

## Strategic Oil & Gas Ltd. Announces Third Quarter 2015 Financial and Operating Results, Amended Credit Agreement, New Bridge Financing and Launches Review of Funding Alternatives

CALGARY, ALBERTA--(Marketwired - Nov 16, 2015) - Strategic Oil & Gas Ltd. ("Strategic" or the "Company") (TSX VENTURE:SOG) reports financial and operating results for the three months ended September 30, 2015. 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 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 September 30			Nine months ended September 30		
	2015	2014	% change	2015	2014	% change
<b>Financial (\$thousands, except per share amounts)</b>						
Oil and natural gas sales <sup>(1)</sup>	<b>7,783</b>	19,394	(60)	<b>29,146</b>	64,148	(55)
Funds from operations <sup>(2)</sup>	<b>1,122</b>	2,774	(60)	<b>6,015</b>	7,300	(18)
Per share basic & diluted						
(2)	-	0.01	-	<b>0.01</b>	0.02	(50)
Cash provided by (used in) operating activities	<b>4,235</b>	791	435	<b>2,080</b>	5,267	(61)
Per share basic & diluted	<b>0.01</b>	-	-	-	0.01	-
Net loss	<b>(63,918)</b>	213	-	<b>(78,327)</b>	(12,170)	544
Per share basic & diluted	<b>(0.12)</b>	-	-	<b>(0.14)</b>	(0.04)	288
Capital expenditures (excluding acquisitions)	<b>1,401</b>	24,871	(94)	<b>9,475</b>	76,864	(88)
Net acquisitions (dispositions)	-	-	-	-	(3,821)	-
Bank debt (comparative figure is as of December 31, 2014)	<b>52,000</b>	29,016	79	<b>52,000</b>	29,016	79
Net debt (comparative figure is as of December 31, 2014) <sup>(2)</sup>	<b>53,791</b>	48,399	11	<b>53,791</b>	48,399	11
<b>Operating</b>						
Average daily production						
Crude oil (bbl per day)	<b>1,608</b>	2,023	(21)	<b>1,970</b>	2,225	(11)
Natural gas (mcf per day)	<b>3,028</b>	7,264	(58)	<b>3,873</b>	6,491	(40)
Barrels of oil equivalent (boe per day)	<b>2,113</b>	3,234	(35)	<b>2,615</b>	3,307	(21)
Average prices						
Oil & NGL, before risk management (\$ per bbl)	<b>46.72</b>	88.51	(47)	<b>48.34</b>	91.64	(47)
Oil & NGL, including risk management (\$ per bbl)	<b>52.90</b>	78.27	(32)	<b>56.20</b>	79.95	(30)
Natural gas, before risk management (\$ per mcf)	<b>3.13</b>	4.37	(28)	<b>2.98</b>	4.79	(38)
Natural gas, including risk management (\$ per mcf)	<b>3.12</b>	4.34	(28)	<b>2.98</b>	4.53	(34)

Netback (\$ per boe) <sup>(2)</sup>

Oil and natural gas sales (1)	<b>40.04</b>	65.18	(39)	<b>40.82</b>	71.06	(43)
Royalties	<b>(6.04)</b>	(14.76)	(59)	<b>(4.47)</b>	(15.64)	(71)
Operating expenses	<b>(21.96)</b>	(22.76)	(3)	<b>(22.75)</b>	(26.88)	(15)
Transportation expenses (1)	<b>(0.70)</b>	(2.55)	(72)	<b>(1.14)</b>	(3.40)	(67)
<b>Operating Netback</b>	<b>11.34</b>	25.11	(55)	<b>12.46</b>	25.14	(50)

**Common Shares  
(thousands)**

Common shares outstanding, end of period	<b>542,319</b>	524,927	3	<b>542,319</b>	524,927	3
Weighted average common shares (basic)	<b>542,319</b>	362,719	50	<b>542,319</b>	328,858	65
Weighted average common shares (diluted)	<b>542,319</b>	362,719	50	<b>542,319</b>	328,858	65

1. In 2015, revenues are presented net of pipeline tariffs on oil sales which occur after title to the product has passed to the customer. Prior period amounts for revenue and transportation have been reclassified to conform to the current period presentation
2. Funds from operations, net debt and operating netback are non-IFRS measurements; see "Non-IFRS Measurements" in the Company's MD&A.

**SUMMARY**

Strategic has continued to identify operational efficiencies and exercise capital discipline in this low commodity price environment. WTI oil prices for the current quarter decreased 52% compared to the same period in 2014, resulting in a 47% decrease in average sale prices.

