SURGE ENERGY INC

TSX:SGY

www.surgeenergy.ca

PRESIDENT'S LETTER

ACCOMPLISHMENTS TO DATE

Since inception, on April 13, 2010, Surge has assembled: three core areas located in Western Alberta, South East (SE) Alberta and the Williston Basin, greater than 485,000 net acres of undeveloped land, a drilling inventory of 585 gross (450 net) long-life, high quality oil locations and gained exposure to more than 685 million barrels of DPIIP [(1)] in multiple oil formations with less than one percent recovery to date.

Based on our 2013 guidance, we are forecasting growth in funds from operation per basic share of more than 235 percent since inception with a compound annual growth rate of 50 percent over that time. Additionally, we are forecasting growth in production per basic share of more than 70 percent with a compound annual growth rate of 20 percent over that same time period.

The success that Surge has achieved to date is a direct reflection of the leadership, vision, strength and talent of our entire team and their dedication to execute the company's business plan. We have continued to focus on acquiring and developing under exploited oil resource plays, optimizing oil recovery and identifying and capturing new oil resource plays. We remain committed to this business plan and to creating value for our shareholders now and into the future.

2012 ACHIEVEMENTS AND LESSONS LEARNED

Surge achieved significant production growth in 2012, through both acquisition and organic drilling. We closed a private company acquisition in January of 2012, which added 1,200 bbls/d of high netback light oil to the company's portfolio and achieved a 99 percent success rate drilling 62 gross (50.05 net) wells. Surge's average production grew by 49 percent to 8,873 boe/d (70 percent oil & NGLs) and the company's funds from operations increased by 60 percent to $92.2 million as compared to 2011. The operational efficiencies achieved during the year resulted in reductions in both operating costs per boe and general and administrative costs per boe in 2012 as compared to 2011. Going forward, Surge will continue to strive to be the lowest cost producer among its oil weighted peer group.

Surge also experienced significant reserves growth in 2012. Our Proved plus Probable reserves grew by 43 percent to 46.1 mmboe (69 percent oil & NGLs) and our oil and NGLs reserves increased by 66 percent to 31.9 mmbbls. The Proved plus Probable NPV10 BT also increased by 25 percent to $732 million and we achieved a corporate recycle ratio of 1.5 with F&D costs of $23.70. Surge has a very reasonable RLI of 14 years and a net asset value of $8.21 per basic share.

In addition to production and reserves growth, Surge was able to increase its oil drilling inventory to 585 gross (450 net) from 490 gross (350 net) and increase its internally estimated DPIIP to greater than 685 mmbbls from greater than 440 mmbbls from 2011 to 2012. The additional internally estimated DPIIP was successfully added through the execution of strategic farm-in deals and by acquiring land on trend to play types that we have been and are currently exploiting. Our teams were able to do this quietly and under the radar screen for a minimal amount of capital exposure.

2012 was a year of growth, but it was also a year of learning and de-risking our asset base. We drilled seven gross horizontal multi-frac wells at Valhalla, one of our highest impact light oil opportunities, and confirmed the extension of the pool to the north in early 2013. We also made significant progress in SE Alberta during the year by successfully drilling a mix of horizontal and horizontal multi-frac wells into new and existing oil zones and continued to optimize existing waterfloods. We also confirmed the commercial viability of multiple additional new oil zones in the area. In North Dakota, we drilled 20 gross horizontal multi-frac wells for a 100 percent success rate with better than expected production results. Prior to 2012, Surge has only drilled two gross horizontal multi-frac wells in North Dakota. As a result of the recent success, we believe our opportunity has expanded considerably in the area.

An area where we experienced substantial learning in 2012 was at Nipisi in Western Alberta. Surge acquired the Nipisi assets (which added 1,200 bbls/d of light oil production from the Slave Point and Gilwood Formations) in early January 2012 through an accretive acquisition of a private company. We drilled our first two horizontal multi-frac wells into this new play during the first quarter of 2012 and experienced some difficulties related to the completion technique in two of the wells. Modifications were made to the completion technique in the following Slave Point wells that were drilled, which mitigated the problems. However, the modification also resulted in a delay in getting production on stream and negatively impacted our third and fourth quarter production results. Based on having now optimized the completion technique at Nipisi and the positive multi-frac production performance of these wells, we are now confident with our type curve expectations in the Slave Point, which still provide robust economics on primary recovery. We continue to remain encouraged with the drilling results and continue to pick up land on trend. During the first quarter of 2013, the company drilled a successful well at Nipisi South, land that we acquired on trend in 2012, which confirmed the commercial viability of the internally estimated 30 mmbbls of DPIIP on these lands. We look forward to implementing a waterflood in the Slave Point in the second half of 2013, which we believe has the potential to recover at least 20 percent of the estimated 85 mmbbls of DPIIP in the main block based on offsetting analogous waterflooded pool success.

