Strategic Oil & Gas Ltd. Announces Annual and Fourth Quarter 2017 Financial and Operating Results

CALGARY, Alberta, March 29, 2018 (GLOBE NEWSWIRE) -- Strategic Oil & Gas Ltd. ("Strategic" or the "Company") (TSXV:SOG) is pleased to report financial and operating results for the year and three months ended December 31, 2017. Detailed results and additional information are presented in Strategic's 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 and on SEDAR at www.sedar.com.

FINANCIAL AND OPERATIONAL SUMMARY

	Three months ended December 31			Twelve months ended December 31		
Financial ($thousands, except per share amounts)	**2017**	2016	% change	**2017**	2016	% change
Oil and natural gas sales	**10,396**	7,721	35	**37,867**	23,878	59
Funds from (used in) operations (1)	**3,024**	1,660	82	**8,065**	(219)	-
Per share basic (1) (2)	**0.07**	0.06	17	**0.17**	(0.01)	-
Cash provided by (used in) operating activities	**490**	(1,256)	-	**4,518**	3,335	35
Per share basic (2)	**0.01**	(0.04)	-	**0.10**	0.12	(17)
Net income (loss)	**(41,264)**	48,510	-	**(89,502)**	33,242	-
Per share basic (2)	**(0.89)**	1.69	-	**(1.94)**	1.21	-
Per share diluted (2)	**(0.89)**	0.62	-	**(1.94)**	0.55	-
Net capital expenditures	**3,361**	9,018	(63)	**48,200**	29,279	65
Adjusted working capital at December 31 (1)	**13,087**	49,956	(74)	**13,087**	49,956	(74)
Net debt at December 31 (1)	**95,801**	51,141	87	**95,801**	51,141	87
Operating						
Average daily production						
Crude oil (bbl per day)	**1,819**	1,487	22	**1,799**	1,415	27
Natural gas (mcf per day)	**3,633**	2,233	63	**3,822**	2,359	62
Barrels of oil equivalent (boe per day)	**2,424**	1,859	30	**2,436**	1,808	35
Average prices						
Oil & NGL ($ per bbl)	**58.71**	51.38	14	**52.69**	42.33	24
Natural gas ($ per mcf)	**1.71**	3.36	(49)	**2.34**	2.27	3
Operating netback ($ per boe) (1)						
Oil and natural gas sales	**46.61**	45.13	3	**42.59**	36.09	18
Royalties	**(4.97)**	(6.00)	(17)	**(4.75)**	(4.96)	(4)
Operating expenses	**(20.96)**	(19.87)	5	**(21.05)**	(21.64)	(3)
Transportation expenses	**(0.71)**	(1.01)	(30)	**(1.11)**	(0.84)	32
Operating Netback (1)	**19.97**	18.25	9	**15.68**	8.65	81
Common Shares (2) (thousands)						
Common shares outstanding, end of period	**46,391**	43,978	5	**46,391**	43,978	5
Weighted average common shares (basic)	**46,391**	28,775	61	**46,181**	27,533	68
Weighted average common shares (diluted)	**46,391**	81,616	(43)	**46,181**	71,700	(36)

(1) Funds from operations, adjusted working capital, net debt and operating netback are Non-GAAP measures; see "Non-GAAP measures" in management's discussion and analysis.

(2) Adjusted for the share consolidation on a 20:1 basis announced on March 6, 2017.

FOURTH QUARTER SUMMARY

- Average daily production increased 30% from 1,859 boe/d for the three months ended December 31, 2016 to 2,424 boe/d for the current quarter primarily due to new production from Muskeg drilling activities over the past year.

- Funds from operations increased 82% to $3.0 million from $1.7 million for the same quarter last year due to a $2.7 million increase in revenue resulting from higher production levels and an increase in realized oil prices.

- Capital expenditures of $3.4 million were incurred in the quarter, mostly related to completing and equipping wells drilled in the third quarter of 2017, expenditures on gathering pipelines and on pad construction in preparation for the 2018 winter drilling program.

- In the third quarter of 2017, the Company drilled a horizontal well at west Marlowe testing the Slave Point formation. The well was drilled with a 1,200 meter lateral length and 10 stages were completed. The well was put on production early in the fourth quarter. With limited drawdown the well's initial production was 46 boe/d (75% oil) for the first 90 days.

