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.