working capital.

AUDITED FINANCIAL STATEMENTS, MD&A AND AIF:

Surge has filed with Canadian securities regulatory authorities its audited financial statements and accompanying MD&A for three months and year ended December 31, 2010. Surge has also filed the Company's AIF for the year ended December 31, 2010. 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 on 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 61.3 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 2011, (ii) exploration, development, and acquisition activities, (iii) average and exit oil & natural gas production during 2011, (iv)

funds from operations, (v) debt and bank facilities, (vi) operating and transportation costs and (vii) 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: mllof@surgeenergy.ca

 **[Surge Energy Inc. Announces Significant Upward Revision to 2011 Guidance, 2010 Year-End Results and Files AIF](#)**
(164 KB)

<https://surgeenergy.mediaroom.com/index.php?s=10448&item=33973>