SURGE
ENERGY INC

www.surgeenergy.ca

2011 ANNUAL UPDATE

Continuing to deliver top tier oil growth

TSX:SGY

President's Letter

2011 was another exceptional growth year for Surge. We successfully drilled 38 gross (35.36 net) wells, more than tripled funds from operations, almost doubled production, achieved leading capital efficiencies among our oil-weighted peers and produced an average of more than 7,500 boe/d in the fourth quarter. With an enviable portfolio of oil assets and a strong team in place, Surge is well positioned for continued growth and success in 2012 and beyond.

The tremendous success that Surge has achieved to date is a direct reflection of the leadership, vision, strength and talent of our entire team. It is also the result of the team's disciplined execution of our business strategy to:

- Acquire and develop underexploited oil resource plays
- Optimize oil recovery, in both primary and secondary recovery schemes
- Identify and capture new oil resource plays

Surge Energy Corporate Profile

TSX: SGY	Listing
>$700 million	Market capitalization[1]
>490 gross (350 net wells)	Oil drilling inventory
~500,000 acres	Net undeveloped land
71 / 78 million	Basic / fully diluted shares outstanding
4% / 9%[2]	Basic / fully diluted insider ownership
$4.6 million[3]	Average trading liquidity / day

(1) Based on Surge's past 30 day closing share price of $9.96 and fully diluted shares outstanding as at February 24, 2012 of 78 million.

(2) Weighted average option exercise price of $7.57 and weighted average performance warrant exercise price of $5.17 as at February 24, 2012.

(3) Based on trading volumes between February 1st, 2012 and March 1st, 2012 and a volume weighted average buy/sell share price of $9.96.

Value Creation to Date

Since inception, Surge has achieved significant growth in production, reserves, and cash flow per share. In less than two years, we have positioned the company in three core areas, assembled more than 490 gross (350 net) oil drilling locations, gained exposure to an internally estimated DPIIP[1] of more than 440 gross (360 net) million barrels of oil, tripled the size of our bank line, increased average daily trading liquidity, listed on the Toronto Stock Exchange, grown our market capitalization by more than a half billion dollars to more than $700 million and increased our analyst coverage from zero to 14 firms.

In 2011, Surge nearly doubled production since year-end 2010. The company grew from approximately 4,000 boe/d to nearly 8,000 boe/d at year-end 2011. Having achieved a 100 percent success rate drilling 38 gross (35.36 net) oil wells in 2011, Surge added approximately 5,000 boe/d of organic production through the drill bit. We expect sizeable production growth to continue in 2012 and beyond.

On a fully diluted basis, Surge achieved 96 percent funds from operations per share growth, 32 percent reserves per share growth and 25 percent production per share growth in 2011. The significant funds from operations growth was driven by Surge's 93 percent increase in oil production and 25 percent increase in operating netback in 2011. Surge is forecasting funds from operations growth of 87 percent per basic share in 2012.

One of the accomplishments that I am most proud of is Surge's capital efficiency. We believe that Surge has one of the strongest recycle ratios in our oil-weighted peer group. On a Proved plus Probable basis, we increased our reserves by 52 percent, achieved a reserves replacement ratio of 6.1 times and have a very reasonable reserve life index of just less than 12 years. The company's net asset value also increased by more than 20 percent in 2011 to $8.75 per basic share[2].

Acquiring underexploited oil assets has been a large part of our success to date and we continue to focus on new oil plays in Western Canada and select states of the US. When it comes to making strategic acquisitions, we have been very disciplined and deliberate in our approach. We look for oil plays with significant oil in place, low recovery factors to date, good vertical well control with large upside. We plan to more than double the value of any acquisition we make on a full-cycle basis.

Early in 2012, Surge made a notable acquisition in the Nipisi/Gift area in Western Alberta that added 1,200 bbls/d of high quality, high netback light oil production in its early stage of primary development. Based on the Slave Point pool's large oil in place, low recovery factor to date and our team's technical expertise in exploiting carbonate reservoirs, we believe we can grow production to more than 4,000 bbls/d of oil in this area in the coming years.

