Strategic Oil & Gas Ltd. Announces Annual and Fourth Quarter 2016 Financial and Operating Results

CALGARY, ALBERTA--(Marketwired - March 27, 2017) - Strategic Oil & Gas Ltd. ("Strategic" or the "Company") (TSX VENTURE:SOG) is pleased to report financial and operating results for the year and three months ended December 31, 2016. This year the Company took major strides towards strengthening its balance sheet and increasing the value of its 100% owned core asset at Marlowe in Northern Alberta, and is well positioned to increase production and cash flows through development drilling in 2017.

HIGHLIGHTS

- Drilled 8 Muskeg wells during the year
- Achieved production of 2,800 boe/d in February 2017
- Increased proved and probable reserves by 53% to 19.6 MMBoe
- Reduced operating, transportation and G&A expenses by over $7 million from 2015
- $50.8 million in cash at December 31, 2016 to fund future development at Marlowe

FINANCIAL AND OPERATIONAL SUMMARY

	Three Months Ended December 31			Year Ended December 31		
	2016	2015	% change	**2016**	2015	% change
Financial ($thousands, except per share amounts)						
Oil and natural gas sales	**7,721**	7,349	5	**23,878**	36,496	(35)
Funds from operations (1)	**1,660**	1,268	31	**(219)**	7,285	-
Per share basic (2)	**0.06**	0.05	20	**(0.01)**	0.27	-
Cash flow from (used in) operating activities	**(1,256)**	(275)	357	**3,335**	1,808	84
Per share basic (2)	**(0.04)**	(0.01)	300	**0.12**	0.07	71
Net income (loss)	**48,510**	(31,790)	-	**33,242**	(110,115)	-
Per share basic (2)	**1.69**	(1.17)	-	**1.21**	(4.06)	-
Per share diluted (2)	**0.61**	(1.17)	-	**0.55**	(4.06)	-
Capital expenditures (excluding dispositions)	**9,018**	2,267	298	**29,279**	11,742	149
Bank indebtedness	**-**	42,857	(100)	**-**	42,857	(100)
Convertible debentures	**84,489**	-	-	**84,489**	-	-
Net debt	**37,166**	54,024	(31)	**37,166**	54,024	(31)
Operating						
Average daily production						
Oil and NGL (bbl per day)	**1,487**	1,680	(11)	**1,415**	1,897	(25)
Natural gas (mcf per day)	**2,233**	3,085	(28)	**2,359**	3,674	(36)
Barrels of oil equivalent (boe per day)	**1,859**	2,194	(15)	**1,808**	2,509	(28)
Average prices						
Oil & NGL, before risk management ($ per bbl)	**51.38**	42.65	20	**42.33**	47.07	(10)
Oil & NGL, including risk management ($ per bbl)	**51.38**	50.46	2	**42.33**	54.92	(23)
Natural gas, before risk management ($ per mcf)	**3.36**	2.66	26	**2.27**	2.91	(22)
Natural gas, including risk management ($ per mcf)	**3.36**	2.67	26	**2.27**	2.92	(22)
Netback ($ per boe)						

Petroleum and natural gas sales	**45.13**	36.41	24	**36.09**	39.85	(9)
Royalties	**(6.00)**	(5.00)	20	**(4.96)**	(4.59)	8
Operating costs	**(19.87)**	(17.41)	14	**(21.64)**	(21.58)	-
Transportation costs	**(1.01)**	(0.75)	35	**(0.84)**	(1.05)	(20)
Operating Netback ($ per boe) (1)	**18.25**	13.25	38	**8.65**	12.63	(32)
Common Shares (thousands)						
Common shares outstanding, end of period (2)	**43,978**	27,116	62	**43,978**	27,116	62
Weighted average common shares (basic) (2)	**28,775**	27,116	6	**27,533**	27,116	2
Weighted average common shares (diluted) (2)	**82,098**	27,116	203	**72,165**	27,116	166

(1) Funds from operations, net debt and operating netback are non-IFRS measurements; see "Non-IFRS Measurements" in management's discussion and analysis.

(2) Adjusted for the share consolidation on a twenty to one (20:1) basis announced on February 27, 2017.

FOURTH QUARTER SUMMARY

- Funds from operations increased to $1.7 million from $1.3 million for the comparable quarter in 2015, due to higher oil prices and lower operating, general and administrative and cash interest expenses, partially offset by gains on risk management contracts in the 2015 period. The operating netback increased 38% to $18.25/boe from $13.25/boe for the fourth quarter of 2015 due to a 20% increase in realized oil prices, partially offset by higher unit royalties and operating costs.

- Production decreased 15% from 2,194 boe/d for the three months ended December 31, 2015 to 1,859 boe/d for the current quarter, primarily due to natural declines and delays in bringing on production from new Muskeg wells. Production from new wells was also temporarily restricted due to limitations of the artificial lift systems installed.

- Capital expenditures of $9.0 million for the current quarter included completion costs for three wells of the Company's four well summer 2016 drilling program as well as minor equipping projects and preliminary costs for Strategic's winter 2017 drilling program.

- Strategic closed a non-brokered private placement of 16.9 million common shares at a price of $2.40 per common share for gross proceeds of $40.5 million. An additional 2.4 million common shares were issued in January under a brokered private placement at a price of $2.40 per common share for gross proceeds of $5.7 million (net proceeds of $5.4 million after agent's commission and legal costs). The Company currently has 46.4 million shares outstanding.

