Surge Energy

CALGARY, Nov. 9, 2011 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") (TSX:SGY) announces its financial and operating results for the three and nine month periods ended September 30, 2011, provides operational update and increases its 2011 capital program and exit production guidance. Surge has filed with Canadian securities regulatory authorities its unaudited financial statements for the three and nine month periods ended September 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.

OVERVIEW:

Surge actively drilled at each of its light oil resource plays during the third quarter of 2011 with continued excellent results to date. The Company drilled a total of 18 gross (17.71 net) wells for a 100 percent success rate, and brought eight of the 18 wells on-stream during the quarter. As a result of this successful drilling, Surge organically grew production to average more than 6,100 boe per day and realized approximately $14 million of cash flow for the third quarter. Surge expects significant production and cash flow growth to continue, as the remaining budgeted wells commence production in the fourth quarter of 2011.

ACHIEVEMENTS AND HIGHLIGHTS:

- Achieved a 100 percent success rate drilling 18 gross (17.71 net) wells in the third quarter of 2011. In the first nine months of 2011, Surge achieved a 100 percent success rate drilling 23 gross (22.25 net) wells.

- Increased production by 96 percent to 6,166 boe per day in the third quarter of 2011 from an average of 3,138 boe per day in the third quarter of 2010.

- Increased production by 102 percent to 5,435 boe per day in the first nine months of 2011 from an average of 2,695 boe per day in the first nine months of 2010.

- Increased production by 22 percent to 6,166 boe per day in the third quarter of 2011 from an average of 5,051 boe per day in the second quarter of 2011.

- Approximately 85 percent of Surge's revenue in the third quarter of 2011 resulted from oil and natural gas liquids production.

- Management is now forecasting an upwardly revised 2011 exit production rate of 7,800 boe per day, a 73 percent increase over the 2010 exit of 4,500 boe per day, with oil and NGL production weighting increasing from 58 percent in the fourth quarter of 2010 to approximately 67 percent (62 percent oil and five percent NGLs) of 2011 exit production (See "UPWARD REVISION TO 2011 GUIDANCE" below).

- Reduced combined operating and transportation expenses per boe by 14 percent in the third quarter of 2011 as compared to the second quarter of 2011.

- Increased Surge's operating netback by 24 percent to $32.86 for the third quarter of 2011 as compared to $26.50 in the third quarter of 2010.

- Increased Surge's operating netback by 18 percent to $32.74 for the first nine months of 2011 as compared to $27.82 in the first nine months of 2010.

- Increased funds from operations by 129 percent to $14.0 million in the third quarter of 2011 from $6.1 million in the third quarter of 2010. Increased funds from operations per share by 92 percent to $0.25 in the third quarter of 2011 from $0.13 in the third quarter of 2010.

- Increased funds from operations by 113 percent to $35.7 million in the first nine months of 2011 from $16.8 million in the first nine months of 2010. Increased funds from operations per share by 19 percent to $0.64 in the first nine months of 2011 from $0.54 in the first nine months of 2010.

- Increased funds from operations per share by 19 percent to $0.25 in the third quarter from $0.21 in the second quarter of 2011. Increased funds from operations by 18 percent to $14.0 million in the third quarter from $11.9 million in the second quarter of 2011.

- In the third quarter of 2011, Surge increased its bank line from $120 million to $150 million.

- Subsequent to the third quarter, Surge issued 6,897,000 shares at a price of $8.70 per share for gross proceeds of $60 million. The increase in bank line combined with the equity issue gives Surge considerable financial flexibility as it plans for the fourth quarter and 2012.

- Subsequent to the third quarter Surge obtained a Toronto Stock Exchange (TSX) listing and began trading on the TSX under the symbol SGY on October 21, 2011.

FINANCIAL AND OPERATING SUMMARY:

