Surge Energy

CALGARY, Aug. 10, 2011 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") (TSX-Venture Exchange: SGY) is pleased to provide an operational update and announce its financial and operating results for the three and six month periods ended June 30, 2011.

OVERVIEW:

Surge management is pleased with the transformation the Company has achieved since recapitalizing Zapata Energy Corporation in the second quarter of 2010, beginning with approximately 2,000 boe per day of production at that time. The Company is now positioned in three exciting light oil resource plays with considerable secondary recovery potential and continues to capture more light oil resource.

During the second quarter 2011, the Company continued to execute on its drilling program targeting light oil, which is projected to significantly increase Surge's operating netbacks and increase Surge's light/medium oil weighting by the fourth quarter of 2011.

Based upon the Company's recent upward revision to production guidance, management is now forecasting to exit 2011 at more than 7,500 boe per day, with oil and NGL production weighting increasing from 58 percent in the fourth quarter of 2010 to approximately 70 percent in the fourth quarter of 2011.

OPERATIONAL UPDATE:

Valhalla South (Doig)

Surge's fourth horizontal well (11-18-074-08W6; 71 percent working interest "WI") has now been successfully drilled and completed. The well in the Valhalla South light oil pool (40 degree API) encountered approximately 1,000 meters of Doig Formation and was completed with ten frac stages of approximately 30 Tonnes each. A five day flow test has been recently completed, resulting in flow rates averaging 1,979 boe per day (82 percent light oil and NGLs) with the last day of testing flowing at a rate of 1,903 boe per day (77 percent light oil and NGLs). The well averaged approximately 1,310 boe per day for the first 19 days of production and is currently flowing at more than 800 boe per day.

As previously reported, Surge's second (2-7-74-8W6M; 100 percent WI) and third (14-19-74-8W6M, 53.5 percent WI) horizontal multi frac wells at Valhalla South resulted in five day test rates of 945 boe per day and 1,450 boe per day respectively. The first month average initial production rates for both wells have performed to the Company's type curve expectations.

In addition to drilling and completions operations activity that occurred at Valhalla South during the second quarter of 2011, Surge also completed battery and facility upgrades while production was curtailed for 18 days in the area due to third party turnarounds.

Surge began drilling its fifth horizontal multi-frac well into the pool (16-07-074-08W6; 100 percent WI) during July 2011 with plans of having production on stream late in the third quarter of 2011. The Company has one more horizontal multi-frac well (100 percent WI) budgeted for the remainder of 2011 at Valhalla South for a total of six gross horizontal multi-frac wells budgeted for 2011.

Surge recently closed a small acquisition at Valhalla South that added an additional half section (320 net acres) to Surge's current land position. The additional acreage added 1 gross (1 net) horizontal multi-frac drilling location to the Company's current inventory at Valhalla South. Surge has now identified a total of 26 gross (19.4 net) horizontal multi-frac drilling locations on the property and will have 21 gross (15.1 net) locations remaining in inventory after the completion of the fifth horizontal multi-frac well. Surge is also evaluating plans for a secondary recovery pilot program in the area and is preparing an application to be submitted before year end.

Windfall (Bluesky)

To date, Surge has drilled a total of 5 gross (5 net) horizontal multi-frac wells with a success rate of 100 percent at Windfall in western Alberta. 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). On average, all five wells have performed to the Company's type curve expectations.

Surge commenced drilling its sixth horizontal multi-frac well at Windfall during the third quarter 2011 and has an additional 3 gross (3 net) horizontal multi-frac wells budgeted for the remainder of 2011. Production from the current drill is expected to be on stream late in the third quarter 2011 while production from the additional three wells is expected to be on stream during the fourth quarter of 2011. After the current well at Windfall is drilled and completed, the Company will have 33 gross (32 net) horizontal multi-frac locations remaining in inventory. Surge is also evaluating plans for a secondary recovery pilot program in the area and is preparing an application to be submitted before year end.

Waskada and North Dakota (Spearfish)
To date, Surge has drilled a total of five horizontal multi-frac wells with a success rate of 100 percent at Waskada in southwest Manitoba. Production from these five wells was shut-in during April 2011 for approximately eight weeks due to road closures caused by extended wet conditions and flooding. Production was fully restored during the month of July 2011.

Drilling operations at Waskada have commenced and the Company will drill 9 gross (9 net) horizontal multi-frac wells targeting the Spearfish and one vertical water disposal well as part of the 2011 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 and will substantially reduce transportation and operating costs in the area. Surge is also evaluating plans for a secondary recovery pilot program in the area and is preparing an application to be submitted before year end.

