

## Strategic Oil & Gas Ltd. Announces First Quarter 2016 Financial and Operating Results and New Board Member

CALGARY, ALBERTA--(Marketwired - May 17, 2016) - Strategic Oil & Gas Ltd. ("Strategic" or the "Company") (TSX VENTURE:SOG) reports financial and operating results for the three months ended March 31, 2016. Detailed results are presented in Strategic's interim 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).

Strategic's highlights for the first quarter include:

- Drilled 4 wells that delineated the Muskeg play up to 20 km away from current producing wells.
- Operating costs dropped \$2.3 million, while general and administrative ("G&A") costs were reduced by \$0.8 million and transportation costs by \$0.3 million.
- Closed an offering of convertible debentures (the "Debentures") on February 29, 2016 for net proceeds of \$92.6 million, eliminating bank debt and providing financial flexibility.
- Executed an asset exchange agreement for the rationalization of certain assets in the Bistcho area which will reduce liability and increase the Company's overall LLR to above 2.

### FINANCIAL AND OPERATIONAL SUMMARY

	Three months ended March 31		
	2016	2015	% change
<b>Financial (\$thousands, except per share amounts)</b>			
Oil and natural gas sales	4,705	10,422	(55)
Funds from (used in) operations <sup>(1)</sup>	(2,180)	1,439	-
Per share basic & diluted <sup>(1)</sup>	(0.00)	0.00	-
Cash used in operating activities	(1,474)	(3,598)	(59)
Per share basic & diluted	(0.00)	(0.01)	-
Net loss	(7,259)	(8,610)	(16)
Per share basic & diluted	(0.01)	(0.02)	(50)
Capital expenditures (excluding acquisitions)	8,296	7,526	12
Bank debt (comparative figure is as of December 31, 2015)	-	(42,857)	(100)
Net working capital (debt) (comparative figure is as of December 31, 2015) <sup>(1)</sup>	26,484	(54,024)	-
<b>Operating</b>			
Average daily production			
Crude oil (bbl per day)	1,546	2,394	(35)
Natural gas (mcf per day)	2,534	5,237	(52)
Barrels of oil equivalent (boe per day)	1,968	3,267	(40)
Average prices			
Oil & NGL, before risk management (\$ per bbl)	30.22	41.98	(28)
Oil & NGL, including risk management (\$ per bbl)	30.22	51.34	(41)
Natural gas (\$ per mcf)	1.96	2.93	(33)
Netback (\$ per boe) <sup>(1)</sup>			
Oil and natural gas sales	26.26	35.45	(26)
Royalties	(3.42)	(5.08)	(33)
Operating expenses	(22.44)	(21.38)	5
Transportation expenses	(0.72)	(1.39)	(48)
Operating Netback	(0.32)	7.60	-
<b>Common Shares (thousands)</b>			

Common shares outstanding, end of period	542,319	542,319	-
Weighted average common shares (basic & diluted)	542,319	542,319	-

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1. Funds from operations, net debt and operating netback are Non-GAAP measures; see "Non-GAAP measures" in the Company's MD&A.

## QUARTERLY SUMMARY

- Strategic continued to implement operational efficiencies and reduce costs in the first three months of 2016, in response to low commodity prices. Operating costs dropped \$2.3 million or 36% compared to the first quarter of 2015, while general and administrative ("G&A") costs were reduced by \$0.8 million and transportation costs by \$0.3 million.
- The Company closed an offering of convertible debentures (the "Debentures") on February 29, 2016 for net proceeds of \$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 at 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 had \$26.5 million in working capital at March 31, 2016 which will fund ongoing operating and capital activities in the near term.
- Strategic executed an asset exchange agreement in the Bistcho area, assuming a 100% working interest in the Bistcho gas processing facility and 14 wells capable of production, and assigning 68 wellbores to its joint interest partner. As a result of this swap the Company will avoid significant near-term decommissioning liabilities at Bistcho and increase its corporate liability management ratio to over 2.0.
- Average daily production decreased 40% to 1,968 boe/d from 3,267 boe/d for the first quarter of 2015, due to the shut-in of the Bistcho/Cameron Hills property in February 2015 and a lack of drilling activity to offset natural production declines at Marlowe. Several planned workover and recompletion operations were deferred in the first quarter to preserve capital.
- Despite the cost reductions achieved, operating netbacks decreased to \$(0.32)/boe from \$7.60/boe for the three months ended March 31, 2015, primarily as a result of declines in realized oil and natural gas prices of 28% and 33% respectively. Funds used in operations were \$2.2 million for the three months ended March 31, 2016, compared to funds from operations of \$1.4 million for the first quarter of 2015. The lower prices combined with reduced production levels led to the negative funds flow in the current quarter.
- Capital expenditures of \$8.3 million for the quarter were focused on a four well drilling program designed to preserve undeveloped lands, increase reserves and further delineate 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.
- Also included in capital expenditures is the acquisition of 8 sections of undeveloped land in south Marlowe along the Muskeg trend from a third party for nominal consideration. Drilling activity in the first quarter has held these lands for a five year period.

## PERFORMANCE OVERVIEW, STRATEGY AND OUTLOOK

Strategic was active in the first quarter of 2016, drilling 4 appraisal wells which significantly enhanced the Company's understanding of the Marlowe asset base. The Company also closed a major financing transaction, eliminating its bank debt and providing financial stability, as well as initial funding for development.

Commodity prices were extremely low in the current period, with WTI oil prices averaging US\$33.45/bbl. Strategic responded to this challenging environment by reducing cash operating, transportation and G&A

costs by \$3.4 million or 38% compared to the first quarter of 2015. Runtime on the Muskeg wells has steadily increased, enabling the Company to minimize decline rates without significant workover expenditures. As a result of the recent increase in WTI oil prices and continued management of cash costs, Strategic's funds from operations is at a break-even level.

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. The Company is in the planning stages for the next phase of development at Marlowe, which will be a capital spending program of approximately \$15-20 million to drill, complete and tie-in up to 4 Muskeg horizontal wells in the second half of 2016.

## **NEW DIRECTOR**

The Company is pleased to announce that Michael Watzky has joined the Board of Directors, subject to regulatory approval. Mr. Watzky is the co-founder and managing partner of BP Energy Partners ("BP"), and has over 20 years of private equity experience in energy sector investments including oil and gas and energy services. Prior to co-founding BP, Mr. Watzky held senior positions at Matlin Patterson, a private investment firm, and Credit Suisse First Boston.

BP is an energy-focused investment firm based in Dallas, Texas and is an investor in the Company, having acquired convertible debentures in the recent financing. Management and the Board of Directors of Strategic look forward to working with Mr. Watzky to effectively and profitably develop the high-potential Muskeg resource and enhance shareholder value.

## **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-GAAP 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-GAAP 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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