(1) "Discovered Resources" or "Discovered Petroleum Initially-In-Place" ("DPIIP"), are those quantities of petroleum estimated, as of a given date, to be contained in known accumulations prior to production. The recoverable portion of discovered petroleum initially-in-place includes production, reserves and contingent resources; the remainder is unrecoverable. "Contingent resources" are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters, or a lack of markets. It is also appropriate to classify as Contingent Resources the estimated discovered recoverable quantities associated with a project in the early evaluation stage. There is no certainty that it will be commercially viable to produce any portion of the Contingent Resources. A recovery project cannot be defined for this volume of DPIIP at this time, and as such it cannot be further sub-categorized.

(2) As at December 31, 2011 based on the NPV10 BT value of Surge's Proved plus Probable reserves, plus land value and less net debt.

Current Growth Initiatives

Surge is focused on drilling at our three core areas: Western Alberta, South East Alberta and in the Williston Basin (includes assets in Manitoba and North Dakota). We have more than 229 net unbooked[3] horizontal drilling locations to pursue which has the potential to add more than $460 million[4] of value (or almost $6 per fully diluted share) to Surge and to potentially add more than 25 mmbbls of light oil reserves. Total capital required to realize this value is approximately $440 million, which is less than three times our annualized exit cash flow for 2012.

Longer-Term Growth Initiatives

Surge's longer-term growth initiatives include; oil focused exploration and tight oil waterfloods.

In our core area of Western Alberta, we have cost effectively captured more than 131 sections of land at Goose River. We see four potential oil resource targets in the area and are in the early stages of evaluating and delineating these plays. Surge has drilled one exploratory vertical well and one exploratory horizontal multi-frac well to date. The horizontal well was drilled into the Nordegg Formation and we are currently evaluating results from this confidential well.

In addition to the potential upside from our exploration plays, we are very excited about the tight oil waterflood opportunities that exist in Alberta and in the Williston Basin.

Based on internally modeled full field development scenarios (not including Valhalla South), we can see the potential to increase the value of Surge by more than $250 million (or more than $3.20 per fully diluted share) and add more than 30 mmbbls of light oil reserves based on successful waterflood implementation. We plan on commencing water injection this year at Windfall and early next year at Nipisi/Gift (Slave Point) and Waskada (Spearfish). Piloting a waterflood project at Valhalla South (Doig) will be a longer-term initiative as our current focus is to down-space the property by continuing to drill infill horizontal multi-frac wells.

Based on our current net asset value, unbooked drilling inventory and unbooked waterflood upside, we have the potential to more than triple the company's oil reserves and double the net asset value of Surge going forward from approximately $9 to more than $18 per fully diluted share.

2012 Action Plan[5][6]

$166MM

Surge forecasts a 2012 exit production rate of 11,000 boe/d with oil and NGLs growing to 77% of total production. Annualized 2012 exit funds from operations is forecast at $166 million ($2.34 per share) and a debt to cash flow ratio of less than one times.

Corporate Governance

Surge's Board of Directors, with the management team, strives to ensure that the company's governance practices provide effective stewardship and efficient operations in the best interests of its shareholders.

The Board, which functions independently of management, meets frequently to consider a wide range of issues affecting Surge, including strategic direction, reserves, financial performance, disclosure and compensation. The Board reviews strategic plans proposed by management, business risks facing the company and management's assessment of those risks.

Outlook

In 2012, Surge will continue to grow organically by drilling in each of its core areas and continue to make accretive acquisitions that fit its business plan. 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.

As a result of our very successful strategic acquisitions and follow-up development drilling results, Surge is now forecasting a 2012 exit production rate of 11,000 boe/d with oil and NGLs growing to 77 percent of total production. Annualized 2012 exit funds from operations is forecast at $166 million[5] ($2.34 per share) and a debt to cash flow ratio[6] of less than one times. With a great start in the first quarter of 2012, Surge is on track to meet or exceed its 2012 production guidance.

Acknowledgements

I would like to extend a sincere thanks to the entire Surge team, who continue to work hard to implement the company's business strategy and who have contributed to the success of the company over the past two years. I also extend thanks to Surge's Board of Directors and Surge shareholders for their continued support.

