

SURGE ENERGY INC.

Waterflood Progress Report for 2011

Waskada Unit No. 15

Prepared by:

Daryl Slaney

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Background

The Waskada Unit No. 15 pressure maintenance project commenced water injection into the Lower Amaranth A Pool in accordance with Manitoba Energy and Mines Order No. PM 54 dated January 29, 1987. This order was then rescinded and replaced by PM 58 dated February 2, 1988.

Last year a waterflood progress report was submitted for March 1987 to December 2010. It was noted that no previous pressure maintenance reports for Waskada Unit No. 15 have been found in any files that Surge Energy received when acquiring working interest ownership and Unit Operator status in 2010.

The purpose of this document is to update and summarize Waskada Unit 15 activity for 2011 and lay out our proposed future development plans for 2012 and 2013.

Waskada Unit No. 15

Original Producers:

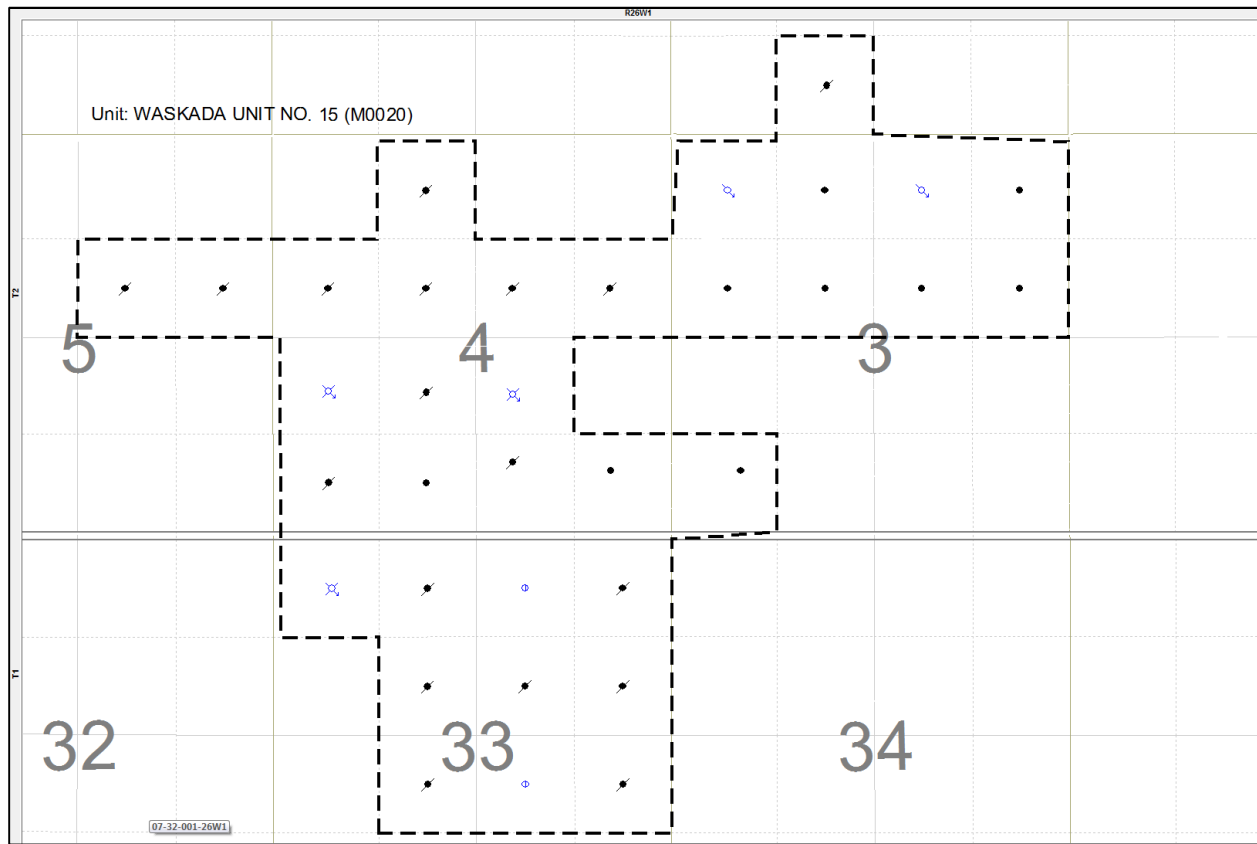


Figure 1: 34 Original Producers - 7 Converted to Injectors

Table 1: 34 Original Producers

34 Original Producers		
Sec 03, 05, and 10	Sec 04	Sec 33
100/04-03-002-26W1/02	100/01-04-002-26W1/00	100/06-33-001-26W1/00
100/09-03-002-26W1/00	100/02-04-002-26W1/00	100/07-33-001-26W1/00
100/10-03-002-26W1/00	100/03-04-002-26W1/00	100/08-33-001-26W1/00