- Strategic continued to maintain discipline with its capital program. At December 31, 2017, the Company had $13.1 million in cash and adjusted working capital. The capital program approved for the first half of 2018 will be funded with cash on hand and cash generated from operating activities.

ANNUAL SUMMARY

- Funds flow from operations increased to $8.1 million in 2017 from funds used in operations of $0.2 million in 2016 as revenue increased due to higher commodity prices and higher production levels arising from drilling and completion activities during 2017.

- Production increased 35% to 2,436 boe/day from 1,808 boe/day in 2016 due to production additions from new Muskeg wells, and despite significant delays in well completions during the first half of 2017 due to unavailability of frac services.

- Capital expenditures increased to $48.2 million in 2017 from $29.3 million for 2016 as the Company accelerated the development of its Muskeg oil resource. A total of 8 horizontal wells were drilled including 7 Muskeg wells and 1 Slave Point well. Capital spending for the year also included the construction of 4 kilometers of high grade road and pipeline to tie-in the 14-35 Muskeg well drilled in 2016.

- Proved and probable reserves at December 31, 2017, as determined by the Company's independent reserves evaluators McDaniel and Associates Ltd. ("McDaniel"), decreased 18% to 16.0 MMboe compared to 19.6 MMBoe at year-end 2016 due primarily to 3.0 MMboe of negative technical revisions related to the shortfall in performance from Muskeg wells drilled in 2017. Net present value of proved and probable reserves using McDaniel's forecast prices and costs decreased to $130.1 million from $194.4 million at December 31, 2016. The decrease is attributable to the lower reserves volumes, a decline in the forward price deck for oil and gas and an extension in the timeline for development of the Company's undeveloped reserves. The Company does not believe that recent 2017 wells results are reflective of the potential of the Muskeg play, and has adjusted its drilling and completion techniques in 2018, with the goal of improving well design and restoring productivity.

- Strategic incurred a net loss of $89.5 million compared to net income of $33.2 million in 2016. The loss was driven by an impairment charge of $58.8 million related to lower reserves values at Marlowe and a loss on revaluation of decommissioning liabilities of $7.2 million.

PERFORMANCE OVERVIEW, STRATEGY AND OUTLOOK

In 2017 Strategic was focused on development of the Muskeg resource, as well as exploring additional light oil zones as secondary production targets at Marlowe. In total 7 Muskeg horizontal development wells and 1 Slave Point well were drilled during the year. As a result of these activities, average production increased 35% from 2016 to 2,436 boe/d, and funds from (used in) operations increased from $(0.2) million in 2016 to $8.1 million ($0.17 per basic share) in 2017.

In planning the first quarter 2017 drilling program, the Company made several adjustments to the well placement targeting lower in the pay zone to achieve a faster drilling pace. Strategic management has completed a detailed review of the drilling and production techniques used in this program and believes that certain adjustments made may have limited the productivity of those Muskeg wells drilled. As a result, production levels in 2017 did not meet internal expectations. In addition, 2017 year-end proved and probable reserves were impacted by 3.0 MMBoe of negative technical revisions to proved and probable reserves, related to estimated reserves for the wells drilled the year and future undeveloped drilling locations. The Company does not believe that 2017 drilling results are reflective of the potential of the Muskeg play and has adjusted its drilling and completion techniques, with the goal of improving well design and restoring productivity in 2018 and future capital programs.

In the first quarter of 2018, Strategic drilled and completed two Muskeg wells at West Marlowe along the high potential Muskeg light oil corridor. The Company refined its completion techniques to complete 30 stages per well using a proven pinpoint shiftable sleeve system.

Both wells were completed in the first quarter, and testing was limited to the stages that were completed using the new frac design. Well 01-02 was production tested with 13 out of 30 stages open. After a 3 day cleanup period the well produced an average of 473 boe/d (82% oil) for 11 days. The water cut continued to drop during the test period, ending at approximately 55%. The well is currently shut-in while the remaining stages are opened. Well 05-01 was production tested with 19 out of 30 stages open. Initial volumes were limited by the size of the pumping unit used, however after a 5 day cleanup period the well produced an average of 148 boe/d (90% oil) for 12 days, and over the last 3 test days the average production rate increased to 227 boe/d (89% oil) with a 76% water cut. The Company is encouraged by these initial rates given that just over half of the total stages completed are currently open and contributing to production volumes. Strategic intends to open the remaining stages, put the wells on production and provide an update on initial production rates in the near future.

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 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.