- Funds from operations of \$1.1 million were 60% lower than the third quarter of 2014, as significantly lower commodity prices were partly offset by lower operating costs, royalty rates, transportation costs and a realized gain on risk management contracts of \$0.9 million. The net loss for the quarter was \$63.9 million or \$0.12 per common share, primarily due to an impairment charge of \$60.0 million related to a substantial reduction in current and forward oil prices.
- Operating netbacks decreased 55 percent to \$11.34/boe for the three months ended September 30, 2015 from \$25.11/boe for the comparative period in 2014, as the 39% drop in oil & gas revenues per boe was partially mitigated by lower royalty rates, operating and transportation expenses. The Company has made significant strides in reducing costs at Marlowe to limit the effect of low oil prices and reduced production volumes on operating netbacks. At \$21.97/boe, unit operating costs for the third quarter are lower than the third quarter of 2014 (\$22.76/boe) and the second quarter of 2015 (\$25.21/boe) despite being spread over a smaller production volume. Operating costs at Marlowe were \$17.94/boe for the third quarter of 2015, leading to an operating netback of \$14.66/boe.
- Capital expenditures of \$1.4 million for the third quarter of 2015 reflected a 94% decrease from the third quarter of 2014.
- Average daily production totaled 2,113 boe/d for the three months ended September 30, 2015 compared to 2,480 boe/d for the second quarter of 2015 as 250 boe/d of Muskeg production was offline due to a pump upgrade required on Muskeg well 13-31 and a temporary regulatory production restriction on Muskeg well 1-23 during the period. The regulatory restrictions were removed in October and the Company's current production is approximately 2,200 boe/d. Individual production rates from recent wells are as follows:

	Days On	Cumulative	Cumulative	Current	Current Oil	
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Well	Production	Oil, bbl	boe	Rate, boe/d	Rate, bbl/day	Status
06-24	460	43,937	161,325	254	38	Flowing
09-24	413	56,031	138,229	241	49	Flowing
10-24	471	49,548	94,389	158	93	Pumping
16-24	364	46,078	62,486	156	112	Pumping
01-23	300	44,340	50,537	141	126	Pumping
14-19	288	38,417	48,444	133	99	Pumping

## CREDIT FACILITY

Strategic had a \$57.0 million credit facility at September 30, 2015, consisting of a \$40 million revolving operating loan and a \$17.0 million non-revolving facility that is reduced at a rate of \$0.5 million per month (\$16.0 million as of November 1, 2015). Subsequent to the reporting period, Strategic executed a term sheet with the lender to amend its credit facility. Upon amendment, the Company will continue to reduce the non-revolving facility by \$0.5 million per month and is required to repay additional amounts as follows:

- \$9.5 million on or before February 1, 2016
- The balance of the non-revolving facility on or before June 1, 2016

The amended terms also contemplate the Company raising \$40 million of junior capital prior to June 1, 2016, to facilitate credit facility repayments and a winter drilling program directed towards retaining certain undeveloped lands at Marlowe with prospective Muskeg rights. In conjunction with the term sheet, the working capital covenant under the credit facility is not applicable until February 1, 2016, but will be tested monthly thereafter. The lender has indicated it is supportive of Strategic's plans to explore its review of available funding alternatives outlined herein.

In order to provide short-term capital to fund the Company's working capital deficiency, credit facility repayments and initiate the land retention drilling program required by its lender, Strategic has obtained a \$10.0 million loan from an entity which is a significant shareholder in the Company and controlled by the Chairman of the Board of Directors. The loan bears interest at 1% per month up to March 31, 2016 and 1.5% per month thereafter and is repayable on the earlier of the closing of a raise of junior capital or June 30, 2016. The loan is convertible at the option of the holder into common shares of the Company at a conversion price which is the lesser of \$0.115 per common share or a price per common share that is the issue price of the common shares issued on any equity raise on or before March 1, 2016. With this short-term loan Strategic's major shareholder has confirmed his commitment to the Company.

## OUTLOOK

Strategic curtailed drilling activities in early 2015 and is maintaining capital discipline during the current low commodity price environment, but continues to believe in the potential profitability of its conventional Muskeg light oil resource at Marlowe. Strategic is focused on streamlining operations and is encouraged by continued strong netbacks at Marlowe in 2015 (\$14.66/boe for the third quarter and \$18.42/boe for the first nine months) despite low oil prices. Due to the relatively high fixed-cost nature of the Marlowe asset, operating netbacks trend upwards with additional production volumes, and the Company has a substantial drilling inventory on its extensive land base at Marlowe. Strategic is evaluating alternatives to obtain additional capital to recommence the Muskeg development in a way that provides the greatest benefit to shareholders.

Strategic has initiated a process to identify, examine and consider funding available to enhance shareholder value. Funding alternatives may include, but are not limited to, identification and negotiation with alternative debt providers, the raising of additional capital via private or public share placement, recapitalization, merger, joint venture, the sale of all or a portion of the Company's assets, or any combination thereof. RBC Capital Markets has been retained as financial advisor to assist the Company with this process.

It is the Company's current intention not to disclose developments with respect to the review process until the Board of Directors has approved a specific transaction or otherwise determines that disclosure is necessary or appropriate. The Company will provide quarterly financial and material operational updates. The Company cautions that there are no assurances or guarantees that the process will result in a transaction or, if

a transaction is undertaken, the terms or timing of such a transaction.

## **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, 2014 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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