Dan O'Neil
President & Chief Executive Officer

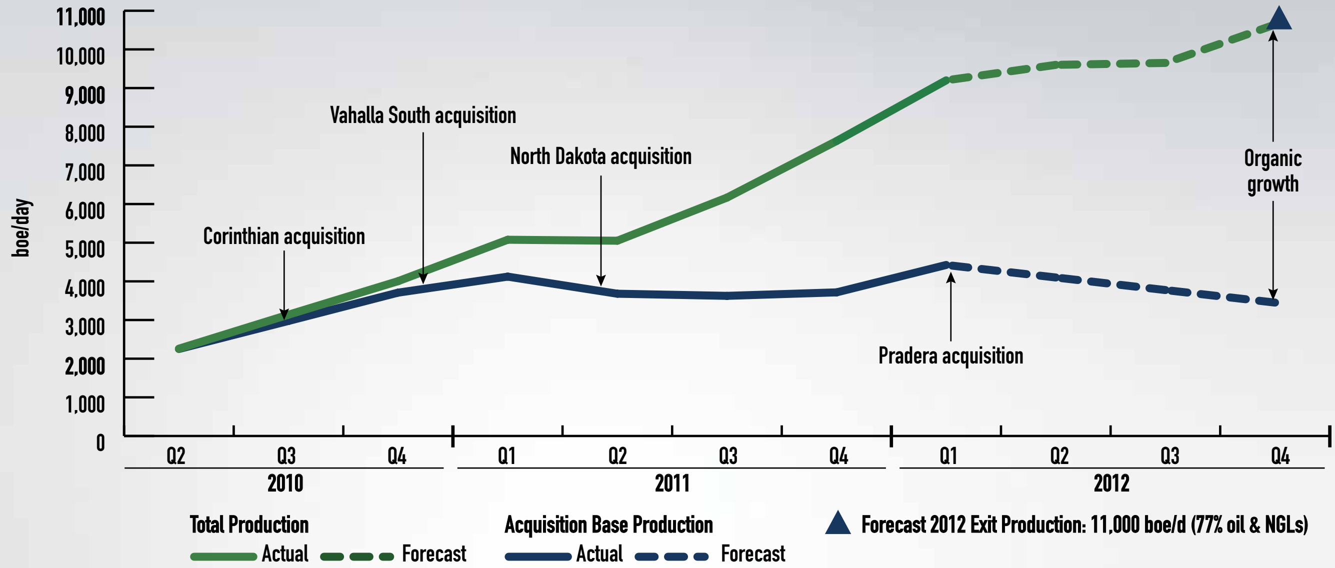
(3) Unbooked locations are as at March 1, 2012. "Unbooked" refers to internally identified drilling locations that are not included in the Sproule Associates Limited ("Sproule") independent assessment of the company's reserves dated effective December 31, 2011.

(4) Assumes all wells are drilled immediately and based on November 1st, 2011 strip pricing (Year 1: CDN$88.90/bbl Edm. Par/US$92.34/bbl WTI; CDN$3.56/GJ AECO/$US 4.16/mmbtu NYMEX; CDN$/US$ exchange rate of $1.001).

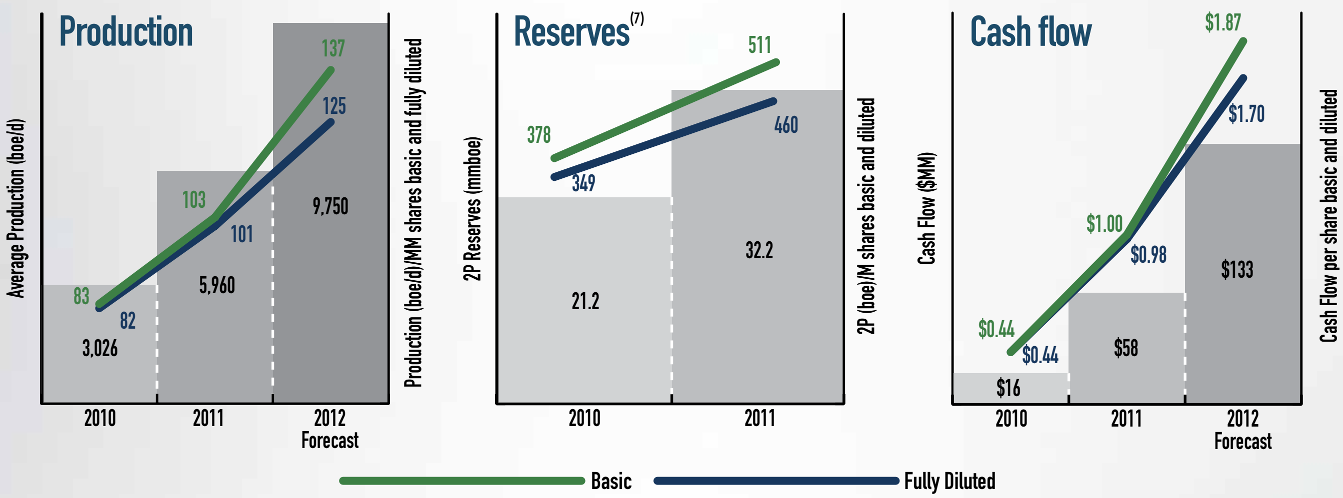
(5) Based on US$105.00/bbl WTI, $2.95/GJ AECO, US$/CDN$ exchange rate of $1.00.