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Test production rates
Any references in this news release to initial production or test rates are useful in confirming the presence of hydrocarbons, however, such rates are not necessarily determinative of the rates at which such wells will continue production. These flow-back or test results are quoted on a raw basis before shrinkage on natural gas volumes and may not be indicative of long-term well performance or ultimate recovery. While encouraging, readers are cautioned not to place reliance on such rates in estimating the aggregate production for the Company. Total corporate production volumes include natural gas shrinkage.

Forward-Looking Statements
Certain statements in this release constitute forward-looking information under applicable securities legislation. Forward-looking information typically contains statements with words such as "anticipate", "believe", "estimate", "will", "may", "expect", "plan", "schedule", "intend", "propose", or similar words

suggesting future outcomes or an outlook. Forward-looking information in this release includes, but is not limited to:

- projected production rates and sales volumes and the timing thereof;
- forecast capital expenditures, operating costs per BOE, abandonment and reclamation costs and transportation costs per BOE;
- exploration, development, and associated operational plans and strategies;
- availability of current working capital and the timing and source of funds for the capital program for the first half of 2018 and future periods;
- potential profitability and productivity of the Company's asset base;
- the impact of cost reduction initiatives;
- the impact of adjustments to drilling and completion techniques; and
- general business strategies and objectives.

Such forward-looking information is based on a number of assumptions which may prove to be incorrect. Assumptions have been made with respect to the following matters, in addition to any other assumptions identified in this release:

- future natural gas and liquids prices;
- royalty rates, taxes and capital, operating, general and administrative and other costs;
- foreign currency exchange rates and interest rates;
- general business, economic and market conditions;
- the ability of the Company to obtain the required capital to finance its exploration, development and other operations and meet its commitments and financial obligations;
- the ability of Strategic to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its activities;
- the ability of Strategic to secure adequate product processing, transportation, and storage capacity on acceptable terms;
- the ability of Strategic to market its oil and natural gas successfully to current and new customers;
- the ability of Strategic obtain drilling success (including in respect of anticipated production volumes, reserves additions and resource recoveries) and operational improvements, efficiencies and results consistent with expectations;
- the timely receipt of required governmental and regulatory approvals; and
- anticipated timelines and budgets being met in respect of drilling programs and other operations (including well completions and tie-ins and the construction, commissioning and start-up of new and expanded facilities).

Although Strategic believes that the expectations reflected in such forward-looking information is reasonable, undue reliance should not be placed on them as the Company can give no assurance that such expectations will prove to be correct. Forward-looking information is based on expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by Strategic and described in the forward-looking information. The material risks and uncertainties include, but are not limited to:

- fluctuations in natural gas and liquids prices;
- changes in foreign currency exchange rates and interest rates;
- the uncertainty of estimates and projections relating to future revenue, future production, reserve additions, resource recoveries, royalty rates, taxes and costs and expenses;
- the ability to secure adequate product processing, transportation, and storage capacity on acceptable terms;
- operational risks in exploring for, developing and producing, oil and natural gas;
- the ability to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost;
- potential disruptions, delays or unexpected technical or other difficulties in designing, developing, expanding or operating new, expanded or existing facilities;
- processing and pipeline infrastructure outages, disruptions and constraints;
- risks and uncertainties involving the geology of oil and gas deposits;
- the uncertainty of reserves and resources estimates;
- general business, economic and market conditions;

- the ability to generate sufficient cash flow from operations and obtain financing to fund planned exploration, development and operational activities and meet current and future commitments and obligations;
- changes in, or in the interpretation of, laws, regulations or policies (including environmental laws);
- the ability to obtain required governmental or regulatory approvals in a timely manner, and to enter into and maintain leases and licenses;
- the effects of weather and other factors including wildlife and environmental restrictions which affect field operations and access;
- the timing and cost of future abandonment and reclamation obligations and potential liabilities for environmental damage and contamination;
- uncertainties regarding aboriginal claims and in maintaining relationships with local populations and other stakeholders;
- the outcome of existing and potential lawsuits, regulatory actions, audits and assessments; and
- other risks and uncertainties described elsewhere in Strategic's other filings with Canadian securities authorities.

The foregoing list of risks is not exhaustive. For more information relating to risks, see the section titled "risk factors" in Strategic's current annual information form. The forward-looking information contained in this release is made as of the date hereof and, except as required by applicable securities law, Strategic 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.

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.

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OIL & GAS LTD.

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