Certain selected financial and operations information for the three and nine month periods ended September 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 September 30,			**Nine Months Ended September 30,**		
($000s except per share amounts)	**2011**	2010	% change	**2011**	2010	% change
Financials highlights						
Oil and NGL sales	**27,929**	11,742	138%	**74,751**	32,671	129%
Natural gas sales	**5,013**	2,656	89%	**13,807**	6,707	106%
Other revenue	**70**	(134)	nm	**122**	5	nm
Total oil, natural gas, and NGL revenue	**33,012**	14,264	131%	**88,680**	39,383	125%
Funds from Operations[1]	**14,002**	6,114	129%	**35,701**	16,778	113%
Per share basic ($)	**0.25**	0.13	92%	**0.64**	0.54	19%
Per share diluted ($)	**0.24**	0.13	85%	**0.62**	0.54	15%
Net income (loss)	**4,811**	(664)	nm	**7,626**	(5,025)	nm
Per share basic ($)	**0.09**	(0.02)	nm	**0.14**	(0.16)	nm
Per share diluted ($)	**0.08**	(0.02)	nm	**0.13**	(0.16)	nm
Total cash-based capital expenditures[2]	**51,972**	105,993	(51%)	**118,408**	114,768	3%
Net debt (cash) at end of period[3]	**128,889**	2,638	nm	**128,889**	2,638	nm
Pro-forma net debt (cash) at end of period[4]	**71,889**	2,638	nm	**71,889**	2,638	nm
Operating highlights						
Production:						
Oil and NGL (bbls per day)	**3,781**	1,841	105%	**3,291**	1,723	91%
Natural gas (mcf per day)	**14,313**	7,783	84%	**12,863**	5,834	120%
Total (boe per day) (6:1)	**6,166**	3,138	96%	**5,435**	2,695	102%
Average realized price (excluding hedges):						
Oil and NGL ($per bbl)	**80.29**	69.33	16%	**83.20**	69.45	20%
Natural gas ($ per mcf)	**3.81**	3.71	3%	**3.93**	4.21	(7%)
Realized gain(loss) on commodity contracts ($ per boe)	**(0.84)**	3.17	nm	**(1.62)**	2.84	nm
Net back (excluding hedges) ($ per boe)						
Oil, natural gas and NGL sales	**58.19**	49.41	18%	**59.77**	53.52	12%
Royalties	**(8.38)**	(6.07)	38%	**(8.53)**	(7.82)	9%
Operating expenses	**(14.79)**	(14.98)	(1%)	**(15.88)**	(15.44)	3%
Transportation expenses	**(2.16)**	(1.86)	16%	**(2.62)**	(2.44)	7%
Operating netback	**32.86**	26.50	24%	**32.74**	27.82	18%
G&A expenses	**(4.92)**	(5.18)	(5%)	**(5.01)**	(5.58)	(10%)

Interest expense	**(1.91)**	(0.31)	516%	**(1.57)**	(0.96)	64%
Corporate netback	**26.03**	21.01	24%	**26.16**	21.28	23%
Common shares (000s)						
Common shares outstanding, end of period	**56,122**	47,701	18%	**56,122**	47,701	18%
Weighted average basic shares outstanding	**56,119**	45,998	22%	**56,104**	30,875	82%
Stock option dilution (treasury method)	**1,349**	-	nm	**1,125**	-	nm
Weighted average diluted shares outstanding	**57,468**	45,998	25%	**57,229**	30,875	85%

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. 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.
4. Pro-forma net debt is defined as outstanding bank debt plus or minus working capital excluding the fair value of financial contracts, adjusted for net financing proceeds of $57.0 million

OPERATIONAL UPDATE:

Valhalla South (Doig)
Surge drilled two gross (1.71 net) horizontal multi-frac wells at Valhalla South during the third quarter of 2011. On average, the horizontal multi-frac wells drilled at Valhalla South have performed to the Company's type curve expectations.

Surge's previously announced well at 16-7-74-8W6M (100 percent working interest "WI") has now been on production for more than one month. The 30 day average production rate is approximately 1,790 boe per day (56 percent light oil and ten percent NGLs) and after 45 days, the well is still producing approximately 1,500 boe per day (45 percent light oil and 14 percent NGLs). The 30 day average production rate is well above the Company's first month type curve expectations of 675 boe per day.

Subsequent to the third quarter, Surge successfully drilled and completed 8-31-073-08W6 (100 percent WI) and began drilling 11-5-074-08W6 (100 percent WI). The 8-31 well is expected to be on production before the end of November 2011 and the 11-5 well is expected to be completed and on-stream before year-end. Surge also closed a minor acquisition at Valhalla South during the fourth quarter that added one gross (0.5 net) horizontal multi-frac location to its drilling inventory.

In early 2012, Surge plans to submit an application for a secondary recovery waterflood pilot project at Valhalla South to increase recoveries in the pool. The Company estimates the pool to have 115 mmbbls of DPIIP[1] with less than three percent recovered to date.

Windfall (Bluesky)
Surge drilled two gross (two net) horizontal multi-frac wells at Windfall during the third quarter of 2011 for a 100 percent success rate. On average, the horizontal multi-frac wells drilled at Windfall have performed to the Company's type curve expectations. During the third quarter, Surge also submitted an application and received regulatory approval for a secondary recovery waterflood pilot project, which is planned for the first half of 2012.

