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SURGE ENERGY INC. EXCEEDS 2014 EXIT RATE; ANNOUNCES CAPITAL PROGRAM FOR FIRST HALF OF 2015; REDUCES DIVIDEND

Surge Energy Inc. (“Surge” or “the Company”) announced today that, until such time as the Company receives tangible clarity with respect to world oil prices, Surge’s management and Board are adopting a very conservative capital spending program for the first half of 2015, which is designed to protect both the Company’s net asset value (“NAV”), and Surge’s balance sheet. This conservative capital expenditure program in the first half of 2015, however, will still allow the Company to deliver average daily production more than 27 percent higher than the first half of 2014, pay debt down aggressively, and pay Surge’s dividend.

Given the extreme volatility, significant downward pressure, and uncertainty relating to world crude oil prices, Surge’s management and Board have decided to project capital spending only until July 1, 2015, at which time Surge will reassess the current environment, and provide a capital spending program for the second half of 2015.

Surge’s management and Board assesses market conditions on a weekly and monthly basis with respect to protecting the Company’s balance sheet, weighing the efficacy of capital expenditures, and assessing the appropriate level of the Company’s dividend. In this regard, until such time as Surge’s management and Board see a sustainable recovery in world crude oil prices, Surge is immediately reducing the Company’s dividend from \$0.60 per share per year (\$0.05 per share per month) to \$0.30 per share per year (\$0.025 per share per month). Accordingly, the Company anticipates its January 2015 dividend, payable in February 2015, shall be \$0.025 per share.

Macro Outlook for 2015

In spite of fairly balanced supply/demand data, crude oil prices have dropped precipitously from US \$106 WTI per barrel in June of 2014, to below \$48 WTI per barrel in early January of 2015.

The US IEA estimates world oil demand at record highs in 2015, at more than 93.3 million barrels per day, which is up from 77 million barrels of world oil demand in 2001. On this basis, the IEA also estimates that world crude oil demand will grow by 900,000 barrels per day in 2015 over 2014. Furthermore, the largest user of crude in the world is the United States - at over 20 million barrels per day of demand - an economy which is now in an expansionary growth mode.

OPEC is producing at close to full capacity at over 30 million barrels of oil per day. Excess oil supply in the world has been repeatedly estimated to be as little as 1.5-2.0 million barrels per day. In addition, numerous analysts and commentators have projected that world oil demand will be as high as 111 million barrels per day by 2040. An additional factor for consideration is that there is significant geo-political risk present in a number of oil producing regions in the world.

Furthermore, at the November 2014 meeting, OPEC members chose not to pursue a cut to their production quotas. A number of analysts and commentators have taken the position that the US, at over 9 million barrels per day of production, is challenging OPEC (and Saudi Arabia) for the role as the “swing” producer in world oil markets.

Significant production growth rates from a number of US shale plays, including the Permian, Eagleford and Bakken plays have pushed US crude oil production to record levels. Wells drilled on these plays, however, are known to have high drilling costs and very high declines in the first several years of production. Many analysts and commentators have written that a large number of US shale plays do not generate economic rates of return below US \$75 WTI per barrel pricing.

With crude oil prices now dropping below US \$48 WTI per barrel, capital expenditures relating to drilling for crude oil reserves and production are being aggressively reduced world-wide – by virtually ALL producers.

Against the backdrop of this fairly balanced supply/demand situation, Saudi Arabia has also chosen to start reducing the price for its crude oil to Asian customers, driving world crude oil prices down further. Numerous OPEC members, however, have repeatedly stated that they need Brent pricing of \$100 per barrel or greater to fund their economies and social programs.

Historically, a number of analysts have noted that crude oil price declines of greater than 30 percent have an average length of six months from peak to bottom, and they result in a price decrease of 48 percent per barrel. This is the sixth drop in WTI crude oil prices of greater than 30 percent since 1997. In the present case, WTI crude oil prices peaked at \$106 per barrel in June of 2014.