The Company had identified a total of 329 gross (241 net) horizontal multi-frac Spearfish locations in Manitoba and North Dakota and currently has 324 gross (236 net) remaining in inventory.

South East Alberta
Complementing Surge's light oil resource plays at Valhalla South (Doig), Windfall (Bluesky) and 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.

During the second quarter 2011, Surge completed a vertical re-completion program in the Sounding Lake area on four existing wells. Initial results from this program look promising and the team will continue to evaluate additional re-completion opportunities in the area**.** Once evaluated, these opportunities will be blended in with future drilling and water flood operations in the area.

Surge has budgeted for an additional 2 gross (2 net) horizontal wells at Silver Lake, 1 gross (0.8 net) horizontal well and 1 gross (1 net) vertical at Sounding Lake for the remainder of 2011.

ACHIEVEMENTS AND HIGHLIGHTS:

The second quarter 2011 financial and operating data presented below includes reduced light oil production from both Valhalla South and Waskada. Production was curtailed during certain time periods throughout the quarter as a result of a planned 18 day turnaround at Valhalla South and eight weeks of unanticipated shut-in production at Waskada (caused by road closures due to extended wet conditions and flooding in the area). The Company estimates that the total impact of the curtailed production at Valhalla South and Waskada was approximately 350 boe per day for the quarter.

- Continued executing the Company's 2011 drilling program targeting light oil, which is projected to increase Surge's light/medium oil weighting to approximately 70 percent by the fourth quarter of 2011.

- Achieved a 100 percent success rate drilling 1 gross (0.54 net) well in the second quarter of 2011. In the first half of 2011 Surge achieved a 100 percent success rate drilling 5 gross (4.54 net) wells. Surge has 20 gross (19.6 net) wells planned for the second half of 2011 including 3 gross (2.7 net) wells at Valhalla, 4 gross (4 net) wells at Windfall and 9 gross (9 net) wells at Waskada.

- Increased production by 124 percent to 5,051 boe per day in the second quarter of 2011 from an average of 2,258 boe per day in the second quarter 2010.

- Increased production by 105 percent to 5,063 boe per day in the first half of 2011 from an average of 2,471 boe per day in the first half of 2010.

- 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 and 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 approximately 70 percent in the fourth quarter of 2011.

- Increased Surge's operating netback by 37 percent to $35.95 for the second quarter of 2011 as compared to $26.30 in the second quarter of 2010.

- Surge's operating netback has increased in every quarter since the recapitalization. The Company's operating netback increased by 22 percent in the second quarter as compared to the first quarter of 2011.

- Increased funds from operations by 151 percent to $11.9 million in the second quarter of 2011 from $4.7 million in the second quarter of 2010. Increased funds from operations per share by 24 percent to $0.21 in the second quarter of 2011 from $0.17 in the second quarter of 2010.

- Increased funds from operations per share by 24 percent to $0.21 in the second quarter from $0.17 in the first quarter of 2011. Increased funds from operations by 21 percent to $11.9 million in the second quarter from $9.8 million in the first quarter of 2011.

- In the second quarter of 2011 Surge closed the second of two acquisitions in North Dakota and more than doubled its inventory of Spearfish locations.

- In the second quarter of 2011, Surge syndicated and increased its bank line to $120 million.

FINANCIAL AND OPERATING SUMMARY:

Certain selected financial and operations information for the three and six month periods ended June 30, 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).

	Three Months Ended June 30,			Six Months Ended June 30,		
	2011	2010	% change	**2011**	2010	% change
Financial highlights						
Oil and NGL sales	**25,172**	9,818	156%	**46,822**	20,930	124%
Natural gas sales	**4,637**	1,301	257%	**8,794**	4,051	117%
Other revenue	**(14)**	22	nm	**52**	138	(62%)
Total oil, natural gas, and NGL revenue	**29,796**	11,141	167%	**55,668**	25,119	122%
Funds from Operations[1]	**11,898**	4,740	151%	**21,670**	10,779	101%
Per share basic ($)	**0.21**	0.17	24%	**0.39**	0.46	(15%)
Per share diluted ($)	**0.21**	0.17	24%	**0.38**	0.46	(17%)
Net earning (loss)	**3,317**	(7,109)	nm	**2,815**	(4,360)	nm
Per share basic ($)	**0.06**	(0.26)	nm	**0.05**	(0.19)	nm
Per share diluted ($)	**0.06**	(0.26)	nm	**0.05**	(0.19)	nm
Total cash-based capital expenditures[2]	**21,436**	2,422	785%	**66,436**	8,776	657%
Net debt (cash) at end of period[3]	**90,954**	(22,007)	nm	**90,954**	(22,007)	nm
Operating highlights						
Production:						
Oil and NGL (bbls per day)	**2,995**	1,621	85%	**3,042**	1,663	83%
Natural gas (mcf per day)	**12,334**	3,823	223%	**12,126**	4,843	150%
Total (boe per day) (6:1)	**5,051**	2,258	124%	**5,063**	2,471	105%
Average realized price (excluding hedges):						
Oil and NGL ($per bbl)	**92.36**	66.57	39%	**85.04**	69.52	22%
Natural gas ($ per mcf)	**4.13**	3.74	11%	**4.01**	4.62	(13%)
Realized gain(loss) on commodity contracts			nm			nm

