

## Strategic Oil & Gas Ltd. Announces Annual and Fourth Quarter 2015 Financial and Operating Results

CALGARY, ALBERTA--(Marketwired - Apr 1, 2016) - Strategic Oil & Gas Ltd. ("Strategic" or the "Company") (TSX VENTURE:SOG) reports financial and operating results for the year and three months ended December 31, 2015. Detailed results are presented in Strategic's annual consolidated financial statements and related Management's Discussion and Analysis ("MD&A") which will be available through the Company's website at [www.sogoil.com](http://www.sogoil.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

### FINANCIAL AND OPERATIONAL SUMMARY

	Three Months Ended December 31			Year Ended December 31		
	2015	2014	% change	2015	2014	% change
<b>Financial (\$thousands, except per share amounts)</b>						
Oil and natural gas sales	7,349	18,790	(61)	36,496	82,466	(56)
Funds from operations <sup>(1)</sup>	1,268	4,974	(75)	7,285	12,270	(41)
Per share basic & diluted	0.00	0.01	(100)	0.01	0.03	(67)
Cash flow from operating activities	(275)	8,134	(103)	1,808	13,396	(87)
Per share basic & diluted	0.00	0.02	(100)	0.00	0.04	(100)
Net loss	(31,790)	(117,321)	(73)	(110,115)	(129,490)	(15)
Per share basic & diluted	(0.06)	(0.22)	(73)	(0.20)	(0.34)	(41)
Capital expenditures (excluding acquisitions)	2,267	24,456	(91)	11,742	101,319	(88)
Bank debt	42,857	29,016	48	42,857	29,016	48
Net debt	54,024	48,399	12	54,025	48,399	12
<b>Operating</b>						
Average daily production						
Oil and NGL (bbl per day)	1,680	2,694	(38)	1,897	2,343	(19)
Natural gas (mcf per day)	3,085	7,382	(58)	3,674	6,715	(45)
Barrels of oil equivalent (boe per day)	2,194	3,925	(44)	2,509	3,462	(28)
Average prices						
Oil & NGL, before risk management (\$ per bbl)	42.65	65.67	(35)	47.07	83.56	(44)
Oil & NGL, including risk management (\$ per bbl)	50.46	70.49	(28)	54.92	76.66	(28)
Natural gas (\$ per mcf)	2.66	3.70	(28)	2.91	4.49	(35)
Natural gas, including risk management (\$ per mcf)	2.67	3.76	(29)	2.92	4.32	(32)
Netback (\$ per boe)						
Petroleum and natural gas sales	36.41	52.04	(30)	39.85	65.26	(39)
Royalties	(5.00)	(9.19)	(46)	(4.59)	(13.80)	(67)
Operating costs	(17.41)	(22.83)	(24)	(21.58)	(25.73)	(16)
Transportation costs	(0.75)	(1.55)	(52)	(1.05)	(2.50)	(58)
Operating Netback (\$ per boe) <sup>(1)</sup>	13.25	18.47	(28)	12.63	23.23	(46)
<b>Common Shares (thousands)</b>						
Common shares outstanding, end of period	542,319	542,319	-	542,319	542,319	-
Weighted average common shares						

(basic)	<b>542,319</b>	539,483	1	<b>542,319</b>	381,240	42
Weighted average common shares						
(diluted)	<b>542,319</b>	539,483	1	<b>542,319</b>	381,240	42

(1) Funds from operations, net debt and operating netback are non-IFRS measurements; see "Non-IFRS Measurements" in the Company's MD&A.