100/11-03-002-26W1/00	100/04-04-002-26W1/00	100/09-33-001-26W1/00
100/12-03-002-26W1/00	100/05-04-002-26W1/00	100/10-33-001-26W1/00
100/13-03-002-26W1/00	102/06-04-002-26W1/00	100/11-33-001-26W1/00
100/14-03-002-26W1/00	100/07-04-002-26W1/00	100/13-33-001-26W1/02
100/15-03-002-26W1/00	100/09-04-002-26W1/00	100/14-33-001-26W1/00
100/16-03-002-26W1/00	100/10-04-002-26W1/00	100/15-33-001-26W1/00
100/09-05-002-26W1/00	100/11-04-002-26W1/00	100/16-33-001-26W1/00
100/10-05-002-26W1/00	100/12-04-002-26W1/00	
100/03-10-002-26W1/00	100/14-04-002-26W1/00	

Table 2: 7 of 34 Converted to Injectors

7 Converted to Injectors
100/07-33-001-26W1/00
100/13-33-001-26W1/02
100/15-33-001-26W1/00
100/13-03-002-26W1/00
100/15-03-002-26W1/00
100/05-04-002-26W1/00
100/07-04-002-26W1/00

Prior to Surge's acquisition and activity in Waskada during 2010, Unit No. 15 consisted of 34 producers, 7 of which were converted to injection wells with a nine spot injection pattern (Figure 1). Water injection commenced March 1987 and continued through to February 1998 when injection was halted. Scattered injection continued through 2000 to 2002, and then again from 2005 until 2010 when all unit injectors and producing wells were shut in.

2010 Activity:

Three horizontal wells were drilled Q4 2010, and came on production in December 2010 (Figure 2).

