Strategic Oil & Gas Ltd. Announces Third Quarter 2014 Financial and Operating Results

18.11.2014 | Marketwired

CALGARY, ALBERTA--(Marketwired - Nov 18, 2014) - Strategic Oil & Gas Ltd. ("Strategic" or the "Company") (TSX VENTURE:SOG) reports financial and operating results for the three and nine months ended September 30, 2014. Detailed results 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 Corporation's website at www.sogoil.com and on SEDAR at www.sedar.com.

FINANCIAL AND OPERATIONAL SUMMARY

	Three Months Ended September 30			Nine Months Ended September 30		
	2014	2013	% change	2014	2013	% change
Financial ($thousands, except per share amounts)						
Oil and natural gas sales	19,744	22,628	(13)	65,226	64,285	1
Funds from operations (1)	2,774	4,853	(43)	7,300	17,483	(58)
Per share basic & diluted (1)	0.01	0.02	(50)	0.02	0.09	(78)
Cash provided by (used in) operating activities	791	6,409	(88)	5,267	16,372	(68)
Per share basic & diluted	-	0.03	(100)	0.02	0.08	(75)
Net income (loss)	213	(6,759)	(104)	(12,170)	(12,464)	(2)
Per share basic & diluted	-	(0.03)	(100)	(0.04)	(0.06)	(39)
Capital expenditures (excluding acquisitions)	24,871	24,617	1	76,864	89,667	(14)
Net acquisitions (dispositions)	-	-	-	(3,821)	10,098	(138)
Bank debt	53,649	62,057	(14)	53,649	62,057	(14)
Net debt (1)	34,555	81,566	(58)	34,555	81,566	(58)
Operating						
Average daily sales						
Crude oil (bbl per day)	2,023	2,387	(15)	2,225	2,491	(11)
Natural gas (mcf per day)	7,264	6,743	8	6,491	5,532	17
Barrels of oil equivalent (boe per day)	3,234	3,510	(8)	3,307	3,413	(3)
Average daily production (boe per day)	3,480	3,510	(1)	3,390	3,413	(1)
Average prices						
Oil & NGL, before risk management ($ per bbl)	90.39	95.70	(6)	93.41	87.53	7
Oil & NGL, including risk management ($ per bbl)	79.35	84.01	(6)	81.73	84.33	(3)
Natural gas, before risk management ($ per mcf)	4.37	2.61	67	4.79	3.15	52
Natural gas, including risk management ($ per mcf)	4.34	2.61	66	4.53	3.15	44
Netback ($ per boe) (1)						
Oil and natural gas sales	66.36	70.07	(5)	72.26	68.99	5
Royalties	(14.76)	(16.15)	(9)	(15.64)	(15.23)	(3)
Production expenses	(26.49)	(23.89)	11	(31.48)	(25.58)	23
Operating Netback	25.11	30.03	(16)	25.14	28.18	(11)
Common Shares (thousands)						
Common shares outstanding, end of period	524,927	230,599	128	524,927	230,599	128
Weighted average common shares (basic)	362,719	211,282	72	328,858	203,882	61
Weighted average common shares (diluted)	362,719	211,282	72	328,858	203,882	61