Given the macro supply/demand picture discussed above, and the significant volatility, uncertainty, and downward pressure regarding world crude oil prices, Surge's management and Board have chosen a very conservative capital spending program for the first half of 2015.

This program will allow the Company to deliver average daily production more than 27 percent higher than the first half of 2014 (at US \$58 WTI per barrel pricing), pay down debt aggressively, and pay Surge's dividend.

On or before July 1st, 2015, Surge's management and Board will reassess the current environment and will provide a capital spending program for the second half of 2015. In addition, Surge's management and Board will continue to assess market conditions on a weekly and monthly basis with respect to protecting the Company's balance sheet, weighing the efficacy of capital expenditures, and assessing the appropriate level of the Company's dividend. In this regard, until such time as Surge's management and Board see a sustainable recovery in world crude oil prices, Surge is immediately reducing the Company's dividend from \$0.60 per share per year (\$0.05 per share per month) to \$0.30 per share per year (\$0.025 per share per month). Accordingly, the Company anticipates its January 2015 dividend, payable in February 2015, shall be \$0.025 per share.

2014 Fourth Quarter Operations – Excellent Drilling Results Continue

Today, as a high quality, growth and dividend paying light oil company, Surge has:

- Over 2 billion barrels of original oil in place (“OOIP”¹) under its ownership and management;
- Over 1,000 low risk, development drilling locations;
- A very low base production decline of 21.6 percent;
- Excellent drilling production efficiencies;
- High netbacks per boe which continue to be resilient at current prices;
- A balance sheet with significant unutilized credit availability on its bank lines;

¹ Original Oil in Place (OOIP) is the equivalent to Discovered Petroleum Initially In Place (DPIIP) for the purposes of this press release. 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 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

- An ongoing risk management program designed to protect cash flows (current mark to market for Surge's crude oil and natural gas hedges is over \$40 million);
- A very long reserve life of over 15 years; and
- A suite of excellent waterflood projects.

Based on better than anticipated development drilling results at Surge's core areas of Shaunavon, Midale, Central Alberta (Sparky), and NW Alberta, combined with two smaller core area top-up acquisitions, Surge has exceeded the Company's 2014 production exit rate target of 21,350 boepd (85 percent oil).

In the fourth quarter, Surge experienced some of the best drilling results in the Company's history, drilling 11.3 net wells with 100 percent success rate.

Upper Shaunavon –Development and Step Out Drilling Success

At Shaunavon in SW Saskatchewan, during the fourth quarter Surge successfully drilled and brought on production five net Upper Shaunavon oil wells. Four of the wells were development wells offsetting existing production established earlier in 2014. These wells all averaged over 200 bopd during their best initial 30 day production period. Excitingly for Surge shareholders, the fifth well was a step out well to evaluate the potential of another significant Upper Shaunavon trend identified by Surge. This well is currently producing at over 210 bopd. Surge is very pleased with this result and the additional Upper Shaunavon potential it confirms.

Pinto/Northgate- Midale Trend

In the Pinto/Northgate area of SE Saskatchewan, Surge successfully fraced two (100 percent WI) Midale wells during the fourth quarter. The best 30 day initial production from each of the wells averaged over 160 bopd. At Northgate, Surge also participated as to a 30 percent WI with a joint operator in another Midale well, which was fraced and brought on production in December.

Eyehill/Wainwright-Sparky Trend

At Eyehill, during the fourth quarter Surge successfully fraced and brought on production a Sparky step out well. The well initially produced at a high gas /oil ratio, and it was necessary to tie the well in to existing infrastructure in order to conserve the solution gas. The well is now producing and cleaning up the initial frac treatment load fluid.

The initial waterflood injection well at Eyehill, also commenced injection in the fourth quarter. Surge is encouraged with its injectivity and is monitoring the offset 200 m and 400 m producing wells for a waterflood response.