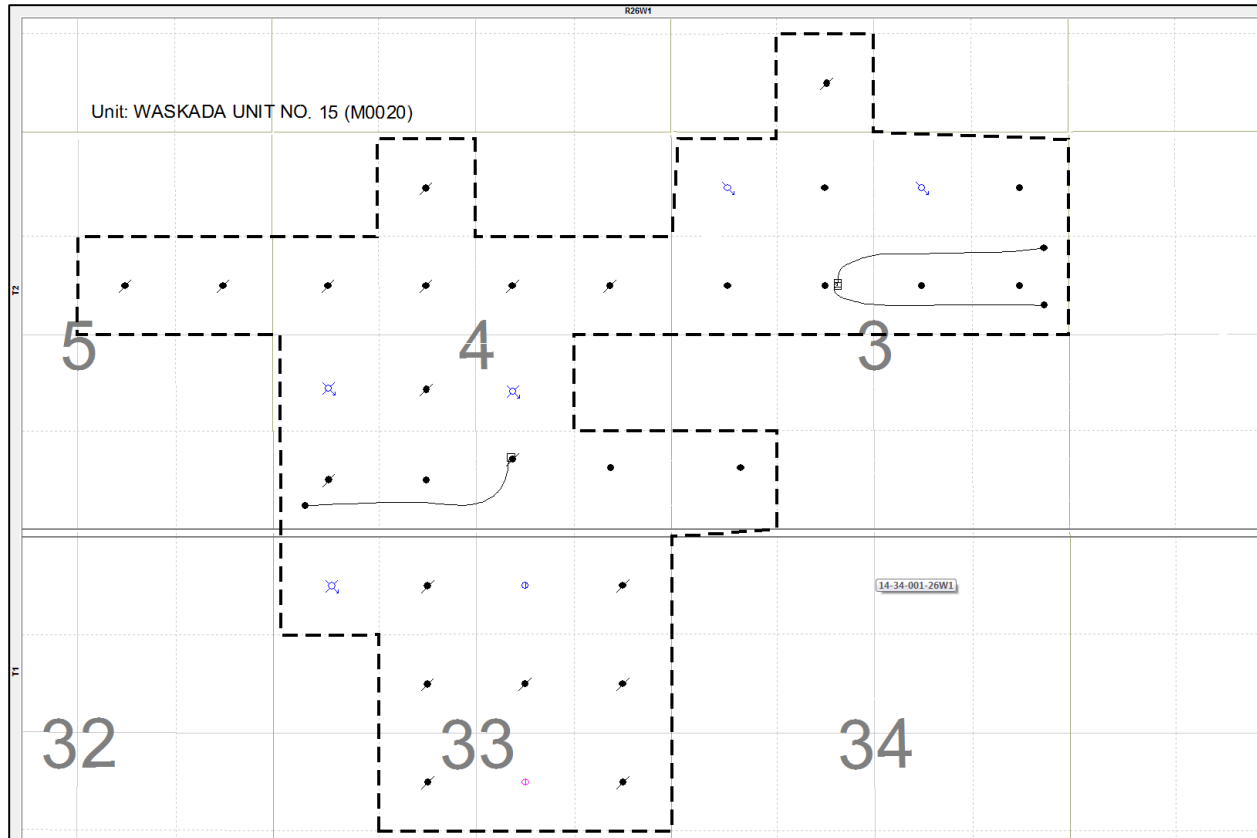


Figure 2: 3 Hz (2010 On Prod)

Table 3: 3 Hz (2010 On Prod)

3 Hz (2010 On Prod)
102/09-03-002-26W1/00
103/09-03-002-26W1/00
102/04-04-002-26W1/00

2011 Activity:

Nine more horizontal wells were drilled and came on production in 2011. Figure 3 shows the three horizontal wells from 2010 with the nine horizontal wells from 2011.

