Surge Energy

CALGARY, Dec. 15, 2011 /CNW/ - Surge Energy Inc. ("Surge" or the "Company") (TSX: SGY) is pleased to announce that it has entered into an agreement (the "**Agreement**") to acquire a 1,200 bbl/d (100 percent light oil) private oil and gas company ("**PrivateCo**") with high quality, high netback, focused Slave Point/Gilwood light oil assets in the Gift/Nipisi area of Western Alberta. Total consideration is approximately $106 million, consisting of $18.5 million in cash, 7.9 million Surge common shares and assumed net debt at closing of approximately $14.5 million (the "**Acquisition**"). The Acquisition adds a new high impact light oil resource play to Surge's portfolio.

The Acquisition is expected to close on or before January 6, 2012. Holders of approximately 67 percent of the common shares of PrivateCo have agreed to enter into lock-up agreements with Surge, pursuant to which they have agreed to tender their shares to Surge. The Board of Directors of PrivateCo has unanimously approved the Acquisition and recommended that the shareholders of PrivateCo tender their shares to Surge.

The Agreement provides for a mutual non-completion fee of $2.5 million in the event the Acquisition is not completed in certain circumstances. Completion of the Acquisition is subject to certain conditions and the receipt of all regulatory approvals, including the approval of the Toronto Stock Exchange ("TSX").

Acquisition Highlights:

Through the Acquisition, Surge will acquire 1,200 bbl/d (2011 exit rate) of high quality (37-42 degree API), high netback and high working interest light oil production in its early stage of primary development. Current production is 99 percent operated, has an average working interest of approximately 96 percent and consists of approximately 900 bbls/d from the Slave Point Formation and 300 bbls/d from the Gilwood Formation. As of October 31, 2011, PrivateCo's independent reserves report[1] recognized Total Proved Plus Probable Reserves of 4.57 million barrels (100 percent light oil), which did not include any potential incremental oil recovery from waterflood opportunities.

Surge estimates there to be 65 million barrels (gross) of Discovered Petroleum Initially In Place[2] ("DPIIP") in a contiguous Slave Point pool with a cumulative oil recovery to date of less than one percent on the acquired lands. Using extensive vertical well control and 3D seismic, management has identified up to 16 gross (15.7 net) horizontal multi-frac infill drilling locations, which have the potential to grow production on the acquired assets to more than 2,500 bbls/d (100 percent light oil) over the next two years under primary development. After assessing a successful analogue Slave Point waterflood adjacent to PrivateCo's largest oil pool, Surge believes there is an opportunity to implement a waterflood and ultimately recover up to 20 percent of the 65 million barrels of DPIIP.

The Company plans to significantly increase crude oil recovery utilizing horizontal multi-frac technology. Surge has secured drilling services and plans to spud its first horizontal multi-frac well on the property early in the first quarter of 2012.

The Acquisition has the following characteristics:

Current Slave Point Production:	900 bbl/d
Current Gilwood Production:	300 bbls/d
Total Current Production:	1,200 bbls/d (100% light oil)
Proved plus Probable Reserves:[3]	4.57 mmboe (100% light oil)
Proved plus Probable RLI:[3]	10.4 years
Net Undeveloped Land:	~14,800 acres
Total Slave Point Drilling Locations:	16 gross (15.7 net)
Total Gilwood Drilling Locations:	11 gross (7.9 net)
Operating Netback[4]:	~$69/bbl
Assumed Net Debt:	$14.5 million

Acquisition Metrics:

Based on total consideration of $106 million net of an undeveloped land and seismic value of $2 million, the transaction metrics are:

- Production: $86,715 per boe/d
- Proved plus Probable Reserves:[5] $22.77 per boe

- Proved plus Probable Recycle Ratio: [6] 3.0 times

The Acquisition is accretive to Surge on all key metrics including netback, net asset value, cash flow, production and reserves per share.

Financial Advisors:

FirstEnergy Capital Corp. acted as exclusive financial advisor to Surge, and CIBC World Markets Inc. and Dundee Securities Ltd. acted as strategic advisors to Surge with respect to the Acquisition.

National Bank Financial Inc. acted as exclusive financial advisor to PrivateCo.

Surge 2012 Guidance:

Surge is on track to meet or exceed 2011 exit guidance of 7,800 boe/d.

Proforma the Acquisition, Surge will maintain a significant undeveloped land base of more than 480,000 net acres and will control an internally estimated DPIIP of more than 525 million barrels (gross). In less than two years, Surge has positioned the Company in several high impact, emerging light oil resource plays with considerable secondary recovery potential, more than doubled its oil drilling locations from approximately 200 gross (170 net) to more than 500 gross (390 net) and continues to add light oil resource to its portfolio. The Company's current inventory, which is comprised of light (90 percent) and medium gravity oil, has the ability to grow production aggressively over the next three to four years within projected cash flow.

Management is pleased to provide guidance for 2012 (proforma the Acquisition) as set forth below.

	2012 Guidance[7]
Average Production:	9,750 boe/d (~74% oil & NGLs)
Exit Production:	11,000 boe/d (~77% oil & NGLs)
Capital Expenditures Including PrivateCo Acquisition:	$261 million
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Planned 2012 Drills:	56 gross (48.3 net)
Average Funds from Operations ("FFO"):	$133 million
Average Funds FFO per basic share:	$1.87
Annualized Exit FFO:	$155 million
Annualized Exit FFO per basic share:	$2.19
Anticipated Bank Line:[8]	$175 million
Year End Net Debt:	$146 million

Greenfield Oil Resource Update:

Following Surge's business plan of cost effectively positioning the Company in early stage oil resource plays, Surge has now accumulated more than 125 gross/net sections of land in the Goose River area of Western Alberta. The lands have been accumulated over the past 19 months through numerous crown lands sales. The lands are prospective for oil resource in multiple zones including; Nordegg, Montney, Duvernay and Beaverhill Lake Formations.

The Company is currently evaluating well results from a vertical well and a recently drilled horizontal multi-frac well that was completed in the Nordegg Formation. Surge is in the early evaluation and delineation phase and will not be providing drilling results until sometime in 2012. The Company plans to continue expanding its acreage in this prospective area during 2012.

Outlook and Forecast:

Surge will continue to grow the Company organically in each of its core areas and continue to make accretive acquisitions that fit its business plan of positioning Surge in high impact, emerging light 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. Upon the closing of the Acquisition, Surge will have approximately 70.9 million basic and 78.0 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 2012, (2) exploration, development, and acquisition activities, (3) average and exit oil, NGLs and natural gas production during 2012, (4) production weighting for 2012 (5) construction of new facilities, (6) funds from operations, (7) debt and bank facilities, (8) operating and transportation costs and (9) the completion of the PrivateCo acquisition.

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

[1] Sproule Associated Limited "Sproule", October 31, 2011 Reserves Report for PrivateCo.

[2] 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.

[3] Reserves evaluated by Sproule Associates Ltd. ("Sproule") as at October 31, 2011. 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.

[4] Based on US$93.00/Bbl WTI, $3.25/GJ AECO, US$/CDN$ exchange rate of 0.97 and calculated by subtracting royalties and operating costs from revenues.

[5] Reserves as disclosed above.

[6] Utilizing Netback shown above.

[7] Based on US$93.00/bbl WTI, CDN$$3.25/GJ AECO, US$/CDN$ exchange rate of $0.97.

[8] The increase in bank line is expected to close on or before January 6, 2012.

For further information:

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Surge Announces 1,200 bbl/d Private Company Acquisition of Focused Slave Point/Gilwood Light Oil Assets & 2012 Guidance
(71 KB)