ANNUAL SUMMARY

- Production decreased by 28% from 2,509 boe/d in 2015 to an average of 1,808 boe/d in 2016 due to natural declines as a result of a lack of drilling activity in 2016. Only four wells were drilled targeting production additions during 2016, three of which came onstream in the fourth quarter of the year. Approximately 100 boe/d of the decrease relates to the shut-in of non-economic assets early in 2015 to conserve cash in a low commodity price environment.

- Funds from operations decreased from $7.3 million in 2015 to funds used in operations of $0.2 million in 2016 as lower revenues due to lower oil prices and production levels were partially offset by reduced costs.

- The Company's focus on cost reductions continued to positively affect netbacks and cash flows in 2016. Year over year, operating costs decreased 28% or $5.4 million, general and administrative ("G&A") expenses were reduced by 25% or $1.6 million and transportation costs decreased by 42% or $0.4 million from 2015 levels. The 2016 cost estimates provided in December 2016 of $14.25

million in operating costs and $5 million in G&A expenses were achieved.

- Capital expenditures were $29.3 million for the year ended December 31, 2016. The first six months of the year were focused on drilling wells to preserve undeveloped lands, increase reserves and further delineate the Muskeg play at Marlowe. In the second half of 2016 Strategic executed a four well drilling program on one pad designed to increase production and demonstrate improved well performance by drilling longer wells with additional completion stages.

- Due to successful drilling activities in 2016, proved and probable oil and gas reserves increased by 53% or 6.8 MMboe from the previous year to 19.6 MMboe at December 31, 2016, as determined by the Company's independent reserve evaluators McDaniel and Associates Consultants Ltd. ("McDaniel"). All in finding and development costs were $16.11 per boe for proved reserves and $9.83 per boe for proved and probable reserves.

- Net present value of proved and probable reserves, discounted at 10%, increased 81% from the prior year to $194.4 million at December 31, 2016.

- Net income increased to $33.2 million in 2016 compared to a net loss of $110.1 million in 2015 due to a net impairment reversal of $52.7 million related primarily to the Marlowe core area.

PERFORMANCE OVERVIEW

Strategic's main priorities entering 2016 were to strengthen the Company's balance sheet and delineate the Muskeg resource at its 100% owned and operated Marlowe field in Northern Alberta. The issuance of $94.9 million in convertible debentures in February 2016 eliminated the Company's bank debt and provided working capital for asset development. A four well appraisal drilling program completed in the first quarter of 2016 was instrumental in delineating a significant portion of the Muskeg resource, as well as increasing the Company's understanding of the scope of the play within its large land base at Marlowe. With these goals achieved, the Company planned and executed a four well Muskeg development drilling program in the second half of 2016, designed to add production volumes and continue to unlock the value of this sizable oil resource.

Capital expenditures totaled $29.3 million in 2016, with 8 total wells drilled at Marlowe. Successful drilling activities resulted in a 53% increase in proved and probable reserves to 19.6 MMboe at December 2016. Net present value of proved and probable reserves, discounted at 10%, increased to $194.4 million at December 2016 from $107.5 million at December 31, 2015. These results have confirmed once again the significant productivity and potential of the Muskeg play.

With oil prices remaining low throughout 2016, Strategic continued to identify cost efficiencies across its operations in order to remain competitive. Operating and general and administrative costs dropped 28% and 25% respectively from 2015 levels. In addition, the Company used the pay in kind option on its convertible debentures to make the semi-annual interest payments in additional debentures and conserve cash. At December 31, 2016, the Company had $50.8 million in cash, in addition to the $4.7 million in term deposits used as collateral for outstanding letters of credit, providing ample liquidity to continue the Muskeg play development.

OUTLOOK

The Company's focus remains on developing the reserves and infrastructure in the Marlowe area and continuing to identify efficiencies and reduce drilling costs. In December 2016, Strategic's board of directors approved a capital budget of $30 million for the first half of 2017. In the first quarter of 2017, five Muskeg horizontal wells have been drilled and are awaiting completion operations in the second quarter.

The capital budget also included a 4 km pipeline to tie in 14-35 Muskeg well drilled in the first quarter of 2016. Corporate production peaked at 2,800 boe/d after tie in of the 14-35 in February 2017. Current production is approximately 2,500 boe/d.

With the significant increase in demand for oilfield equipment and services this winter, the Company is facing delays in completing wells and bringing new production onstream. Strategic is endeavoring to mitigate the impact of these delays on its operations, and reiterates its earlier production guidance of exiting the first half of 2017 at 4,000 boe/d.

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

Strategic has filed its annual audited consolidated financial statements and related Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2016 with Canadian securities regulators. These filings, and additional information including the Company's recently updated corporate presentation, are available for review through the Company's website at www.sogoil.com and on SEDAR 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 capital spending; (iii) the Company's growth strategy and timing; (iv) potential profitability and productivity of its asset base; (v) the impact of cost reduction initiatives; (vi) the impact of drilling and completion techniques on productivity; (vii) the effect of additional production volumes on unit costs and funds from operations; 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, 2016 and other documents filed with Canadian provincial securities authorities, 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 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.

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