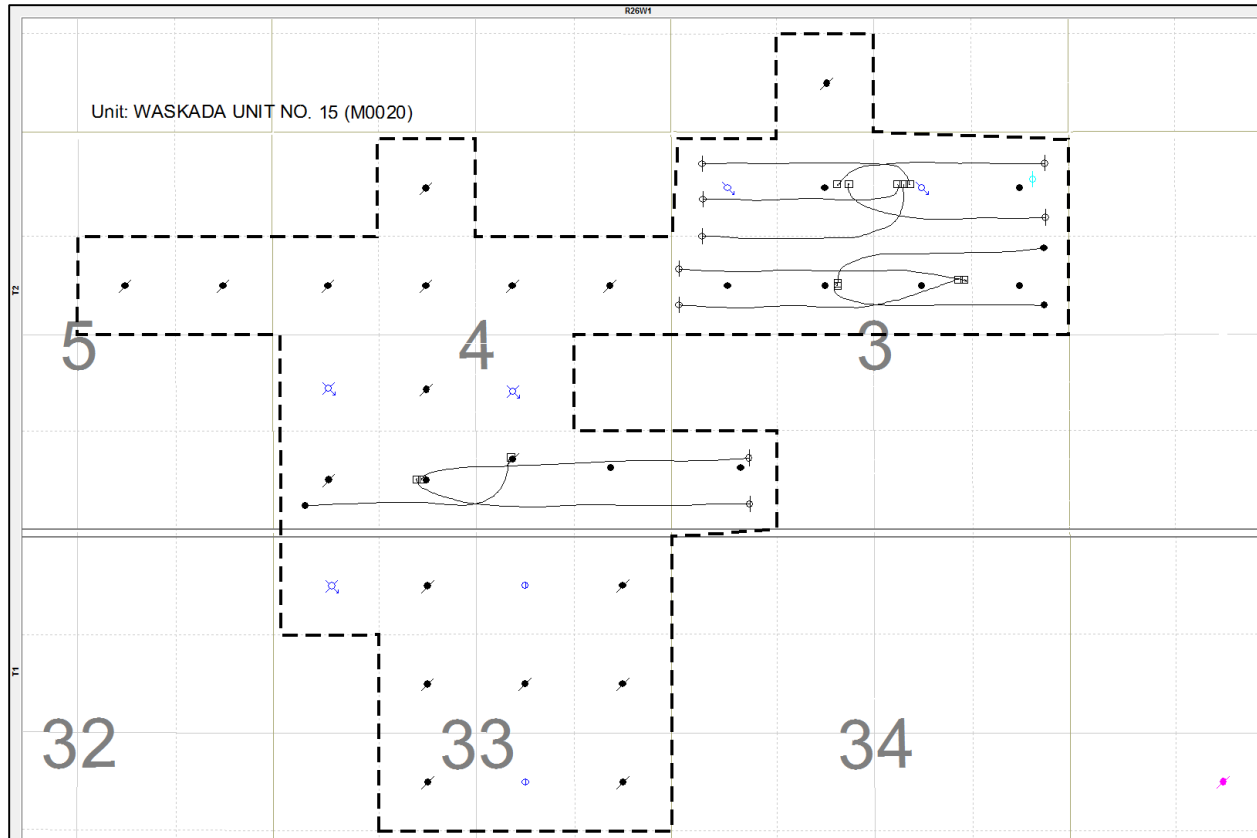


Figure 3: 9 Hz (2011 On Prod) and 1 Vert Disposal

The two horizontal wells in 16-03 came on production Q3 of 2011, and the other 7 horizontal wells came on production through Q4 of 2011. The planned battery facility at 16-03-002-26W1 received approval and was commissioned Q4 2011.

Table 4: 2011 Activity

2011 Activity	
9 Hz (2011 On Prod)	1 Vert Disposal
102/04-03-002-26W1/00	105/16-03-002-26W1/00
103/04-03-002-26W1/00	
102/12-03-002-26W1/00	
103/12-03-002-26W1/00	
104/12-03-002-26W1/00	
102/13-03-002-26W1/00	
103/13-03-002-26W1/00	
102/16-03-002-26W1/00	
103/16-03-002-26W1/00	