At Wainwright, during the fourth quarter Surge continued to evaluate and optimize the 16-23-004-05W4 Sparky horizontal oil well brought on production early in the quarter. The well is producing on type-curve at over 100 boepd.

Nipisi

At Nipisi, in Northwest Alberta, Surge successfully drilled, fraced and brought on production a horizontal, Slave Point oil well which directly offsets the most recently converted water flood injection well. Surge was very encouraged by the reservoir quality encountered during the drilling of the well and its initial formation pressure. The well was brought on production in mid- December and is currently recovering load fluid, and cleaning up. Surge is very encouraged by the inflow exhibited by the well.

Valhalla-Doig

At Valhalla in Northwest Alberta, Surge drilled and cased a Doig horizontal development well at 5-07-075-08W6. The well encountered 1,035 m of well developed, excellent Doig reservoir. The well is scheduled to be fraced immediately in 2015.

During the fourth quarter, Surge acquired a high quality, large OOIP, operated, low decline, producing, light oil property immediately north of its existing Valhalla Doig light oil pool. The acquisition also included a working interest in an existing, sweet, natural gas plant which is capable of processing associated gas volumes from the north end of Surge's Doig oil pool. This strategic acquisition results in increased solution gas production reliability, and reduced processing costs for Surge's Doig pool.

Manson-Bakken/Torquay

At Manson, during the fourth quarter Surge converted another horizontal Bakken well to water injection in section 12, with a response expected in the second quarter of 2015.

Surge Capex Program First Half of 2015

With a net asset value ("NAV") of \$8.25 per share (based on 2014 Sproule pricing) Surge will, in all likelihood, see a reduction in the Company's NAV per share based on a decline in Sproule's 2015 crude oil price forecast. The significant drop in the Canadian dollar, however, will provide a meaningful increase to Sproule's new 2015 crude oil price forecast in Canadian dollar terms. In addition, the Company has experienced excellent drilling reserve additions in 2014 at Shaunavon, Midale, East Central Alberta (Sparky), Valhalla, and Nipisi, together with excellent waterflood results at Nipisi, Manson, Wainwright and Silver.

On this basis, Surge anticipates that the Company's NAV for January 1, 2015 will be significantly above the current trading price of Surge's common shares. Consequently, in the present environment, Surge's management and Board view their primary responsibilities to be the protection of the Company's NAV, balance sheet and dividend.

As a result of Surge's excellent fourth quarter drilling results in 2014, discussed above; for the first half of 2015, Surge management is now projecting:

- Capital spending of \$22 million – including the drilling of 3.8 net wells;
- Average daily production of over 20,000 boepd, which is more than 27 percent higher than the first half of 2014;
- Debt reduction of \$33 million at US\$58 WTI per barrel pricing; and
- An all-in sustainability ratio of 65 percent at US\$58 WTI per barrel pricing. (85 percent all-in sustainability ratio at strip pricing).

Surge is in a strong position where approximately 35 percent of the Company's net crude oil production is locked in at over C\$100 per barrel until July of 2015. If crude oil prices continue to fall, Surge has the option to liquidate its crude oil and natural gas hedge positions and reduce debt; these hedge positions are now more than \$40 million in the money. Surge's ongoing strategic hedging program is designed to protect and lock in a significant portion of the Company's cash flow for capital expenditures and payment of the Company's dividend.

A large ancillary benefit of management's conservative first half capital program is that Surge's corporate decline drops to below 21 percent by July 1, 2015, which is one of the best in its peer group, and further strengthens the Company's position as a dividend paying company.

Outlook – Strategically Positioned For A Recovery in Oil Prices

The oil industry involves a 93 million barrel per day declining commodity – which is a global economic necessity.

As previously stated, the present market for crude oil is now reasonably balanced. OPEC is producing at close to full capacity, and the largest economy in the world, the United States, is in an expansionary growth mode. The recent precipitous drop in world crude oil prices is causing a significant world-wide reduction in capital spending for crude oil reserves and production. This will ensure a significant, and swift, supply response downward.