(6) Based on a 2012 forecast year-end net debt of $144 million and forecast 2012 annualized exit funds from operations of $166 million.

Value Creation to Date



Growth per share



Leading capital efficiencies among oil-weighted peers

	$/boe	Recycle ratio[8]
2011 2P F&D including change in FDC	$ 14.02	2.7
2011 2P FD&A including change in FDC	$ 16.65	2.3

2011 Accomplishments[9]

- Increased 2P reserves by **52 percent**
- Increased 2P reserves per fully diluted share by **32 percent**
- Increased net asset value (NAV) by **37 percent**
- Increased NAV per basic share by **20 percent**
- Achieved reserve replacement ratio of **6.1**
- Achieved 2P reserve life index (RLI) of **11.7 years**[10]

(7) Based on Surge's total Proved plus Probable reserves as evaluated by Sproule as at December 31, 2010 and 2011.

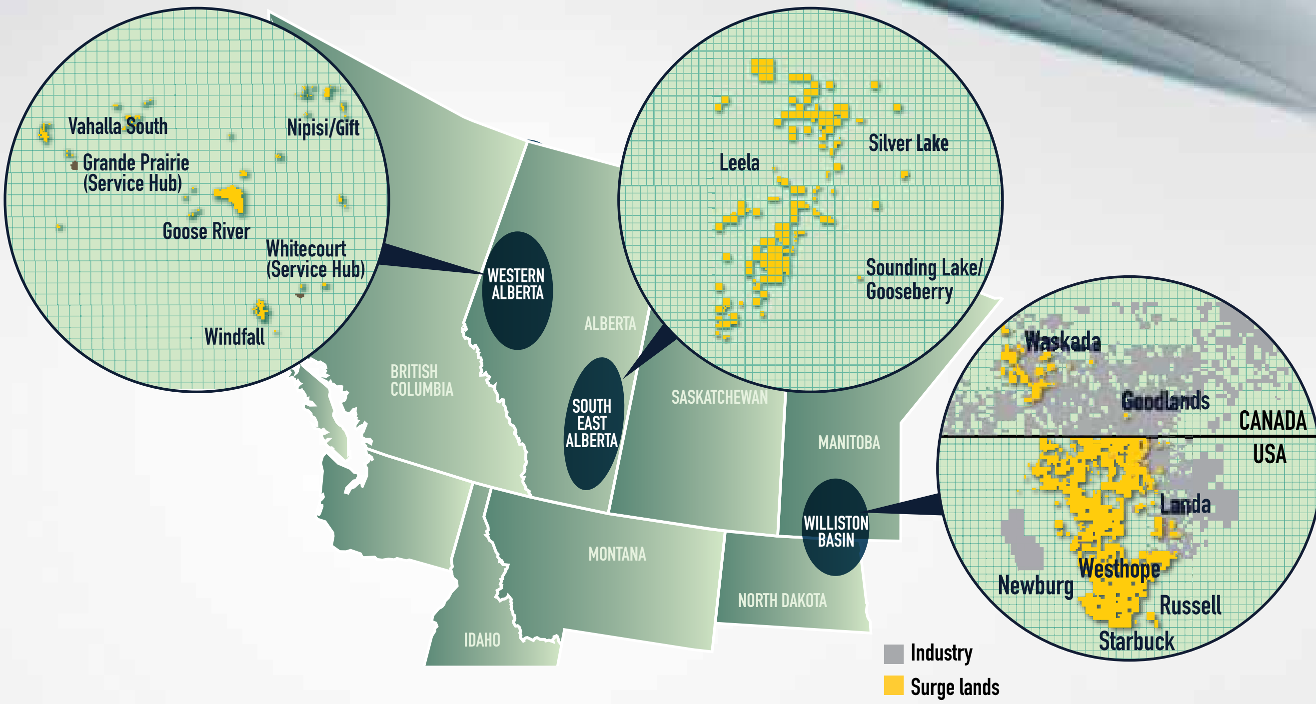
(8) Based on Q4 2011 netback of $38.55 boe.