2012 Activity:

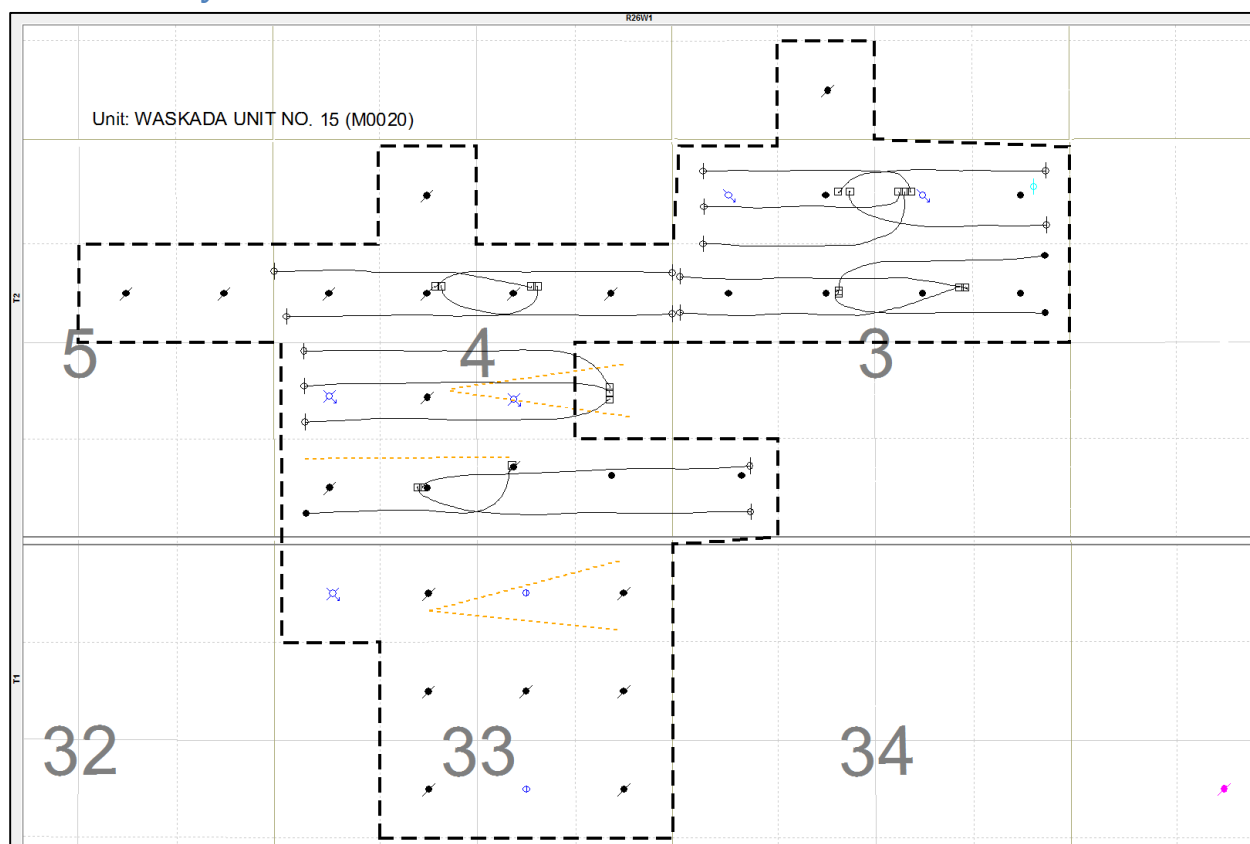


Figure 4: 7 Hz (2012 On Prod) 5 2012 Hz Remaining

Figure 4 shows the same wells as figure 3 with the addition of the 7 horizontal wells (in black) that have already come on production in Q1 of 2012 (Table 5). Four of these wells were rig released in Q4 of 2011 – the two wells in 09-04 and the two wells in 12-04. Current average pool production is approximately 550 bbls/d of oil and 850 bbls/d of water. Further horizontal drilling is planned for 2012. These wells are shown by the orange dashed lines in Figure 4.

Table 5: 2012 Activity

2012 Activity	
7 Hz (2012 On Prod)	5 Remaining 2012 Hz
102/05-04-002-26W1/00	102/16-33-001-26W1/00
103/05-04-002-26W1/00	103/16-33-001-26W1/00
104/05-04-002-26W1/00	102/08-04-002-26W1/00
102/09-04-002-26W1/00	103/08-04-002-26W1/00
103/09-04-002-26W1/00	103/04-04-002-26W1/00
102/12-04-002-26W1/00	
103/12-04-002-26W1/00	

Surge has obtained pressures in the Lower Amaranth A Pool from wells: 105/16-03-002-002-26W1, 103/09-04-002-26W1 and 103/12-04-002-26W1 that range between 8,300 to 10,300 kPa. These pressures are at or near the original pool pressure of 8,650 kPa and well above the estimated bubble point pressure of 4,200 kPa. Surge believes these higher pressures may be due to regional aquifer expansion combined with the lower permeability and limited drainage of the pool itself.

Planned 2013 Activity:

Surge plans to restart the injection of water into the Lower Amaranth A Pool through a small scale pilot or test using existing horizontal well(s). This horizontal injection pilot or test is planned for section 3, with the preliminary design of converting the producing 103/13-03-002-26W1/00 horizontal well to water injection. Surge is continuing with some analytical reservoir work and more detailed modeling to support this initial pilot and the economics for pool wide horizontal water injection. Surge's current plans are to commence the horizontal water injection pilot in the first part of 2013.

This preliminary horizontal water injection plan is outlined in pink on figure 5, along with additional producing horizontal well conversions in section 3.