#### FOURTH QUARTER SUMMARY

- The Company's focus on cost reduction resulted in a 24% decrease in unit operating expenses to \$17.41/boe in the current quarter from \$22.83/boe for the fourth quarter of 2014. Transportation costs for the three months ended December 31, 2015 decreased 52% from the comparative quarter in 2014 to \$0.75/boe. Operating costs at Marlowe, the Company's primary operating area, dropped to \$13.71/boe for the current quarter from \$15.10/boe for the three months ended December 31, 2014 despite lower production levels.
- Average daily production decreased 44% from 3,925 boe/d for the three months ended December 31, 2014 to 2,194 boe/d for the current quarter, primarily due a lack of drilling and recompletion activities in 2015 as a result of the Company's focus on conserving capital. The shut-in of 700 Boe/d of uneconomic gas-weighted production at Bistcho/Cameron Hills in February 2015 further contributed to the lower production volumes. Production increased 4% from 2,113 boe/d for the third quarter of 2015 due to the effect of several workovers and pump upgrades during the current period.
- Funds from operations decreased to \$1.3 million from \$5.0 million for the comparable quarter in 2014, due to lower production levels and lower realized oil prices, partially offset by reduced royalties, lower general and administrative expenses and a 57% reduction in operating costs. The operating netback decreased to \$13.25/boe from \$18.47/boe for the fourth quarter of 2014 due to a 35% reduction in realized oil prices, partially offset by lower royalties and operating costs. Funds from operations increased 13% from \$1.1 million for the third quarter of 2015 primarily due to a decrease of \$4.55/boe in operating costs.
- Capital expenditures of \$2.3 million for the current quarter included road construction and initial drilling costs for the Company's four well winter 2016 drilling program, as well as certain recompletion projects. The first horizontal Muskeg well in the program was spud on December 30, 2015.

#### ANNUAL SUMMARY

- Production decreased by 28% from 3,462 boed in 2014 to an average of 2,509 boed in 2015 due to a lack of drilling activity and the shut-in of volumes at Bistcho/Cameron Hills during the year.
- Funds from operations decreased 41% from \$12.3 million in 2014 to \$7.3 million in 2015 as lower revenues due to lower oil prices and production levels were partially offset by reduced royalties, lower transportation costs, a 39% decrease in operating costs and a realized gain on risk management contracts.
- Capital expenditures decreased 88% to \$11.7 million for the twelve months ended December 31, 2015 from \$101.3 million for 2014 as the Company responded to decline in oil prices by reducing spending in all areas and conserving capital. Approximately 97% of 2015 capital spending was directed to the Company's light oil asset at Marlowe. Drilling, completions and equipping expenditures decreased 85% to \$10.6 million for the current year from \$68.5 million for 2014 as the number of wells drilled decreased from 14 in 2014 to 1 in the current year. Pipeline and facility expenditures decreased 98% from \$29.9 million in 2014 to \$0.7 million for the current year as the construction of the major sales oil pipeline and the 9-17 facility expansion were completed in 2014.
- Despite limited capital spending during the year, proved and probable oil and gas reserves declined by only 9% or 1.2 MMboe from the previous year to 12.7 MMboe at December 31, 2015, as determined by the Company's independent reserve evaluators McDaniel and Associates Consultants Ltd. ("McDaniel"). The decrease is primarily due to production during the year of 0.9 MMboe and economic factors of 0.5 MMboe related to non-core assets.
- The net loss was \$110.1 million (\$0.20 per basic and diluted share) for 2015, primarily as a result of an impairment charge of \$87.7 million driven by the significant decline in current and forward oil prices during the year.

#### PERFORMANCE OVERVIEW AND OUTLOOK

2015 has been a challenging year in the oil and gas industry, with WTI crude oil prices down over 47% from 2014 levels. Strategic has responded to this challenge by focusing on cost efficiencies in all areas of the Company's business, reducing operating and general and administrative costs by 39% and 10%, respectively from 2014 levels. Despite lower oil prices, Strategic continued to generate a competitive netback at Marlowe of \$18.06/boe, a decrease of 44% from \$32.07/boe in 2014.

In addition to achieving these cost reductions, the Company implemented the following initiatives early in 2015:

- Curtailed its Muskeg drilling program, drilling only one well in 2015. Actual capital expenditures for the first half of 2015 measured \$8.1 million compared to an original budget of \$52 million;
- Shut in 700 boe/d of uneconomic production at Bistcho/Cameron Hills, eliminated all non-essential maintenance programs and implemented cost efficiencies at its core Marlowe field;
- Reduced its office and field staff by approximately 35% in January 2015. Staff reductions were primarily related to the suspension of operations, realignment of the management team structure and the reduction in budgeted capital spending in 2015 following restrictions in capital funding.

Although these decisions were difficult and negatively impacted corporate production volumes, they were deemed necessary in order to preserve capital and limit the effect of declining revenues on the Company's funds from operations.

The Company has assembled a concentrated base of land and infrastructure at Marlowe and achieved substantial success in delineating the Muskeg resource. In 2015, Strategic's focus was on improving runtime on its horizontal Muskeg wells in order to refine and validate internal type curves, and on mapping the Muskeg resource across its land base.

