Strategic Oil & Gas Ltd. Announces First Quarter 2018 Financial and Operating Results

24.05.2018 | GlobeNewswire

CALGARY, Alberta, May 24, 2018 (GLOBE NEWSWIRE) -- Strategic Oil & Gas Ltd. (“Strategic” or the “Company”) (TSXV:SOG) is pleased to report financial and operating results for the three months ended March 31, 2018. Detailed results and additional information 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 and on SEDAR at www.sedar.com.

Highlights for the quarter include:

- Drilled two horizontal Muskeg development wells at west Marlowe which commenced production in March, one month ahead of schedule;
- Initial test rates in line with expectations and Muskeg type curve (average 473 boe/d over an 11 day test for one well and average of 388 boe/d over the last 4 days of a 19 day test for the second well);
- Realized oil price increased 15% from the first quarter of 2017, driven by an average WTI oil price of US $62.87/bbl for the current period.

FINANCIAL AND OPERATIONAL SUMMARY

	Three months ended March 31					
Financial ($thousands, except per share amounts)	2018		2017		% change	
Oil and natural gas sales	10,081		8,888		13	
Funds from operations (1)	1,554		2,383		(35	)
Per share basic (1) (2)	0.03		0.05		(40	)
Cash provided by (used in) operating activities	769		50		1,438	
Per share basic (2)	0.02		0.00		-	
Net loss	(5,163	)	(4,440	)	16	
Per share basic (2)	(0.11	)	(0.10	)	10	
Net capital expenditures	9,161		18,067		(49	)
Working capital (comparative figure is as of December 31, 2017)	264		10,251		(98	)
Net debt (comparative figure is as of December 31, 2017) (1)	109,771		95,801		15	
Operating						
Average daily production						
Crude oil (bbl per day)	1,700		1,628		4	
Natural gas (mcf per day)	2,902		3,872		(25	)
Barrels of oil equivalent (boe per day)	2,183		2,273		(4	)
Average prices						
Oil & NGL ($ per bbl)	62.20		53.86		15	
Natural gas ($ per mcf)	2.17		2.86		(24	)
Operating netback ($ per boe) (1)						
Oil and natural gas sales	51.30		43.44		18	
Royalties	(7.61	)	(5.53	)	38	
Operating expenses	(25.93	)	(18.57	)	40	
Transportation expenses	(0.64	)	(1.43	)	(55	)
Operating Netback (1)	17.12		17.91		(4	)
Common Shares (2) (thousands)						

Common shares outstanding, end of period	46,402	46,374	-
Weighted average common shares (basic & diluted)	46,396	45,549	2

(1) Funds from operations, adjusted working capital, net debt and operating netback are Non-GAAP measures; see “Non-GAAP measures” in the MD&A.
(2) Adjusted for the share consolidation on a 20:1 basis on March 6, 2017.

PERFORMANCE OVERVIEW

During the first quarter, Strategic was focused on the execution of a two-well Muskeg development drilling program at West Marlowe. The 1-2 and 5-1 wells were both drilled with a 1,900 metre lateral section and were completed with 28 and 30 stages, respectively. Initially only a fraction of the total stages were opened on each well to assess contributions from the new frac system employed. Initial production rates through testers averaged 473 boe/d (82% oil) for the 1-2 well on an 11-day test and 388 boe/d (83% oil) for the 5-1 well for the final 4 days of a 19 day test period. The Company is encouraged by the unconstrained deliverability of the wells and believes the new frac systems were effective in linking net pay intervals within the Muskeg zone. The wells are currently experiencing some surface restrictions due to pipeline pressures. Strategic is actively evaluating alternatives to debottleneck the system at west Marlowe to fully optimize the new wells. Average rates over the first 30 days of production are as follows:

	IP30		Current rate	
Well	Total (boe/d)	% oil	Total (boe/d)	% oil
1-2	309	86 %	122	83 %
5-1	165	87 %	168	91 %

Corporate production volumes decreased 10% from the fourth quarter of 2017 to 2,183 boe/d for the current period due to natural declines and a Company-operated pipeline being evaluated at north Marlowe which resulted in a loss of 145 boe/d. The decline was partially offset by production volumes from the new Muskeg wells drilled in the first quarter.

Strategic had estimated a total of $9 million in capital spending for the first half of 2018. First quarter capital expenditures totaled $9.2 million, and the Company expects an additional $1 million in spending in the second quarter to complete the program, with the increase related to minor facilities projects and additional completion costs incurred while monitoring the effectiveness of the new frac design.

Strategic is encouraged by the production potential of the latest Muskeg wells, and feels that the new drilling and completion techniques were effective in correcting the well placement and connectivity issues experienced with the 2017 drilling program. The Company is working on reducing surface restrictions to enhance productivity of the west Marlowe area. The information gained from the two-well winter program will be incorporated into the next development plan, which is currently in the planning stage.

As previously announced, the Company’s new CEO Tony Berthelet started on May 21, 2018. Mr. Berthelet commented: “I am excited to join Strategic at this point in the Company’s history to lead the effort to realize value from the significant light oil resource under our land base.”