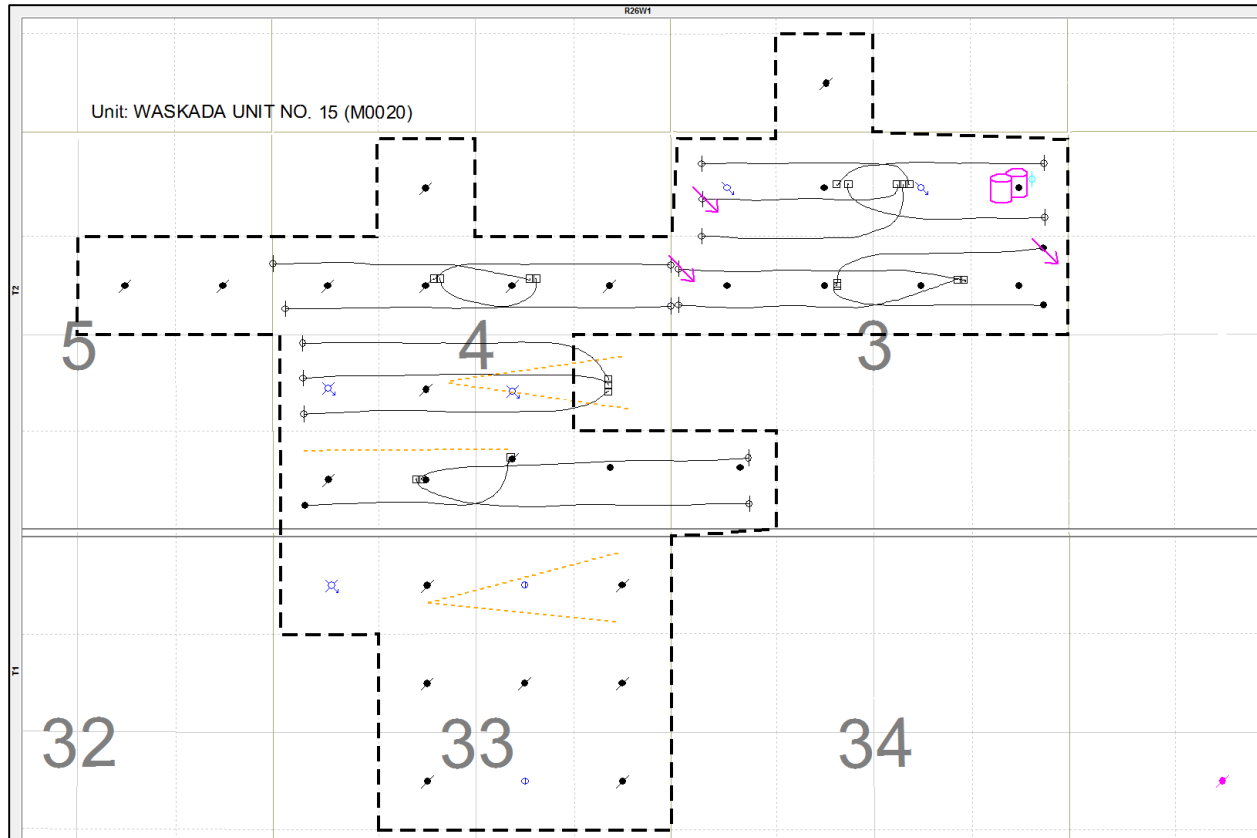


Figure 5: Planned 2013 Activity

Table 6: Planned 2013 Activity

2013 Activity	
3 Inj Conv	1 Bty Upgrade
103/13-03-002-26W1/00	16-03-002-26W1
102/12-03-002-26W1/00	
102/09-03-002-26W1/00	