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

FINANCIAL AND OPERATIONS SUMMARY

- Capital expenditures of $24.9 million for the third quarter of 2014 were directed primarily towards the execution of the Company's successful six well drilling program initiated in June 2014. Average daily production totaled 3,480 boe/d for the three months ended September 30, 2014 compared to 3,510 boe/d for the third quarter of 2013.
- Sales volumes for the current period were 3,234 boe/d compared to production of 3,480 boe/d, as the Company was affected by a temporary shut-down of a third party sales oil pipeline. Strategic immediately implemented measures to mitigate the effect of the pipeline shut-down on crude oil production and sales volumes including the use of rail cars for transportation and shipping volumes to a company-owned storage facility, and as a result the Company did not curtail any production due to this event. Oil inventories increased by 22,600 barrels from the previous quarter's levels. This inventory will be added to sales volumes in the fourth quarter of 2014.
- Funds from operations decreased to $2.8 million ($0.01 per share) in the current quarter from $4.9 million ($0.02 per share) for the third quarter of 2013, due to lower oil sales and an increase in general and administrative expenses. Cash flow provided by operating activities decreased to $0.8 million from $6.4 million for the third quarter of 2013 due to reduced funds from operations and payment of liabilities resulting from the summer drilling program.
- The Company's operating netback decreased to $25.11/boe for three months ended September 30, 2014 as compared to $30.03/boe for the previous year, primarily as a result of lower commodity prices and a lower oil weighting in the sales mix in the current period due to the third party pipeline shutdown.
- Strategic closed the first tranche of a private placement on September 30, 2014, issuing 163.9 million common shares for net proceeds of $65.7 million and reducing quarter-end net debt to $34.6 million. The second tranche of the private placement was closed on October 7, 2014, and the Company issued an additional 17.4 million common shares for net proceeds of $7.2 million.

OPERATIONS UPDATE

Strategic's focus during the third quarter was on continuing to develop the Muskeg oil resource through horizontal drilling at Marlowe in northern Alberta. The Company's summer program was highly successful, resulting in six oil wells, all of which were on production by early October 2014. Strategic was able to reduce drilling times and costs relative to the winter capital program, with drilling, completion, equipping and tie-in costs now averaging $3.8 million per well compared to over $5.0 million in the first half of the year.

Strategic has continued to build on the success experienced with the Company's summer drilling program, keeping one rig active at Marlowe and drilling up to five additional wells prior to the end of the year, including one Sulphur Point horizontal well. The Company made enhancements in its well design that have proven successful in further reducing drilling and completion costs while boosting production rates.

Production continued to increase during the course of the fourth quarter and sales volumes averaged 4,100 boe/d for October 2014. Strategic is encouraged by its recent success in the Muskeg program and is maintaining its 2014 exit production guidance at 4,600 boe/d.

FIRST HALF 2015 GUIDANCE

Strategic's Board of Directors has approved a capital expenditure budget of $52 million for the first half of 2015, focused on continued development and extension of the Muskeg fairway at Marlowe. Key highlights of the Company's capital program and guidance for the first half of 2015 are as follows:

- Drill up to 14 wells in the first six months of 2015. Strategic plans to start a second rig in December 2014 and continue drilling with two rigs during the first quarter of 2015. The drilling program consists of 10 horizontal Muskeg wells and up to 4 vertical wells;
- First half average production of 5,000 boe/d;
- First half exit production target of 5,400 boe/d.

Management Comments

Gurpreet Sawhney, Strategic's President and Chief Executive Officer, said: "Our operations team continues to successfully execute our drilling programs. Over the past six months we accelerated development and raised gross proceeds of $73.4 million in a private placement. Despite the current downturn in commodity prices we have maintained a strong liquidity position and will continue to generate positive returns on our drilling programs. We are truly excited about the expansion of drilling operations into the first half of 2015."

ABOUT STRATEGIC

Strategic is a junior oil and gas company with a dominant land position of 500,000 acres in Canada. The company is committed to building a premier oil company through from its high-quality, concentrated reserve base, and constructing a company-operated integrated sales infrastructure to support the company's significant future growth. 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 production and service costs and the impact of capital projects on production costs; (iii) expected capital spending; (iv) the Corporation's financial strength and capitalization; (v) estimates of reserves; (vi) potential financing and the use of proceeds; (vii) corporate production levels; (viii) wells to be drilled in 2014 and momentum from current drilling programs; (ix) timing for completion of drilling programs and resulting production additions; 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

Gurpreet Sawhney, MBA, M.Sc., P.Eng.
President and CEO
Strategic Oil & Gas Ltd.
1100, 645 7th Avenue SW, Calgary, AB, T2P 4G8
Telephone: 403.767.2949
Fax: 403.767.9122
Aaron Thompson, CA
CFO
Strategic Oil & Gas Ltd.
1100, 645 7th Avenue SW, Calgary, AB, T2P 4G8
Telephone: 403.767.2952
Fax: 403.767.9122