Strategic Oil & Gas Ltd. Announces First Quarter 2014 Financial and Operating Results

CALGARY, ALBERTA--(Marketwired - May 14, 2014) - Strategic Oil & Gas Ltd. ("Strategic" or the "Company") (TSX VENTURE:SOG) reports financial and operating results for the three months ended March 31, 2014. Detailed results are presented in Strategic's interim condensed consolidated financial statements and related Management's Discussion and Analysis ("MD&A") which will be available through the Corporation's website at www.sogoil.com, on SEDAR at www.sedar.com and also at http://media3.marketwire.com/docs/946024sog-ifs.pdf and http://media3.marketwire.com/docs/946024sog-mda.pdf.

FINANCIAL AND OPERATIONAL SUMMARY

	Three Months Ended March 31		
	2014	2013	% change
Financial ($thousands, except per share amounts)			
Oil and natural gas sales	**21,759**	17,887	22
Funds from operations (1)	**984**	3,958	(75)
Per share basic & diluted	**0.00**	0.02	(100)
Cash provided by operating activities	**10,101**	2,838	256
Per share basic & diluted	**0.04**	0.01	300
Net loss	**(9,664)**	(3,371)	187
Per share basic & diluted	**(0.04)**	(0.02)	100
Capital expenditures (excluding acquisitions)	**38,454**	50,268	(24)
Acquisitions	**-**	10,098	(100)
Net debt (1)	**71,804**	74,797	(4)
Operating			
Average daily production			
Crude oil (bbl per day)	**2,361**	2,318	2
Natural gas (mcf per day)	**4,719**	2,874	64
Barrels of oil equivalent (boe per day)	**3,147**	2,797	13
Average prices			
Oil & NGL, before risk management ($ per bbl)	**91.35**	81.71	12
Oil & NGL, including risk management ($ per bbl)	**79.29**	81.96	(3)
Natural gas ($ per mcf)	**5.53**	3.25	70
Netback ($ per boe) (1)			
Oil and natural gas sales	**76.82**	71.05	8
Royalties	**(15.84)**	(16.56)	(4)
Operating expenses	**(33.92)**	(24.83)	37
Transportation expenses	**(5.45)**	(4.96)	10
Operating Netback	**21.61**	24.70	(13)
Common Shares (thousands)			
Common shares outstanding, end of period	**360,734**	210,404	71
Weighted average common shares (basic)	**261,785**	189,724	38
Weighted average common shares (diluted)	**261,785**	189,724	38

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

SUMMARY

- Strategic executed a $38.5 million capital program in the first quarter of 2014. $16 million (42% of the capital program) was spent on drilling three new wells and completing a fourth well which was drilled in the fourth quarter of 2013. $24.5 million (58% of the capital program) was spent on infrastructure projects, plant turnarounds, land acquisitions and recompletions.
- The Company reached a significant milestone in the development of the Steen River oil play with the completion of the Bistcho oil sales pipeline project, which connects the Steen River area to the Rainbow pipeline system over a total distance of 115km. The pipeline was operational prior to the end of the quarter, with first flow of oil down the pipeline occurring on March 29, 2014. Approximately $10 million of the $15 million project budget was spent in the first quarter, with the remaining amount to be incurred on the installation of permanent pumps and ancillary equipment. With the completion of the Bistcho pipeline project, Strategic expects to reduce transportation costs on Steen River oil by $5 per barrel in future quarters.
- The Company improved its completion techniques for the Muskeg Stack wells in 2014. As a result of the new completion techniques all new Muskeg Stack wells have achieved over 95% uptime and are performing at or above the type curve.
- Average daily production increased by 13 percent from 2,797 boed for the first quarter of 2013 to 3,147 boed for the current quarter. Sales volumes for the current period were affected by a longer than anticipated plant turnaround at the Company's Bistcho/Cameron Hills facilities as well as the loss of some oil production at Steen River for the last three days of the quarter as the Company began to fill the Bistcho sales oil pipeline.
- Funds from operations decreased to $1.0 million from $4.0 million for the first quarter of 2013 for the following reasons:
  - Approximately $0.5 million was spent in regulatory compliance costs related to assets acquired over the last two years.
  - The Company identified a surface casing vent flow issue on a well producing 150 bbl/d of oil at Steen River and incurred $0.7 million in operating costs to resolve the issue. The surface casing vent flow issue resulted in a total of $1.2 million of lost cash flow for the first quarter due to repair costs and foregone production. The well was shut in for the majority of the quarter but has since been returned to production.
  - Realized losses on risk management contracts totalled $2.6 million for the current period.
- The Company's operating netback decreased from $24.70/boe for the first quarter of 2013 to $21.61/boe for the three months ended March 31, 2014. Several factors had a negative impact on the operating netback for the current period:
  - Production mix of 75% oil for the current quarter, as compared to 83% oil for the first quarter of 2013, due to increased natural gas production as a result of the acquisition of gas-weighted assets at Bistcho and Cameron Hills in February 2013 (the "Bistcho/Cameron Hills Assets").
  - Operating costs increased to $33.92/boe due to curtailed production volumes due to the shutdown of the Bistcho/Cameron Hills facilities for 23 days during the turnaround and approximately $0.5 million of regulatory compliance costs in the current period related to assets acquired over the last two years.
  - The Company incurred $0.7 million in operating costs to resolve a surface casing vent flow issue on a well producing 150 bbl/d of oil at Steen River.
- On March 31, 2014, the Company issued 100.0 million common shares via a private placement at a price of $0.50 per common share for gross proceeds of $50.0 million (net proceeds of $49.3 million after transaction costs). Of the $50.0 million gross proceeds, $40.3 million (80.6 million common shares) were acquired by directors or officers of the Company or entities controlled by them.