(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.

OUTLOOK

Surge remains well positioned with three core areas, an expanded oil drilling inventory of 585 gross (450 net) locations, internally estimated gross DPIIP of 685 million barrels of oil and multiple waterflood opportunities and exploration initiatives.

Our primary goal for 2013 is to meet or exceed our quarterly production targets. Additionally, we have corporate goals to improve operational performance and capital efficiencies, maintain balance sheet flexibility with an effective risk management program and confirm the commercial viability of our waterflood program. We are committed to creating long-term value for our shareholders. With Surge's 2013 budget, we are forecasting to achieve greater than 15 percent growth in average production per share and funds from operations per share while maintaining balance sheet flexibility. We will do this by allocating the majority of our drilling capital to Valhalla and SE Alberta, which yield the strongest capital efficiencies and rates of return in the portfolio, and by continuing to make strides in reducing operating costs and managing the corporate risk profile with our robust hedging program.

With Surge's 2013 budget, we are allocating a total of $9 million to implement various waterflood initiatives. We plan to pilot a waterflood at Waskada, initiate a waterflood program at Nipisi, optimize two existing waterflood schemes in SE Alberta and build new waterflood facilities in SE Alberta. In addition, we are currently piloting a waterflood at Windfall in Western Alberta and expect to see a positive response during the second quarter of 2013. The implementation of the waterflood pilots are an integral piece of Surge's strategy of increasing oil recovery factors throughout the company's oil portfolio, lowering corporate decline rates and maximizing shareholder value.

We are focused on growing our great assets cost effectively. We experienced a setback during the last half of 2012, but we are back on track and focused on executing our goals and restoring shareholder confidence in 2013. I am truly excited about the many opportunities we currently have in the company and believe that we are positioned for continued light oil growth in 2013 and beyond.

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 for the best interests of the 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.

ACKNOWLEDGEMENTS

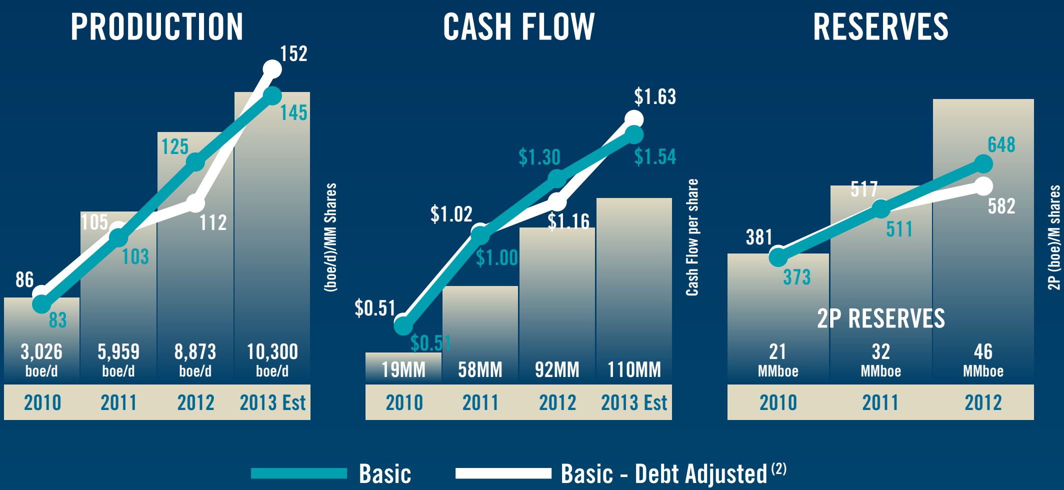
I would like to extend a sincere thanks to the entire Surge team, who continue to work hard to implement the company's business strategy and who have contributed to the success of the company over the past three years. I also extend thanks to Surge's Board of Directors and Surge shareholders for their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

DAN O'NEIL
President & Chief Executive Officer

VALUE CREATION TO DATE

GROWTH PER SHARE

Forecasting >15% growth in production/basic share and cash flow/basic share in 2013.



