Strategic Oil & Gas Ltd. Announces Year-End 2013 Financial Results, Second Closing of Private Placements and Operations Update

31.03.2014 | [Marketwired](#)

CALGARY, ALBERTA--(Marketwired - Mar 31, 2014) - Strategic Oil & Gas Ltd. ("Strategic" or the "Company") (TSX VENTURE:SOG) reports financial and operating results for the fourth quarter and year ended December 31, 2013, announces the closing of the second tranche of the previously announced $50 million private placement and provides results on the Muskeg Stack horizontal wells drilled in the first quarter of 2014. Detailed results are presented in Strategic's audited 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/SOG0331.pdf.

FINANCIAL AND OPERATIONAL SUMMARY

	Three Months Ended December 31			Year Ended December 31		
	2013	2012	% change	2013	2012	% change
Financial ($thousands, except per share amounts)						
Oil and natural gas sales	15,660	15,863	(1)	79,945	56,512	41
Funds from (used in) operations [1]	(320)	3,578	(109)	17,162	20,021	(14)
Per share basic & diluted	(0.00)	0.02	(100)	0.08	0.11	(27)
Cash flow from operating activities	2,122	2,724	(22)	18,493	19,785	(7)
Per share basic & diluted	0.01	0.01	-	0.08	0.11	(27)
Net loss	(9,852)	(5,917)	67	(22,316)	(4,788)	366
Per share basic & diluted	(0.04)	(0.03)	-	(0.10)	(0.03)	233
Capital expenditures (excluding acquisitions)	29,484	15,467	91	119,151	62,612	90
Net debt [1]	82,547	47,303	75	82,547	47,303	75
Operating						
Average daily production						
Oil and NGL (bbl per day)	1,888	2,107	(10)	2,339	1,871	25
Natural gas (mcf per day)	5,753	1,050	448	5,588	1,415	295
Barrels of oil equivalent (Boe per day)	2,847	2,282	25	3,270	2,106	55
Average prices						
Oil & NGL, before risk management ($ per bbl)	78.87	80.09	(2)	85.77	80.69	6
Oil & NGL, including risk management ($ per bbl)	76.30	80.09	(5)	82.73	80.69	3
Natural gas ($ per mcf)	3.71	3.52	5	3.30	2.46	34
Netback ($ per Boe)						
Petroleum and natural gas sales	59.80	75.57	(21)	66.98	73.30	(9)
Royalties	11.93	16.81	(29)	14.51	12.55	16
Operating expenses	34.54	22.29	55	24.02	17.62	36
Transportation expenses	4.72	7.38	(36)	4.57	7.49	(39)
Operating Netback ($ per Boe) [1]	8.61	29.09	(70)	23.88	35.64	(33)
Common Shares (thousands)						
Common shares outstanding, end of period	260,601	186,415	40	260,601	186,415	40
Weighted average common shares (basic & diluted)	258,318	187,176	38	217,604	186,800	16

[1] Funds from operations, net debt and operating netback are non-IFRS measurements; see "Non-IFRS Measurements" in Strategic's MD&A for the three months and year ended December 31, 2013.

FOURTH QUARTER SUMMARY

- Production increased by 565 Boed or 25 percent from 2,282 Boed (92 percent oil) for the three months ended December 31, 2012 to 2,847 Boed (66 percent oil). Production volumes for the current quarter were impacted by 26 days of total downtime at Steen River, related to the 9-17 oil facility expansion and turnaround. The expansion was necessary to accommodate future growth in the Company's core area, as well as reduce operating costs.

- Funds from (used in) operations decreased to $(0.3) million for the current three month period from $3.6 million for the comparable quarter in 2012, due to higher operating costs related to the plant turnaround.

- Three wells were drilled during the quarter, including two Muskeg Stack horizontal wells and a Keg River horizontal well. Two wells were on production by year-end 2013, while the third well commenced production early in 2014.

ANNUAL SUMMARY

- Production increased by 55 percent from 2,106 Boed (89 percent oil and NGL) in 2012 to an average of 3,270 Boed (72 percent oil and NGL) in 2013. As a result, oil and gas revenues increased 41 percent to $79.9 million in 2013 from $56.5 million in 2012.

- Funds from operations decreased from $20.0 million in 2012 to $17.2 million in 2013, resulting from higher royalty expense and an increase in operating costs due to a substantial increase in the Company's asset base, partially offset by higher revenues. With the completion of the facility expansion and the Bistcho pipeline operational early in the second quarter of 2014, Strategic anticipates a significant reduction in operating costs, transportation costs and royalty rates as new wells come on stream and production is not hindered by facility downtime.

- Exploration and development expenditures totaled $119.2 million for the twelve months ended December 31, 2013 as compared to $62.6 million for 2012. Approximately 97 percent of exploration and development spending was directed to the Company's light oil asset at Steen River.

- Strategic increased its proved and probable oil and gas reserves by 54 percent compared to the previous year, as determined by the Company's independent reserve evaluators McDaniel and Associates Consultants Ltd. ("McDaniel") at December 31, 2013. The Company added 5.7 MMBoe of proved and probable reserves in 2013, excluding production, for a reserve replacement ratio of 480 percent.