(9) From December 31, 2010-2011.

(10) Based on Q4 2011 average production of approximately 7,500 boe/d.

Our Platform for Continued Growth and Value

High quality, low decline, light and medium oil



Western Alberta	South East Alberta	Williston Basin
70% reserves	**20%** reserves	**10%** reserves
50% 2012 capex	**20%** 2012 capex	**30%** 2012 capex
~260,000 acres net undeveloped land	**~138,000** acres net undeveloped land	**~98,000** acres net undeveloped land
>95 / 83 remaining oil drilling locations	**>60 / 60** remaining oil drilling locations	**>330 / 210** remaining oil drilling locations

Western Alberta

Highlights

- Combined total of 235 mmbbls gross (210 net) DPIIP with <3% of the oil recovered to date in three key operating properties at **Valhalla South, Nipisi/Gift and Windfall.**

2012 Initiatives

Valhalla South:
- Continue horizontal (Hz) multi-frac drilling program.

Nipisi/Gift:
- Commence Hz multi-frac well drilling program into the Slave Point and vertical well drilling program into the Gilwood.
- Complete waterflood design for 2013 implementation.

Windfall:
- Waterflood pilot program (Q2).

Goose River:
- Currently evaluating reservoir data from Surge's first exploratory Hz multi-frac well drilled into the Nordegg.

South East Alberta

Highlights

- Low decline, high rate of return assets that provide reliable cash flow (~$32 MM/year) at **Silver Lake and Sounding Lake/Gooseberry.**
- Multi-zone oil potential.
- 50% forecast production growth in 2012.
- Strong capital efficiencies.
- Positive response from expanded waterflood initiatives.

2012 Initiatives

Silver Lake and Sounding Lake/Gooseberry:
- Hz wells replacing vertical wells due to recent Hz well royalty incentive.
- Potential to exploit in tighter zones with fracs.
- Continue waterflood initiatives in two zones.

Williston Basin

Highlights

- 100% light oil.
- Combined total of 202 mmbbls gross (150 net) DPIIP with <1% of the oil recovered to date at **Waskada** and in **North Dakota.**
- Operating efficiencies resulting in cost reduction.

2012 Initiatives

Waskada:
- Continue Hz multi-frac drilling program.
- Working towards implementing waterflood pilot in 2013.

North Dakota:
- Commence Hz multi-frac drilling program (Q3).
- Ongoing exploration of undeveloped land.

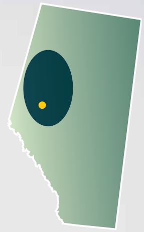
Surge's detailed corporate presentation and AGM details (planned for May 10th, 2012) are available on the company's website at www.surgeenergy.ca.

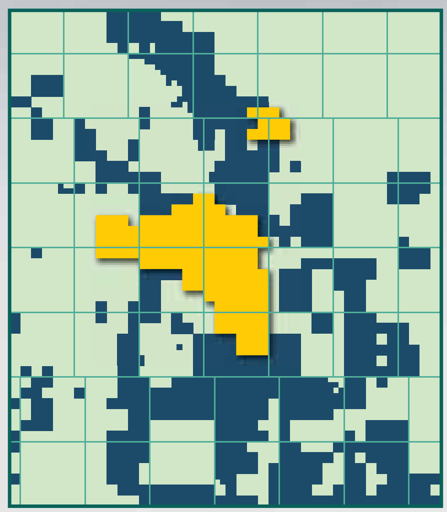
Longer-Term Growth Initiatives

Exploration and tight oil waterfloods

Exploration
Goose River project (Western Alberta)

Surge's exploration strategy is to maximize the size of the prize with the least amount of capital. Early entry has allowed Surge to cost effectively capture more than (131 gross) net sections of land in the Goose River area. We are currently in the early evaluation and delineation phases at four potential oil zones: Nordegg, Montney, Beaverhill Lake and Duvernay.