CORPORATE PROFILE

LISTING
TSX:SGY

MARKET CAPITALIZATION
> $230 million (3)

OIL DRILLING INVENTORY
> 585 gross (450 net)

NET UNDEVELOPED LAND
~ 485,000 acres

BASIC/FULLY DILUTED SHARES O/S
71.2/79.8 million (4)

BASIC/FULLY DILUTED INSIDER OWNERSHIP
3% / 11%

AVERAGE TRADING LIQUIDITY
$2-4 million (5)

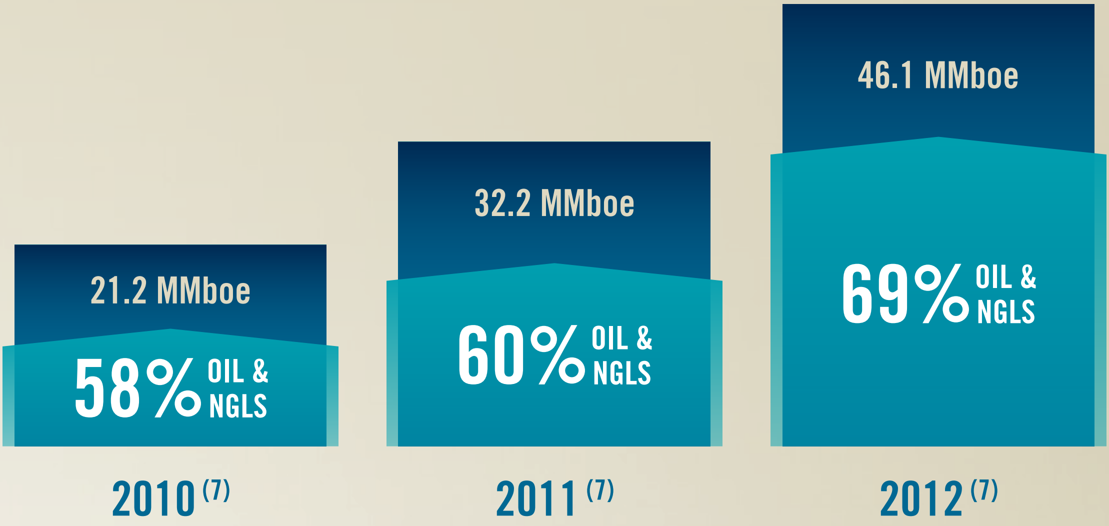
STRONG RISK MANAGEMENT PROGRAM
53% @ $93.43 floor (6)

ROBUST HEDGING PROGRAM

- 53% of 2013 net oil production hedged at $93.43 C$WTI
- 50% of 2013 net natural gas hedged at $3.40/mcf
- 33% of 2013 net oil and NGL production differentials hedged at an average discount to WTI of $7.84

(2) Debt adjusted calculation based on average annual share price.
(3) Based on Surge's past 30 day volume weighted average share price of $3.27 and basic shares outstanding as at March 18, 2013 of 71.2 million.
(4) Weighted average option exercise price of $7.51 and weighted average performance warrant exercise price of $5.17 as at March 22, 2013.
(5) Based on the past three month average daily trading volumes as at January 16, 2013.
(6) Surge has protected 53% of its forecast 2013 net oil and NGL production (after royalties) with an average WTI floor price of C$93.43 per barrel.

CONTINUED RESERVES GROWTH



2P: Proved + Probable	2012 $/boe	3 YEAR AVG. $/boe	2012 Recycle Ratio [8]	3 YEAR AVG. Recycle Ratio [9]
2P F&D INCLUDING ∆ IN FDC	23.70	18.56	1.5	1.8
2P FD&A INCLUDING ∆ IN FDC	23.32	21.16	1.5	1.6

FROM 2011 TO 2012

43% INCREASE IN 2P RESERVES

29% INCREASE IN 2P RESERVES PER FD SHARE

66% INCREASE IN 2P OIL AND NGLS RESERVES

25% INCREASE IN NPV10 BT OF 2P RESERVES

69% OF 2P RESERVES ARE OIL & NGLS

5.3[10] RESERVE REPLACEMENT RATIO

14[11] YEARS FOR 2P RLI

$8.21 ESTIMATED NAV PER BASIC SHARE

(7) Based on the Sproule Associates Limited (“Sproule”) independent assessment of Surge’s reserves dated effective December 31, 2010, December 31, 2011 and December 31, 2012.
(8) Using F&D costs of $23.70 per boe, including the change in FDC and based on Surge’s 2012 netback of $34.65/boe.
(9) Based on an estimated three year average fourth quarter netback of $34.27/boe.
(10) Based on the Company’s 2012 average production for the year of 8,873 boe/d.
(11) Based on Q4 2012 average production of 8,919 boe/d.

