Strategic Oil & Gas Ltd. Announces Second Quarter 2013 Financial and Operating Results

15.08.2013 | Marketwired

CALGARY, Aug. 14, 2013 - Strategic Oil & Gas Ltd. ("Strategic" or the "Company") (TSX VENTURE:SOG) reports financial and operating results for the three months ended June 30, 2013. In the first half of the year, Strategic increased corporate production by 72 percent to 3,924 Boed from 2,282 Boed for the fourth quarter of 2012, and increased proved and probable reserves by 53 percent to 11.8 MMBoe after accounting for year to date production.

Detailed results are presented in Strategic's unaudited condensed consolidated financial statements and related Management's Discussion and Analysis ("MD&A") which can be accessed on the Company's website at www.sogoil.com and on SEDAR at www.sedar.com.

FINANCIAL AND OPERATIONAL SUMMARY

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Financial ($thousands, except per share amounts)				
Oil and natural gas sales	23,770	16,924		
Funds from (used in) operations (1)	8,672	8,174		
Per share basic	0.04	0.04		
Per share diluted	0.04	0.04		
Net income (loss)	(2,338)	1,236		
Per share basic	(0.01)	0.01	(0	
Per share diluted	(0.01)	0.01		
Capital expenditures (excluding acquisitions)	14,782			
Net debt (1)	80,879	1,486		
Operating				
Average daily production				
Crude oil (bbl per day)	2,768	2,252		
Natural gas (mcf per day)	6,936	1,983		
Barrels of oil equivalent (Boe per day)	3,924			
Average realized price				
Crude oil ($ per Bbl)	86.58	80.74		
Natural gas ($ per Mcf)	3.65	2.08		
Barrels of oil equivalent ($ per Boe)	67.53	72		
Netback ($ per Boe) (1)				
Oil and natural gas sales (2)	67.53	72.00		
Royalties	(13.46)	(9.37)	(14.74)	
Operating expenses	(19.37)	(12.64)	(2	
Transportation expenses	(4.78)	(8.14)		
Operating Netback ($ per Boe)	29.92	41.85		
Common Shares (thousands)				
Common shares outstanding, end of period	210,404			
Weighted average common shares (basic)	210,404	1		
Weighted average common shares (diluted)	210,404			

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

(2) Oil and natural gas sales per Boe includes realized gains on risk management contracts.

SUMMARY

- Average daily production increased by 52 percent from the second quarter of 2012 and 40 percent from the first quarter of 2013 to a record average of 3,924 Boed. As a result, oil and gas revenues increased 41 percent to $23.8 million for the current quarter from $16.9 million for the comparative quarter in 2012.

- Capital expenditures totaled $14.8 million for the three months ended June 30, 2013 as compared to $2.1 million for the second quarter of 2012. Capital spending was primarily directed to infrastructure reconfiguration and expansion projects at Steen River, undeveloped land acquisitions and equipping wells recompleted in the Muskeg Stack and Slave Point zones, as well as new wells drilled in the first quarter. Production continues to be restricted by fluid handling constraints and will be fully optimized when the planned expansion of the operated 9-17 oil battery is completed in the second half of 2013.

- Strategic closed an acquisition of light oil and natural gas assets at Bistcho in northwest Alberta and Cameron Hills in the Northwest Territories (the "Bistcho/Cameron Hills Assets") on February 28, 2013 for consideration of $9.7 million, including adjustments. This acquisition included operated production of 500 Boed (40 percent light oil), oil and gas processing facilities and a direct pipeline connection to the Rainbow pipeline in northwest Alberta. Through the implementation of operational efficiencies Strategic improved the operating netback from these assets from a loss of $0.4 million for March 2013 to a positive netback of $1.3 million for the current quarter. The Company will continue to review opportunities to add value to the acquired properties.

PERFORMANCE OVERVIEW

Strategic's focus in the second quarter was on bringing on production from wells drilled in the first quarter capital program and ongoing activity with respect to the facility reconfiguration and expansion projects at Steen River. Operating netbacks have improved from the first quarter and management expects additional improvement once the facility expansion is completed in the second half of 2013.

Capital spending of $14.8 million for the three months ended June 30, 2013 was concentrated on equipping and tying in wells drilled in the first quarter, infrastructure reconfiguration and expansion projects designed to increase efficiency and processing and disposal capability at Steen River, undeveloped land acquisitions and equipping and tying in wells recompleted and drilled in the first quarter. The infrastructure projects include the reconfiguration of 3-inch and 8-inch pipelines which connect the oil production on the western rim of the Steen Astrobleme to the 9-17 oil battery, modifications to the 1-28 plant purchased in December 2012 and ongoing costs related to the expansion of the 9-17 battery to increase fluid handling capacity. Also included in second quarter capital were expenditures for recompletions in the Bistcho and Steen River areas and lease construction and rig mobilization costs related to the Company's summer drilling program at Steen River.