In December 2015, the Company initiated a 4 well winter drilling program focused on preserving undeveloped lands, increasing reserves and further delineating the Muskeg play at Marlowe. The drilling results yielded a 1,060 boe/d production test at a horizontal well and a core taken from a vertical well which identified 12.6 metres of net oil pay in the Muskeg zone. These positive results have extended the commercial limits and confirmed the significant productivity of the Muskeg play.

The Company now believes it has delineated a significant portion of the 100% owned Muskeg resource at Marlowe and is committed to creating long-term value for shareholders through a disciplined spending approach on scalable drilling programs on its asset base. Strategic has successfully reduced drilling days and completion costs per well while increasing well performance and run time. Although the Muskeg wells are economic at current strip pricing, development will continue once commodity prices show further signs of improvement.

In order to provide financial flexibility through the current low commodity price environment the Company closed an offering of convertible debentures (the "Debentures") on February 29, 2016 for gross proceeds of \$94.9 million, or approximately \$92.6 million after transaction costs. The Debentures have a 5-year term, bear interest at 8% payable semi-annually (subject to, at the Company's option, being paid-in-kind in equivalent principal amount of Debentures for the first two years) and are convertible into common shares of Strategic as a price of \$0.09 per share. Proceeds from the offering were used to repay existing credit facilities, the bridge loan from the Company's major shareholder and fund the winter capital program. Strategic has approximately \$25 million of cash which will fund ongoing working capital requirements and for general corporate purposes.

## **ABOUT STRATEGIC**

Strategic is a junior oil and gas company committed to becoming a premier northern oil and gas operator by exploiting its light oil assets primarily in northern Alberta. The Company relies on its extensive subsurface and reservoir experience to develop its asset base and grow production and cash flows while managing risk. The Company maintains control over its resource base through high working interest ownership in wells, construction and operation of its own processing facilities and a significant undeveloped land and opportunity base. Strategic's primary operating area is at Marlowe, Alberta. Strategic's common shares trade on the TSX Venture Exchange under the symbol SOG.

## **ADDITIONAL INFORMATION**

Additional information is also available at [www.sogoil.com](http://www.sogoil.com) and at [www.sedar.com](http://www.sedar.com).

#### Forward-Looking Statements

This news release includes certain information, with management's assessment of Strategic's future plans and operations, and contains forward-looking statements which may include some or all of the following: (i) anticipated production rates; (ii) expected operating and service costs and the impact of capital projects on operating costs; (iii) expected capital spending; (iv) the Company's financial strength and capitalization; (v) estimates of reserves; (vi) potential profitability of its assets; (vii) potential funding alternatives; which are provided to allow investors to better understand the Company's business. By their nature, forward-looking statements are subject to numerous risks and uncertainties; some of which are beyond Strategic's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, changes in environmental tax and royalty legislation, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources, and other risks and uncertainties described under the heading 'Risk Factors' and elsewhere in the Company's Annual Information Form for the year ended December 31, 2015 and other documents filed with Canadian provincial securities authorities, available to the public at [www.sedar.com](http://www.sedar.com). Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. The principal assumptions Strategic has made includes security of land interests; drilling cost stability; royalty rate stability; oil and gas prices to remain in their current range; finance and debt markets continuing to be receptive to financing the Company and industry standard rates of geologic and operational success. Actual results could differ materially from those expressed in, or implied by, these forward-looking statements. Strategic disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

#### Basis of Presentation

This discussion and analysis of Strategic's oil and natural gas production and related performance measures is presented on a working-interest, before royalties basis. For the purpose of calculating unit information, the Company's production and reserves are reported in barrels of oil equivalent (boe) and boe per day (boed). Boe may be misleading, particularly if used in isolation. A boe conversion ratio for natural gas of 6 Mcf: 1 boe has been used, which is based on an energy equivalency conversion method primarily applicable at the burner tip and does not necessarily represent a value equivalency at the wellhead. As the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

#### Non-IFRS Measurements

The Company utilizes certain measurements that do not have a standardized meaning or definition as prescribed by IFRS and therefore may not be comparable with the calculation of similar measures by other entities, including net debt, operating netback and funds from operations. Readers are referred to advisories and further discussion on non-IFRS measurements contained in the Company's MD&A.

Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

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