OVERVIEW AND OUTLOOK

In the first quarter of 2014, Strategic continued to execute on its strategy of growing oil production and developing infrastructure at its 100% owned and operated Steen River property in northern Alberta. The

Company drilled three successful Muskeg Stack horizontal wells during the first quarter of 2014. The three Muskeg Stack wells are producing 900 boed which represents approximately 20% of Strategic's corporate production.

Muskeg Stack well 10-24 has been the Company's most successful to date, producing at an average rate of 635 Boed (55% oil) over the first 23 days of production.

On March 31, 2014 Strategic announced that the Bistcho sales oil pipeline was operational and the first flow of oil down the line occurred on March 29, 2014. This project represents the first time oil from Steen River will flow directly to market via pipeline, an important initiative which should save the Company approximately $5/bbl of transportation costs on Steen River oil production. The completion of the pipeline will also result in a reduction in road maintenance expenses. The pipeline has a capacity of 4,000 bbl/d and is a key part of the Company's growth strategy. With the completion of this major infrastructure project the bulk of capital expenditures for the remainder of 2014 and 2015 will be allocated to internal growth via the drill bit.

The Company continued to fill the pipeline in April, as approximately 8,000 barrels were required for line fill. Current production is approximately 4,250 boed. Strategic intends to commence its summer drilling program in early June, with the first Muskeg Stack well directly offsetting the 10-24 well. The Company is excited about its recent Muskeg drilling results and will be using the same completion techniques on future wells that were successfully employed on the three wells drilled in the first quarter of 2014.

ABOUT STRATEGIC

Strategic is a junior oil and gas company committed to growth by exploiting its light oil assets in Canada. 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 and at 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 Corporation's financial strength and capitalization; (v) estimates of reserves; (vi) expected use of proceeds from the private placement; (vii) corporate production levels; (viii) oil takeaway capacity; (ix) extensions of mapped oil in place; which are provided to allow investors to better understand the Corporation'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 Corporation's Annual Information Form for the year ended December 31, 2013 and other documents filed with Canadian provincial securities authorities and are available to the public at 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 Corporation 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 Corporation'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 Corporation 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 Corporation's MD&A.

FOR FURTHER INFORMATION PLEASE CONTACT:

Contact:

Strategic Oil & Gas Ltd.
Gurpreet Sawhney, MBA, MSc., PEng.
President and CEO
403.767.2949
403.767.9122 (FAX)

Strategic Oil & Gas Ltd.
Aaron Thompson, CA
CFO
403.767.2952
403.767.9122 (FAX)

Strategic Oil & Gas Ltd.
1100, 645 7th Avenue SW
Calgary, AB T2P 4G8
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