- 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 $9.6 million. This acquisition included operated production of 500 Boed (40% light oil), oil and gas processing facilities and a direct pipeline connection to the Rainbow pipeline in northwest Alberta, which will allow the Company to connect oil production at Steen River to the Rainbow pipeline system. Strategic made immediate operational changes to increase production and reduce operating costs on the acquired properties, and generated operating income of $2.8 million in 2013.

PERFORMANCE OVERVIEW

In 2013 the Company continued to execute on its corporate strategy to explore and exploit its light oil asset base in northern Alberta, as well as acquiring strategic assets in northern Alberta and the Northwest Territories, including oil and gas production and a 50 km oil pipeline.

Average daily production increased 55 percent from 2,106 Boed in 2012 to 3,270 Boed in 2013. Strategic drilling a total of twelve (12.0 net) oil wells at Steen River in 2013, comprised of six Muskeg Stack horizontal wells, five Keg River vertical wells, and one Keg River horizontal well.

The Company's operating netbacks were affected by production downtime in 2013 as a result of facility constraints, commissioning of new equipment and extremely cold weather in the fourth quarter. Strategic has assembled a concentrated base of land and infrastructure in northern Alberta and operating costs are largely fixed in nature. As new production comes on stream from late 2013 and 2014 drilling and with the processing facilities operating efficiently, the Company anticipates that unit costs and royalty rates will be reduced.

Capital spending in 2013 also included significant facility upgrades and pipeline construction to accommodate production growth and future development at Steen River. The Company now has a total of 8,500 bbl/d of oil processing capacity at its two operated facilities in the area.

2014 UPDATE

For 2014 Strategic has a capital budget of $80 million that includes drilling Muskeg Stack and Keg River oil wells at Steen River, as well as key infrastructure projects designed to decrease operating and transportation costs in the area.

A significant portion of the first quarter 2014 capital program was directed to the Bistcho pipeline project, initiated to connect crude oil production from the Steen River area to the Rainbow pipeline system. Strategic is also pleased to report its Bistcho oil pipeline project is proceeding on time and on budget. This project is paramount in terms of the Company's strategy to reduce operating and transportation costs by limiting trucking costs and enhancing the profitability of each barrel processed at Marlowe.

The plant turnaround at Bistcho was completed in early March and shut-in production has now been restored. The Bistcho Plant turn around took an extra 10 days to the extreme cold weather. Production volumes averaged approximately 3,100 Boed in January and February and have been steadily increasing as production has been restored at Larne, Bistcho, Cameron Hills and West Marlowe assets.

DRILLING & COMPLETIONS

In the first quarter of 2014 Strategic also drilled three Muskeg Stack wells and completed a fourth well drilled in the fourth quarter of 2013.

Muskeg Stack horizontal well 16-34 was drilled to a lateral length of 1,516 meters and completed with a 14 stage frac. The well averaged 443 BOED (91 percent oil) over the first 11 days of production. This was the first well drilled using completion techniques which have made increased the productivity of the Muskeg Stack horizontal wells. The well is currently producing at a rate of 335 BOED (91% oil) with a liquid level of 25-30 joints to fluid which corresponds to approximately a 30% drawdown.

Muskeg Stack horizontal well 13-24 was drilled to a lateral length of 1,778 meters and completed with a 15 stage frac. The well flowed at a average rate of 310 BOED (85 percent oil) over the first 7 days. The Company has successfully drilled Muskeg Stack horizontal well 10-24, which was the last well drilled during the first quarter drilling program. The well has a lateral length of 1,428 meters and is planned to be completed with a 15 stage frac in early April.

Results for the Muskeg Stack wells are presented in the table below:

Muskeg Hz Well	Lateral Length meters	Frac Stages number	Initial Flow Rate boed (days)	IP30 Boed	Percent Oil %	Current Rate boed	Producing Days days
04-33(4Q13)	1,538	12	654 (IP2)	400	89%	180	132
05-33 (1Q14)	1,506	12	400 (IP4)	260	94%	202	40
16-34 (1Q14)	1,516	14	443 (IP11)	-	91%	335	28
13-24 (1Q14)	1,778	15	310 (IP7)	-	85%	345	8

FINANCING

The Company has completed the second closing of its previously announced Private Placements. Pursuant to the Private Placements, the Company issued a total of 100,000,000 common shares (the "Common Shares") at a price of $0.50 per Common Share, for aggregate gross proceeds of $50,000,000. Insiders, including officers, employees and directors of the Company, subscribed for a significant portion of the Private Placements. The securities issued on March 31, 2014, pursuant to the second closing, are subject to trading restrictions to August 1, 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.

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
403.767.2949
403.767.9122
Strategic Oil & Gas Ltd.
Michael A. Zuk
VP, Business Development
403.767.2949
403.767.9122
Strategic Oil & Gas Ltd.
1100, 645 7th Avenue SW
Calgary, AB T2P 4G8
www.sogoil.com