PLATFORM FOR CONTINUED OIL GROWTH

	WESTERN ALBERTA	SE ALBERTA	WILLISTON BASIN
PERCENT OF 2012 RESERVES	75%	18%	7%
PERCENT OF 2012 CAPEX	64%	26%	10%
NET UNDEVELOPED LAND (ACRES)	~260,000	~134,000	~91,000
REMAINING OIL DRILLING LOCATIONS	107 gross (98 net)	62 gross (61 net)	310 gross (198 net)

VALHALLA / WEMBLEY

DOIG LIGHT OIL

Tight Oil Waterflood Property

Net DPIIP - 140 mmbbls

OVERVIEW

- 8,640 gross (8,026 net) undeveloped acres with an average working interest of 93%
- Best month average production rates of 620 boe/d (76% oil & NGLs)
- Remaining Hz multi-frac well inventory of 31 gross (25.7 net) locations

2013 INITIATIVES

- Drill 8 gross (5.38 net) Hz multi-frac wells at Valhalla
- Drill 1 gross (0.44 net) Hz well at Wembley

CAPITAL EXPENDITURES

Capital Efficiency Per Flowing Barrel

WINDFALL

BLUESKY LIGHT OIL

Tight Oil Waterflood Property

Net DPIIP - 60 mmbbls

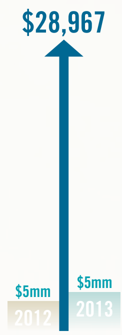
OVERVIEW

- 28,640 gross (28,024 net) undeveloped acres with a working interest of 98%
- Best month average production rate of >185 boe/d (69% oil and NGLs)
- Remaining Windfall Hz multi-frac well inventory of 38 gross (38 net) locations

2013 INITIATIVES

- 1 gross (1 net) Hz multi-frac well
- Convert one existing Hz multi-frac well into an injector upon waterflood response
- Commenced waterflood pilot project during Q3 2012 with response expected for Q2 2013

CAPITAL EXPENDITURES



Capital Efficiency Per Flowing Barrel

SILVER LAKE AREA

CRETACEOUS SANDS

Existing Conventional and Future Tight Oil Waterflood Properties

Net DPIIP - 160 mmbbls

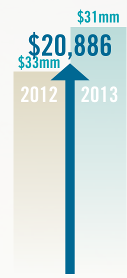
OVERVIEW

- 126,820 gross (121,377 net) acres of undeveloped land with an average working interest of 96%
- Best month average production rate of 110 boe/d (100% oil)
- Remaining Hz well inventory of 62 gross (60.5 net)

2013 INITIATIVES

- Drill 4 gross (4 net) Hz development wells, 1 gross (1 net) vertical well, 1 gross (1 net) water disposal/water source well and upgrade existing facilities at Provost
- Drill 4 gross (4 net) wells at Sounding Lake
- Drill an earning well (100% WI) at Sounding Lake East in Q1 2013
- Drill 1 gross (1 net) well at Long Coulee

CAPITAL EXPENDITURES



Capital Efficiency Per Flowing Barrel

OUTLOOK

POSITIONED FOR CONTINUED LIGHT OIL GROWTH

2013 GUIDANCE (12)

$140MM

Capital budget with a balanced focus between production growth (16% growth in average daily production per share) and unlocking additional value in its high quality, large DPIIP light oil assets.

11,500 boe

December Average Production

73%

December Average, Oil & NGL Weighting

$124MM

Annualized December Funds from Operations

$1.74

Annualized December Funds from Operation Per Basic Share

2.0 (13)

Debt to Cash Flow Ratio

INVESTMENT OPPORTUNITY

BALANCED APPROACH TO VALUE CREATION IN 2013

- Forecasting double digit average daily production growth/basic share and cash flow/basic share
- Focused on improving operational performance and capital efficiencies
- Proactively maintaining the company's balance sheet flexibility

SIGNIFICANT EXPOSURE TO LIGHT & MEDIUM OIL

- Oil & NGLs represent 69% of Surge's 2P reserves
- >585 gross (450 net) oil drilling locations - of which 60% are not booked
- Exposure to significant incremental oil recovery via successful waterflood implementation
- Captured >140 mmbbls of DPIIP in new plays since January 2012

CONTINUE TO GROW RESERVES AND DEMONSTRATE SOLID CAPITAL EFFICIENCIES

- Increased 2P reserves by 43%, 2P reserves/FD share by 29% and 2P oil and NGLs reserves by 66% as compared to 2011
- 2P NAV of $8.21/basic share, 1P NAV of $5.29/basic share and PDP NAV of $3.09/basic share (14)
- Achieved a corporate recycle rate of 1.5 times and a 2P RLI of 14 years
- Increased 2P reserves by 25 percent to $732 million (NPV10 BT)

