

# Strategic Oil & Gas Ltd. Announces Recapitalization Transaction

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CALGARY, Nov. 05, 2018 - Strategic Oil & Gas Ltd. ("Strategic" or the "Company") (TSXV:SOG) announces further to its press release dated August 29, 2018 regarding its strategic alternatives process, the Company and certain investment funds managed by GMT Capital Corp. (the "GMT Funds"), have entered into a letter of intent whereby the GMT Funds have agreed, on a non-binding basis and subject to execution of definitive agreements, to: (i) make an additional investment in the Company of up to \$30 million (the "Investment"); and (ii) to settle their existing convertible debentures ("Debentures") of the Company by way of a shares for debt settlement agreement (the "Shares for Debt Agreements" and together with the Investment, the "Proposed Transaction"). In addition, certain other holders of convertible debentures have also agreed to settle their existing convertible debentures on the same terms as the GMT Funds. Strategic has entered into Shares for Debt Agreements with holders of 96% of the existing convertible debentures.

The Investment by the GMT funds (or its affiliates, the Bay Resource Partners entities) and certain other investors into Strategic is expected to take the form of : (i) a first tranche of \$15 million in 1.5 year first lien secured notes (the "GMT Notes") bearing interest at 12% per annum and payable quarterly; and (ii) a second \$15 million tranche of GMT Notes (for a total of \$30 million) on the same terms as the first tranche (the second tranche being callable by the Company on the occurrence of certain events). Funds from the first and second investment tranches will be used by the Company to meet upcoming asset retirement obligations and advance the technical understanding of the Marlowe Asset. The technical work will include 3D seismic, rock and fluid property work, infrastructure capital and funds associated with new drilling activity.

In consideration of the Investment, Strategic will issue to the GMT Funds \$5 million of common share purchase warrants (the "Bonus Warrants") for each tranche of the Investment, at a strike price equal to the 20 day volume weighted average trading price of the Common Shares as of the closing date of the Proposed Transaction for a period of 5 years. Strategic will also pay a financing origination fee to the GMT Funds in the amount of 2% of the total funds made available to Strategic. The parties have also agreed to a \$3 million break fee if the Proposed Transaction is not completed as a result of Strategic sourcing an alternative financing structure prior to closing of the Proposed Transaction.

Pursuant to the Shares for Debt Agreements, Strategic has agreed to settle the outstanding obligations of the Company with respect to the existing Debentures held by the majority of its holders of convertible debentures in the amount of approximately \$111 million of the \$116 million of outstanding debentures (including current interest and notes issued in satisfaction of interest on a payment in kind basis) in exchange for approximately 1,443,452,300 common shares ("Common Shares") of the Company at a deemed price of \$0.0773 per share. Assuming the conversion of all of the Company's outstanding Debentures, it is expected that current shareholders would own approximately 3% of the Company and former Debentureholders would own approximately 97% of the post closing issued and outstanding Common Shares.

It is a condition of the Proposed Transaction that the remaining holders of Debentures are offered the opportunity to convert their Debentures to Common Shares at the same conversion price as Shares for Debt Agreements and that a minimum of 98% of the principal amounts of the debentures are so converted.

## Related Party Considerations

Certain of the parties who have entered into the Shares for Debt Agreements are related parties (the "Related Parties") of the Company by virtue of their share ownership in the Company or their role as directors or officers of the Company. In particular, Rick Skeith and Michael Graham are directors of Strategic. Mr. Aaron Thompson is an officer of the Company. Mr. Michael Watzky is a member of the Board and is the nominee of BP Energy Partners and the GMT Funds are owned by Tom Clausus, a member of the Company's board of directors. Collectively the Related Parties own or control 31,158,110 Common Shares, representing approximately 67.1% of the issued and outstanding Common Shares and \$94.8 million of

principal amount of the Debentures, representing approximately 81.7% of the Debentures. Upon completion of the Proposed Transaction, it is expected that the Related Parties will hold, directly and indirectly, 1,336,816,384 Common Shares or 82.2% of the issued and outstanding Common Shares, (assuming the conversion of all of the outstanding Debentures on the same terms as set forth above and the exercise of the Bonus Warrants).

The Proposed Transactions constitute "related party transactions" within the meaning of Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions ("MI 61-101"). The Company is relying on a financial hardship exemption in connection with the Proposed Transactions as the Company is in serious financial difficulty and the Proposed Transactions are the only alternatives that are available to the board since it began its strategic alternatives process in August, 2018. The letter of intent in respect of the Proposed Transactions as well as the individual Debt Settlement Agreements have been unanimously approved by a special committee (the "Special Committee") of the board of directors of Strategic, in consultation with RBC Capital Markets who have acted as financial advisors to the Special Committee in respect of the strategic alternatives process. The Special Committee is comprised of Messrs. Rick Skeith, Michael Graham, Jim Riddell and John Harkins, each of whom is independent of the GMT Funds.

As a result of a significant increase in light oil differentials in Canada, combined with lower production volumes due to a lack of development activity, the Company is not generating positive cash flow from operations. Strategic has a working capital deficit, including \$7 million in abandonment and reclamation obligations which are scheduled for completion in the next six months. The Company has a debenture interest payment due in early 2019 and absent the Proposed Transactions being completed, would require additional financing to fund this payment.

Completion of the Proposed Transactions is conditional upon obtaining TSX Venture Exchange approval. Subject to receipt of all necessary approvals, the Proposed Transactions are expected to close on or about November 15, 2018.

#### About Strategic Oil & Gas

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.

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#### Forward-Looking Statements

This news release contains forward-looking statements and other statements that are not historical facts. Forward-looking statements are often identified by terms such as "will", "may", "should", "anticipate", "expects" and similar expressions. All statements other than statements of historical fact included in this release, including, without limitation, statements regarding the completion of the Proposed Transactions, are forward-looking statements that involve risks and uncertainties. There can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from the

Company's expectations are risks detailed from time to time in the filings made by the Company with securities regulators.

The reader is cautioned that assumptions used in the preparation of any forward-looking information may prove to be incorrect. Events or circumstances may cause actual results to differ materially from those predicted, as a result of numerous known and unknown risks, uncertainties, and other factors, many of which are beyond the control of the Company. These factors include, but are not limited to, commodity prices, need for additional funding and availability of such funding, economic conditions, currency fluctuations, competition and regulatory changes. As a result, the Company cannot guarantee that any forward-looking statement will materialize and the reader is cautioned not to place undue reliance on any forward-looking information. Such information, although considered reasonable by management at the time of preparation, may prove to be incorrect and actual results may differ materially from those anticipated. Forward-looking statements contained in this news release are expressly qualified by this cautionary statement. The forward-looking statements contained in this news release are made as of the date of this news release and the Company will only update or revise publicly any of the included forward-looking statements as expressly required by Canadian securities law.

*The TSXV has in no way passed on the merits of this news release. Neither the TSXV nor its Regulation Services Provider (as that term is defined in policies of the TSXV) accepts responsibility for the adequacy or accuracy of this release.*

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