Surge's management team reacted quickly and proactively to falling world crude oil prices - reducing drilling capital spending in the fourth quarter of 2014 several weeks BEFORE the November 27, 2014 OPEC meeting.

Surge's high quality, asset and opportunity base are outperforming management's expectations. The Company's conventional low decline, high netback, large OOIP reservoirs deliver solid, stable cash flow well below US \$48 WTI per barrel.

The Company's top tier drilling production efficiency costs at Shaunavon, Midale, Valhalla, and Sparky are each less than \$19,000 per flowing boepd.

Surge has 1,000 low risk development drilling locations for light and medium gravity crude oil. Of these, however, over 425 net are high quality, type "A" (non-infill) locations. This provides significant low risk upside of over 35,000 bopd that Surge shareholders will realize over the coming months and years.

As discussed above, Surge's management and Board will continue to assess market conditions on a weekly and monthly basis with respect to protecting the Company's balance sheet, weighing the efficacy of capital expenditures, and assessing the appropriate level of the Company's dividend.

Corporate Governance

The Board of Directors of Surge ("Board") fully complies with the existing corporate governance guidelines for Canadian issuers and remains committed to further enhancing its corporate governance practices. As such Mr. Paul Colborne, President and CEO of Surge has stepped down as Chairman of the Board of Surge, and Mr. Jim Pasioka has assumed the role as Chairman of the Board.

In addition, Mr. Murray Smith has replaced Mr. Pasioka as Chairman of the Compensation Committee, and Mr. Daryl Gilbert has joined the Compensation Committee. Mr. Pasioka has resigned from the Compensation Committee.

The Board also announced today that Mr. Rob Leach has become Lead Director in a situation where Mr. Pasioka is conflicted. All of these corporate governance enhancements will be implemented immediately.

FORWARD LOOKING STATEMENTS:

This press release contains forward-looking statements. More particularly, this press release contains statements concerning Surge's expectations regarding its average daily production; the impact of the commodity pricing; its balance sheet, ability to reduce debt; bank line availability; its capital spending program for 2015 and ability to be flexible in its capital budgeting over the course of 2015; forecast decline rates; reserve life; drilling inventory; drilling and development plans and enhanced recovery projects and the timing and results to be expected thereof; net-asset-value and net-asset-value/share; netbacks; the Company's declared focus and primary goals;; anticipated services cost savings and other cost reduction initiatives; the ability of the Company to weather the present commodity price environment; the Company's ability to liquidate hedge positions; the reduction in the Company's dividend to \$0.30 per share per year; and the timing, amount and sustainability of future dividend payments.

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, prevailing commodity prices and economic conditions, worldwide supply and demand for oil and natural gas; development and completion activities, the performance of new wells, the successful implementation of waterflood programs, the availability of and performance of facilities and pipelines, the geological characteristics of Surge's properties, the successful application of drilling, completion and seismic technology, prevailing weather conditions, exchange rates, licensing requirements, the successful completion of the disposition transactions, the impact of completed facilities on operating costs and the availability, costs of capital, labour and services, the creditworthiness of industry partners and the approval of the lenders under Surge's bank line.

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 constraint in the availability of services, adverse weather or break-up conditions, uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures or failure to obtain required approvals from the lenders under Surge's bank line to increases thereto. Certain of these risks are set out in more detail in Surge's Annual Information Form dated March 19, 2014 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.

Test Results and Initial Production Rates

Any references in this news release to initial, early and/or test production/performance rates are useful in confirming the presence of hydrocarbons, however, such rates are not determinative of the rates at which such wells will continue production and decline thereafter. While encouraging, readers are cautioned not to place reliance on such rates in calculating aggregate production. The initial production rate may be estimated based on other third party estimates or limited data available at this time. Initial production or test rates are not necessarily indicative of long-term performance of the relevant well or fields or of ultimate recovery of hydrocarbons.

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