NIPISI / GIFT

SLAVE POINT LIGHT OIL

Tight Oil Waterflood Property

Net DPIIP - 115 mmbbls

OVERVIEW

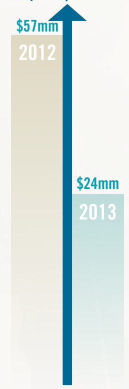
- Acquired assets in January 2012 through private company acquisition
- 18,240 gross (17,265 net) undeveloped acres with a working interest of 95%
- Best month average production of 175 boe/d (100% light oil)
- Remaining Slave Point Hz multi-frac well inventory of 29 gross (29 net) drilling locations
- Remaining Gilwood vertical well inventory of 9 gross (5.9 net)

2013 INITIATIVES

- 5 gross (4.73 net) Hz multi-frac wells
- Waterflood expected to commence Q2 2013

CAPITAL EXPENDITURES

$37,446



Capital Efficiency Per Flowing Barrel

WILLISTON BASIN

SPEARFISH LIGHT OIL

Tight Oil Waterflood Property

Net DPIIP - 108 mmbbls

OVERVIEW

- 8,689 gross (8,689 net) undeveloped acres in Waskada with an average working interest of 100%
- 85,292 gross (82,762 net) undeveloped acres in North Dakota with a working interest of 97%
- Best month average production rates for North Dakota and Waskada are 125 boe/d (100% light oil) and 100 boe/d (100% light oil)
- Remaining Hz multi-frac well inventory of 310 gross (197.6 net) drilling locations

2013 INITIATIVES

- 3 gross (1.26 net) Hz multi-frac wells in North Dakota
- 2 gross (2 net) vertical exploration wells planned in North Dakota to test Spearfish and Madison Formations
- High grade future Spearfish development areas in North Dakota
- Continue to participate in non-operated wells
- Phase 1 Hz waterflood at Waskada to begin early 2013

CAPITAL EXPENDITURES

$23,906

Capital Efficiency Per Flowing Barrel

(12) Based on US$90.00bbl WTI, Edm Par C$82.40 $3.00mcf AECO, US$/CDN$ exchange rate of $1.000.

(13) Based on a 2013 forecast year-end net debt of $250 million and a forecast 2013 December annualized funds from operations of $124 million.

(14) Calculated using net present value discounted at 10% before tax as at December 31, 2012 for Surge evaluated by Sproule using forecast pricing and costs.

CORPORATE INFORMATION

EXECUTIVE

Dan O'Neil
President, Chief Executive Officer & Director

Dan Brown
Chief Operating Officer

Max Lof
Chief Financial Officer

Margaret Elekes
Vice President Land

Tee Ong
Vice President Engineering

DIRECTORS

Paul Colborne, Chairman
President, Star Valley 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

Dan O'Neil
President, Chief Executive Officer & Director

CORPORATE PARTNERS

Bankers
National Bank of Canada
Bank of Nova Scotia
Canadian Imperial Bank of Commerce
ATB Financial
JPMorgan Chase Bank, N.A.

Auditor
KPMG LLP

Legal Counsel
Heenan Blaikie LLP

Evaluation Engineers
Sproule Associates

Registrar & Transfer Agent
Olympia Trust Company

Investor Contacts
Dan O'Neil, President & CEO
Max Lof, CFO

ANALYST COVERAGE

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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 & Development Cost
FD&A	Finding, Development & Acquisition Cost
FDC	Future Development Capital
NGLs	Natural Gas Liquids
NPV10 BT	Net Present Value discounted at 10 Percent Before Tax
PDP	Proved Developed Producing Reserves
1P	Proved Reserves
2P	Proved Plus Probable Reserves

FORWARD-LOOKING STATEMENTS

This Annual Update contains forward-looking statements. More particularly, it contains statements concerning Surge's potential number of drilling locations, forecast annual rates of per share growth in funds from operations and production, the potential recovery factor from waterflood at Surge's Slave Point property, planned exploration and development activities, planned waterflood projects and planned capital expenditures.

The forward-looking statements contained in this Annual Update are based on certain key expectations and assumptions made by Surge, including expectations and assumptions concerning the success of future drilling, development and exploration activities, the performance of existing wells, the performance of new wells, the successful application of drilling, completion and recovery technology and techniques, the successful application of waterfloods, the availability and cost of oilfield services, the availability of capital, prevailing commodity prices, weather and economic conditions and the retention of key employees. 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 natural 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), constraint in the availability of services, commodity price and exchange rate fluctuations, adverse weather conditions, uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures and the ability of Surge to retain key employees. 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 Annual Update 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.