Tight oil waterflood

In addition to Surge's existing conventional waterfloods at Silver Lake and Sounding Lake/Gooseberry, Surge has four tight oil waterflood properties in its portfolio at: Valhalla South, Windfall, Nipisi/Gift and in the Williston Basin that expose the company to an additional 31 million barrels of light oil upside by implementing successful waterfloods.

Exposure to >360 mmbbls of DPIIP with <2% oil recovery to date

Core Areas:	Valhalla South	Windfall	Nipisi/Gift	Williston Basin
Formation	Doig	Bluesky	Slave Point	Spearfish
Net DPIIP (mmbbls)	99	57	56	150

Our Overall Investment Value: It All Adds Up

Leading capital efficiencies among oil-weighted peer group + Proven growth focused management team + Potential to more than triple oil reserves within cash flow

$14.02 per boe

2011 2P F&D (incl. change in FDC)

2.7(8)

recycle ratio

Three high-performing asset teams each capable of managing

10,000 boe/d

56 mmboe

of potential light oil upside from primary and secondary development

Potential to more than triple company oil reserves

>23	mmbbls	Current 2P oil & NGLs reserves(11)
>25	mmbbls	Unbooked light oil from drilling inventory
>31	mmbbls	Unbooked light oil from tight oil waterfloods

	$MM(12)	$/FD Share
NAV proforma the Pradera acquisition(13)	$704	$9.03
Estimated value of unbooked light oil drilling locations(14)	$464	$5.95
Estimated value of unbooked tight oil waterflood potential(15)	$250	$3.21
Total Potential Value	**$1,418**	**$18.19**

(11) Surge's total Proved plus Probable reserves as evaluated by Sproule as at December 31, 2011 and including Pradera's reserves, mechanically updated by Sproule to December 31, 2011 are 36.7 mmboe.

(12) NPV10 BT.

(13) December 31, 2011 proforma NAV including the Pradera acquisition.

(14) Utilizing November 1st, 2011 strip pricing (Year 1: CDN$88.90/bbl Edm. Par/US$92.34/bbl WTI; CDN$3.56/GJ AECO/$US 4.16/mmbtu NYMEX; CDN$/US$ exchange rate of $1.001) and assumes all wells are drilled immediately.

(15) Successful tight oil waterfloods at Windfall, Nipisi/Gift and Waskada could add more than $250 million of BT10NPV to Surge.

Corporate information

Executive

Dan O'Neil
President, Chief Executive Officer & Director

Dan Brown
Chief Operating Officer

Max Lof
Chief Financial Officer

Kevin Angus
Vice President Exploration

Malcolm Adams
Vice President Corporate Development

Margaret Elekes
Vice President Land

Tee Ong
Vice President Engineering

Directors

Paul Colborne, Chairman
President, StarValley Oil & Gas Ltd.

Peter Bannister
President, Destiny Energy Inc.

Rob Leach
President, International Fitness

Keith Macdonald
President, Bamako Investment Management

James Pasieka
Partner, Heenan Blaikie LLP

Murray Smith
Member, Energy Advisory Board, TD Securities

Colin Davies
Independent Director

Corporate Partners

Bankers
National Bank of Canada
Bank of Nova Scotia
Canadian Imperial Bank of Commerce
ATB Financial

Auditor
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Forward-looking statements

This document contains forward-looking statements. More particularly, this document contains statements concerning anticipated: (i) capital expenditures for 2012, (ii) exploration, development, drilling, construction and acquisition activities, (iii) average and exit oil & natural gas production during 2012, (iv) funds from operations, (v) debt, (vi) operating and transportation costs, (vii) reserves growth, (viii) net asset value growth, (ix) primary and secondary recovery potentials and implementation thereof, (x) the weighting of Surge Energy's production between oil and natural gas, (xi) regulatory applications and the expected success thereof, and (xii) realization of anticipated benefits 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 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 and the company's website at www.surgeenergy.ca.

The forward-looking statements contained in this document are made as of March 20, 2012 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.

Abbreviations

mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmcf	million cubic feet
mmcf/d	million cubic feet per day
bbls	barrels
mbbls	thousand barrels
mmbbls	million barrels
bbls/d	barrels per day
bcf	billion cubic feet
mboe	thousand barrels of oil equivalent
mmboe	million barrels of oil equivalent
boe/d	barrels of oil equivalent per day
F&D	finding and development cost
FD&A	finding, development and acquisition cost
FDC	future development capital
NGLs	natural gas liquids