The Company grew production to 3,924 Boed for the quarter, compared to 2,583 Boed for the second quarter of 2012 and 2,797 Boed for the first three months of 2013, as a result of successful winter drilling activities and a full quarter of production from the Bistcho/Cameron Hills Assets. Production levels early in the quarter were affected by downtime due to operational difficulties related to hydrate plugging of the horseshoe pipeline and restricted fluid handling at the Company's Steen River facilities. The infrastructure projects currently being executed are critical to accommodating significant production growth in the area, reducing operating costs per Boe and maximizing the deliverability of the Muskeg Stack oil play.

Strategic's operating netback decreased 29 percent to $29.92/Boe in the second quarter of 2013 from $41.85/Boe for the comparative quarter in 2012, partially resulting from a higher proportion of natural gas in the Corporation's production mix, higher royalties as the wells drilled in the first quarter of 2012 no longer benefited from the 5 percent first year royalty rate, and an increase in operating costs related to the acquisition of the Bistcho/Cameron Hills Assets and the Steen River assets acquired in December 2012.

The Company's operating netback increased by $5.22/Boe from the first quarter of 2013 despite an overall reduction in the realized price from $71.05/Boe for the three months ended March 31, 2013 to $67.53/Boe. The reduction in the realized price per Boe was due to the current period production mix being 70.5 percent oil and NGL for the three months ended June 30, 2013 as compared to 82.9 percent for the first quarter of the year. The following factors contributed to the increase in corporate netbacks:

- Strategic realized an operating netback at Steen River $39.36/Boe for the current quarter, which helped increase the corporate netback to $29.92/Boe. The higher operating netback at Steen River was somewhat offset by lower netbacks from Company's non-core assets in southern Alberta, non-operated production in British Columbia and the Bistcho/Cameron Hills Assets.

- Realized crude oil prices increased by $4.87/bbl, driven by an increase in oil volumes shipped by rail and a higher Canadian-US dollar exchange rate.

- Royalties expense decreased by $3.10/Boe from the previous quarter, as new wells drilled in the winter came on production during the current period, benefiting from the maximum 5 percent royalty rate for the first year of production. The reduction in the royalty rate is also a result of a higher percentage of natural gas in the Company's production mix. Strategic anticipates further reductions in the corporate royalty rate in the third and fourth quarters as new wells from the winter drilling program will be on production for the full quarter, and production volumes are added from summer drilling activity which will also benefit from the maximum 5 percent rate.

- Operating costs decreased by $5.46/Boe due to a higher production base. The decrease was achieved despite increased water disposal costs due to delays in receiving regulatory approvals, which were received subsequent to June 30, 2013.

OUTLOOK

Strategic's infrastructure spending in the second quarter has positioned the Company for significant growth. Current corporate production is 4,100 Boed (75% oil). The Company resumed its Muskeg Stack drilling program early in the third quarter, and has drilled two horizontal wells to date. The first well has been completed and will be tied in shortly. Completion operations are underway on the second well in the program. The Company expects to drill 4 wells in the third quarter: three Muskeg Stack wells and one Keg River well. All 4 wells are development targets and close to existing infrastructure. The Company intends to release an operational update with well results from the horizontal Muskeg Stack drilling program in September.

Strategic's current handling capability at the two facilities at Steen River is approximately 4,500 bbl/d of crude oil. The Company has initiated a battery expansion project to add 3,500 bbl/d of oil handling capability at Steen River early in the fourth quarter of 2013, bringing total oil handling capability to approximately 8,000 bbl/d from the Company's two facilities in this area. Completion of the facility work would also result in a reduction in operating costs during the fourth quarter of 2013.

The Company continues scoping and planning work for a new rail transloading facility at Steen River with a capacity of 5,000 bbl/d. In the first quarter of 2014, Strategic plans to pipeline connect the Steen River assets to the recently acquired 50 km 4 inch oil pipeline that can deliver up to 4,000 bbl/d of sales oil into the Rainbow pipeline. The capacity on the rail and the pipeline will enable Strategic to reduce trucking charges while maintaining multiple accesses to market for its crude products.

ABOUT STRATEGIC

Strategic is a well-capitalized junior oil and gas company committed to growth by exploiting its light oil assets in Canada. Strategic is primarily focused on implementing development plans for its light oil properties, while continuing to review other high impact light oil resource plays. 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 royalty rates, and anticipated reductions in such costs and rates; (iii) expected timelines for production optimization; (iv) the Company's financial strength and capitalization; (v) expected results of capital programs; and (vi) expected future capital projects and associated operating and transportation cost reductions; 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, 2012 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 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

The 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). 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 management's discussion and analyis.

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.

Contact

Strategic Oil & Gas Ltd.
Gurpreet Sawhney, MBA, MSc., PEng., President and CEO
403.767.9000
403.767.9122 (FAX)

Strategic Oil & Gas Ltd.
Aaron Thompson, CA, Chief Financial Officer
403.767.9000
403.767.9122 (FAX)

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