($ per boe)	**(2.58)**	4.57		**(2.10)**	2.62	
Net back (excluding hedges) ($ per boe)						
Oil, natural gas and NGL sales	**64.83**	54.22	20%	**60.75**	56.17	8%
Royalties	**(9.24)**	(10.30)	(10%)	**(8.63)**	(8.95)	(4%)
Operating expenses	**(16.39)**	(15.29)	7%	**(16.56)**	(15.73)	5%
Transportation expenses	**(3.25)**	(2.33)	39%	**(2.90)**	(2.81)	3%
Operating netback	**35.95**	26.30	37%	**32.66**	28.68	14%
G&A expenses	**(5.44)**	(6.76)	(20%)	**(5.10)**	(5.58)	(9%)
Interest expense	**(1.75)**	(0.94)	86%	**(1.36)**	(1.37)	(1%)
Corporate netback	**28.76**	18.60	55%	**26.20**	21.73	21%
Common shares (000s)						
Common shares outstanding, end of period	**56,102**	31,109	80%	**56,102**	31,109	80%
Weighted average basic shares outstanding	**56,098**	27,589	103%	**56,096**	23,188	142%
Stock option dilution (treasury method)	**1,188**	-	nm	**1,041**	-	nm
Weighted average diluted shares outstanding	**57,286**	27,589	108%	**57,137**	23,188	146%

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 Net earnings (loss) before unrealized gains (losses) on financial contracts were $547,000 or $0.01 per share and $2,652,000 or $0.05 per share, respectively, for the three and six months ended June 30, 2011.

3 Please see capital expenditures note in Surge's Second Quarter 2011 Management Discussion and Analysis.

4 The Company defines net debt as outstanding bank debt plus or minus working capital excluding the fair value of financial contracts.

OUTLOOK AND FORECAST:

Surge has had an excellent start to 2011 and continues to implement its 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 continued to demonstrate this ability in the second quarter by closing its second acquisition in North Dakota, where the Company significantly strengthened its position in the Spearfish light oil resource play by adding a total of 205 gross (120 net) light oil horizontal drilling locations on 6,000 net acres of highly prospective lands with the two acquisitions. Management estimates the Discovered Petroleum Initially In Place ("DPIIP") [1] to be approximately 125 million barrels (gross) within these lands.

Complementing the high impact, emerging light oil resource plays, the Company has built a low decline, oil-weighted production base with considerable secondary recovery potential. Surge has a significant undeveloped land base of more than 500,000 net acres, internally estimated DPIIP of more than 460 million barrels 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.

During the remainder of 2011, Surge will continue to grow the Company organically by drilling in each of its core areas. The Company will also continue the development of its waterflood projects in southeast Alberta and is planning to submit applications for secondary recovery pilot programs for each of its light oil resource plays at Valhalla South, Windfall and Waskada by year end. 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 on the TSX in the fourth quarter of 2011.

Surge forecasts a 2011 capital program of $120 million with guidance to achieve 2011 exit production of 7,500 boe per day (approximately 70 percent light/medium oil & NGLs), a 67 percent increase over 2010.

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS:

Surge has filed with Canadian securities regulatory authorities its unaudited financial statements for the three and six month periods ended June 30, 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. Surge is an oil focused oil and gas company with operations throughout Alberta, 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 61.8 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 (9) netbacks and (10) the availability and successful completion 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, the application of regulatory and royalty regimes and prevailing commodity prices and economic conditions.

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: (1) mcf means thousand cubic feet; (2) mcf/d means thousand cubic feet per day (3) mmcf means million cubic feet; (4) mmcf/d means million cubic feet per day; (5) bbls means barrels; (6) mbbls means thousand barrels; (7) mmbbls means million barrels; (8) bbls/d means barrels per day; (9) bcf means billion cubic feet; (10) mboe means thousand barrels of oil equivalent; and (11) 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.

[1] 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.

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