Production

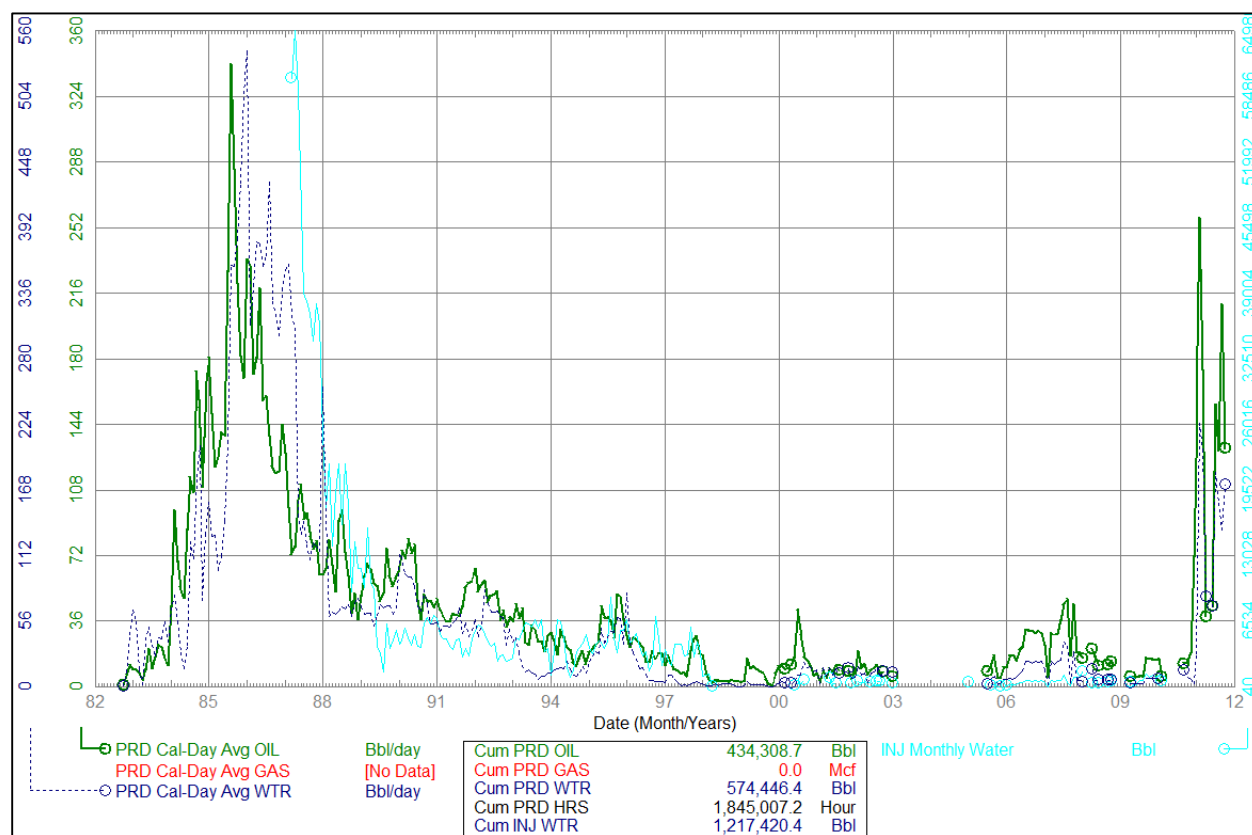


Figure 6: Waskada Unit 15 Production from October 1982 to October 2011

Figure 6 above shows Unit 15's group production, and table 7 below zooms in on the public production for 2011 only.

Table 7: Waskada Unit 15 Production from January 2011 to October 2011

Report Month	PRD Cal-Day Avg OIL (Bbl/day)	PRD Cal-Day Avg GAS (Mcf/day)	PRD Cal-Day Avg WTR (Bbl/day)	INJ Monthly Water (Bbl)
01-2011	152.27	0.00	27.76	0.00
02-2011	256.82	0.00	225.10	0.00
03-2011	173.83	0.00	202.28	0.00
04-2011	38.39	0.00	76.55	0.00
05-2011	0.00	0.00	0.00	0.00
06-2011	44.03	0.00	68.48	0.00
07-2011	154.85	0.00	182.88	0.00
08-2011	129.69	0.00	156.60	0.00
09-2011	209.38	0.00	134.02	0.00
10-2011	130.75	0.00	172.59	0.00
2011	106.65	0.00	103.23	0.00

Conclusions

From 2010 until the end of 2011, twelve (12) horizontal producers have been drilled in Waskada Unit 15, and a new unit battery has been built at 16-03-002-26W1. Twelve (12) more horizontal wells are planned to be producing by the end of 2012, seven (7) of which have already been drilled to date. In an effort to better support these new horizontal producing wells, Surge is planning to pilot or test the effectiveness of horizontal water injection in Waskada Unit 15 commencing in the first part of 2013.