QUARTERLY SUMMARY

- Capital expenditures of $9.2 million were incurred in the quarter, primarily related to the two well Muskeg development drilling program and minor recompletion and pipeline projects.
- Revenues increased 13% from the first quarter of 2017 to $10.1 million for the period, due to higher oil production and an increase in realized oil prices. The average WTI oil price for the quarter was US $62.87/bbl, and WTI prices are currently over US $70/bbl.
- Despite higher revenues, funds from operations decreased to $1.6 million for the quarter from $2.4 million for the three months ended March 31, 2017 and $3.0 million for the fourth quarter of 2017. The decrease was primarily related to higher operating costs, higher royalty rates driven by the increase in commodity prices and cash interest expense on the Company’s convertible debentures starting March 1, 2018.

- Average production decreased 4% from the first quarter of 2017 to 2,183 boe/d for the first three months of 2018, as contributions from the two new Muskeg wells drilled during the quarter were offset by downtime caused by pipeline maintenance work, primarily at north Marlowe.

- The Company issued $4.1 million of additional convertible debentures as payment in kind of interest payable on February 28, 2018 to preserve cash while pursuing its capital spending program. The additional debentures have the same terms as the original debentures except that they are convertible into common shares of the Company at a price of $1.08 per share.

STOCK OPTIONS

On May 22, 2018, Strategic issued 1.0 million stock options to the incoming CEO of the Company. Each option entitles the holder to acquire one common share of the Company for a period of five years at a price of $1.08 per share. These options are issued in accordance with the Company's incentive stock option plan.

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 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.

For more information, please contact:

Tony Berthelet
President & CEO

Aaron Thompson
CFO

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

Telephone: 403.767.9000
Fax: 403.767.9122

Test production rates
Any references in this news release to initial production or test rates are useful in confirming the presence of hydrocarbons, however, such rates are not necessarily determinative of the rates at which such wells will continue production. These flow-back or test results are quoted on a raw basis before shrinkage on natural gas volumes and may not be indicative of long-term well performance or ultimate recovery. While encouraging, readers are cautioned not to place reliance on such rates in estimating the aggregate production for the Company. Total corporate production volumes include natural gas shrinkage.

Forward-Looking Statements
Certain statements in this release constitute forward-looking information under applicable securities legislation. Forward-looking information typically contains statements with words such as "anticipate", "believe", "estimate", "will", "may", "expect", "plan", "schedule", "intend", "propose", or similar words suggesting future outcomes or an outlook. Forward-looking information in this release includes, but is not limited to:

- plans for debottlenecking the Marlowe field;
- future development plans;
- the impact of adjustments to drilling and completion techniques; and
- general business strategies and objectives.

Such forward-looking information is based on a number of assumptions, including: future commodity prices; royalty rates, taxes and capital, operating, general and administrative and other costs; foreign currency exchange rates and interest rates; general business, economic and market conditions; the ability of the Company to obtain the required capital to finance its exploration, development and other operations and meet its commitments and financial obligations; the ability of Strategic to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its activities; the ability of Strategic to market its oil and natural gas successfully to current and new customers; the ability of Strategic obtain drilling success (including in respect of anticipated production volumes, reserves additions and resource recoveries) and operational improvements, efficiencies and results consistent with expectations; the timely receipt of required governmental and regulatory approvals; and anticipated timelines and budgets being met in respect of drilling programs and other operations (including well completions and tie-ins and the construction, commissioning and start-up of new and expanded facilities).

Although Strategic believes that the expectations reflected in such forward-looking information is reasonable, undue reliance should not be placed on them as the Company can give no assurance that such assumptions will prove to be correct. Forward-looking information is based on expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by Strategic and described in the forward-looking information. The material risks and uncertainties include, but are not limited to: fluctuations in commodity prices, foreign currency exchange rates and interest rates; estimates and projections relating to future revenue, future production, reserve additions, resource recoveries, royalty rates, taxes and costs and expenses; operational risks in exploring for, developing and producing, oil and natural gas; the ability to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost; potential disruptions, delays or unexpected technical or other difficulties in designing, developing, expanding or operating new, expanded or existing facilities; processing and pipeline infrastructure outages, disruptions and constraints; risks and uncertainties involving the geology of oil and gas deposits; uncertainty of reserves and resources estimates; general business, economic and market conditions; changes in, or in the interpretation of, laws, regulations or policies (including environmental laws); the ability to obtain required governmental or regulatory approvals in a timely manner, and to enter into and maintain leases and licenses; the effects of weather and other factors including wildlife and environmental restrictions which affect field operations and access; the timing and cost of future abandonment and reclamation obligations and potential liabilities for environmental damage and contamination; uncertainties regarding aboriginal claims and in maintaining relationships with local populations and other stakeholders; the outcome of existing and potential lawsuits, regulatory actions, audits and assessments; and other risks and uncertainties described elsewhere in Strategic’s other filings with Canadian securities authorities.

The foregoing list of risks is not exhaustive. For more information relating to risks, see the section titled "risk factors" in Strategic's current annual information form. The forward-looking information contained in this release is made as of the date hereof and, except as required by applicable securities law, Strategic undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise.

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.

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.