Subsequent to the third quarter of 2011, the Company successfully drilled 14-09-059-15W5 (100 percent WI) using a monobore technique, which reduced the total drilling cost by approximately 20 percent. Surge plans to continue to implement this technique on all future Windfall drilling locations, and expects the 14-9 well to be completed and on production by the end of November 2011.

Surge also completed a significant consolidation acquisition at Windfall, subsequent to the third quarter, that added ten net sections (6,400 net acres) to the Company's current land position and eight gross (eight net) additional horizontal multi-frac locations to its inventory.

Waskada and North Dakota (Spearfish)
Surge commenced a nine well (100 percent WI) horizontal multi-frac drilling program at Waskada in August 2011. The Company drilled one disposal well and seven gross (seven net) horizontal multi-frac wells with a 100 percent success rate during the third quarter 2011. Two of the seven horizontal wells were brought on production late in the third quarter and the remaining five horizontal wells were brought on production early in the fourth quarter of 2011. The last two wells of the nine well horizontal program were drilled and completed early in the fourth quarter of 2011 and will be on production imminently. Preliminary production results from the nine well drilling program are encouraging, as many of the initial oil rates have exceeded type curve expectations.

Surge also began construction of a central oil treating facility and a 4.7 kilometer well effluent pipeline during the third quarter. The oil treating facility 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. The construction of the oil treating facility is scheduled to be completed in early November 2011 and fully commissioned before the end of the year.

Subsequent to the third quarter, Surge submitted an application for a secondary recovery waterflood pilot project at Waskada.

South East Alberta (Lloyd/Cummings)
Surge drilled two gross (two net) horizontal wells at Silver Lake and drilled two gross (two net) wells (one vertical well and one horizontal well) at Sounding Lake during the third quarter of 2011. Surge also made significant progress in terms of expanding and optimizing two secondary recovery waterflood schemes at Silver Lake during the third quarter. The Company drilled two gross (two net) Lloydminster water injectors and converted two gross (two net) Cummings injectors, with plans to begin water injection in the fourth quarter of 2011.

Surge has one gross (one net) horizontal well at Silver Lake budgeted for the remainder of 2011.

UPWARD REVISION TO 2011 GUIDANCE:

Surge's board of directors has approved an increase in the Company's capital budget from $120 million to $160 million. The majority of the incremental capital will be used to pay for recent, strategic land acquisitions and to initiate additional drilling at the Company's core producing areas: Valhalla, Windfall, W4M and Waskada. Four rigs will be activated as part of this program, which is planned to commence by late November 2011. The activation of these drilling rigs will enable the Company to continue to drill into the first quarter of 2012 and positions the Company for continued production growth into 2012. No production volumes from this new drilling have been included in the upwardly revised 2011 exit production rate of 7,800 boe per day.

Greater than $15 million of the new capital was attributed to acquire additional land in the Company's core areas at Windfall and Valhalla and significantly position the Company in several early stage oil resource plays. Surge is currently in the completions stage of two exploratory horizontal multi-frac wells; however, due to pending land sales in the area, the Company will not be providing results on these wells until sometime in 2012.

Average 2011 Production:	6,025 boe/d
Exit 2011 Production:	7,800 boe/d (62% oil; 5% NGLs)
2011 Capital Expenditure (net of dispositions):	$160 million
2011 Cash Flow: [ii]	$58 million
Year-End Debt:	$90 million
Bank Line:	$150 million
Anticipated Unutilized Bank Line at Year-End:	$60 million

OUTLOOK AND FORECAST:

Surge maintains a significant undeveloped land base of more than 460,000 net acres and controls an internally estimated DPIIP[i] of more than 460 million barrels (gross). In less than two years, Surge has positioned the Company in three high impact, emerging light oil resource plays with considerable secondary recovery potential, doubled its oil drilling locations from approximately 200 gross (170 net) to more than 475 gross (365 net) and continues to add light oil resource to its portfolio. The Company's current inventory, which is comprised of light (85 percent) and medium gravity oil, has the ability to grow production aggressively over the next three to four years.

Surge will continue to grow the Company organically by drilling in each of its core areas and 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 is an oil focused oil and gas company with operations throughout Alberta, Manitoba and North Dakota. Surge's common shares trade on the Toronto Stock Exchange under the symbol SGY. The Company currently has 63.0 million basic and 70.1 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 and (9) 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 nor its Regulation Services Provider (as that term is defined in the policies of the TSX) accepts responsibility for the adequacy or accuracy of this release.

[i] 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. A recovery project cannot be defined for this volume of DPIIP at this time, and as such it cannot be further sub-categorized.

[ii] Based on US$97.30 WTI and CDN $3.70/mcf AECO using a CAD/USD of 1.016

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