CALGARY, May 25, 2016 /CNW/ - Toro Oil & Gas Ltd. (TSXV: TOO) ("Toro" or the "Company") announces its financial and operating results for the three month period ended March 31, 2016. Selected financial and operational information is set out below and should be read in conjunction with Toro's March 31, 2016 interim financial statements and the related management's discussion and analysis, which are available for review at www.sedar.com or the Company's website at www.torooil.com.

First Quarter 2016 Financial and Operational Highlights

- Averaged 873 boe/d in production during Q1 2016, of which 63% represents oil and liquids compared to 561 boe/d of production in Q1 2015 and 903 boe/d in Q4 2015. Toro achieved a production per share growth of 49% as compared to Q1 2015;
- As a result of severely low commodity prices, Toro elected not to perform any drilling or significant capital operations in the first half 2016 in an effort to preserve capital. Toro did however remain active in seeking opportunities to creatively add to our asset and inventory base via ongoing efforts to pursue both complementary tuck-in and larger strategic acquisitions;
- Significantly reduced operating costs, excluding transportation, by 30% in Q1 2016 as compared to Q4 2015. Q1 2016 operating costs equated to $18.02 per boe, largely stemming from the removal of rental production equipment, more efficient fluid handling procedures and right-sizing field staff and equipment based on current operations. Toro looks to improve per unit operating cost efficiencies through further cost reduction and optimization initiatives as well as through increased production from future drilling programs;
- Reduced general and administrative ("G&A") expenses on a per unit basis and prior to recoveries and capitalization, to $10.70 per boe in Q1 2016, compared to $12.94 per boe and $27.83 per boe for Q4 2015 and Q1 2015, respectively. This represents a 17% and 62% decrease to the corresponding periods. Toro has undertaken measured steps to reduce this aspect of the Company's cost structure in an overall effort to enhance its cash flow generating capabilities;
- Announced 2015 year-end reserves during the quarter which highlighted a 106% increase in Proved Developed Producing ("PDP") Reserves to 1.8 MMboe (67% liquids) and a 139% increase in Total Proved plus Probable ("2P") reserves to 5.7 MMboe (72% liquids). Toro's reserve report news release dated March 3, 2016 also highlighted industry competitive finding development & acquisition costs of $16.08 per boe on a 2P basis.

Financial Results

(CAD$ thousands unless otherwise specified)

| | Three months ended March 31, | | |
|---|---|---|---|
| | 2016 | 2015 | % Change |
| Operational Performance | | | |
| Production Volumes | | | |
| Oil and NGLs (bbls/d) | 554 | 266 | 108% |
| Natural gas (mcf/d) | 1,914 | 1,772 | 8% |
| Oil equivalent (boe/d) | 873 | 561 | 56% |
| Financial Performance | | | |
| Production revenue (1) | 2,075 | 1,724 | 20% |
| Net comprehensive loss | (1,869) | (4,392) | (57%) |
| Per share - basic and diluted | (0.03) | (0.08) | (59%) |
| Cash flow used in operations(2) | (416) | (214) | 94% |
| Per share - basic and diluted | (0.01) | - | nmf(4) |

| | | | |
|---|---|---|---|
| Realized Sales Prices | | | |
| Oil and NGLs ($/bbl) | 34.70 | 51.97 | (33%) |
| Natural Gas ($/mcf) | 1.87 | 3.02 | (38%) |
| Oil Equivalent ($/boe) | 26.12 | 34.14 | (23%) |
| | | | |
| Netback ($/boe) | | | |
| Realized sales price | 26.12 | 34.14 | (23%) |
| Royalties | (4.63) | (4.70) | (2%) |
| Production expenses | (18.02) | (19.27) | (7%) |
| Transportation expenses | (2.96) | (2.55) | 16% |
| Operating netback ($/boe) (2) | 0.51 | 7.62 | (93%) |
| General and administrative | (8.74) | (26.93) | (68%) |
| Interest and other income | 0.20 | 0.82 | (76%) |
| Cash netback ($/boe) | (8.03) | (18.49) | (57%) |
| | | | |
| Capital expenditures | | | |
| Capital expenditures | 434 | 900 | (52%) |
| Net acquisitions (dispositions) (3) | - | 2,459 | nmf(4) |
| Total capital expenditures | 434 | 3,359 | (87%) |
| | | | |
| Liquidity | | | |
| Net debt (surplus) (2) | 7,062 | (4,236) | nmf(4) |
| Bank facility - undrawn portion | 18,803 | 25,000 | (25%) |
| | | | |
| Weighted average shares outstanding | | | |
| Basic | 56,926,832 | 54,403,192 | 5% |
| Diluted | 56,926,832 | 54,403,192 | 5% |

(1) Production revenue presented gross of royalties.

(2) Cash flow used in operations, operating netback and net debt (surplus) are non-IFRS measures. See "Non-IFRS Measures".

(3) Represents the cash expenditure (proceeds) from the acquisition (sale) of assets, as applicable.

(4) No meaningful figure.

## Operational and Corporate Update

During the first quarter of 2016, Toro continued to achieve efficiencies in the cost structure of its operations. As previously communicated, Toro utilized rental equipment rather than more permanent and cost efficient capital items until such time that reliable production data was obtained from Toro's 2015 drilling campaigns. Towards the end of the fourth quarter of 2015 and into the first quarter of 2016, most of the rental fleet had been replaced with Toro owned capital equipment. These expenditures were funded in part by cash on hand and utilization of the existing credit facilities. Through these efforts, material reductions in operating costs per unit were achieved during the quarter with average operating costs for Q1 2016 equating to $18.02 per boe as compared to $25.68 per boe for Q4 2015, representing a 30 per cent decrease. Toro continues to review the entire cost structure of the business in a concerted effort to enhance its cash flow generating capabilities during the current volatile commodity price environment. Having now conducted operations in the Viking fairly for over a year, future drilling programs and the operating costs thereto, can be incrementally absorbed into the existing cost structure with marginal increases thereby providing torque to an investment in Toro upon a sustained recovery of commodity prices and more customary access to the capital markets.

Production for the quarter averaged 873 boe/d which represents a 56 per cent increase compared to Q1 2015 while only a three per cent decrease from Q4 2015. Oil and liquids sales represented approximately 63 per cent of the total sales mix. Production performance from Viking wells primarily in the Hamilton Lake area continued to improve as Toro solved some of the sand challenges associated with a highly permeable reservoir, offset by natural declines associated with Toro's broader production base. Toro's 2015 drilling programs have now provided reliable production results which the Company believes sets the stage favourably for future drilling programs on its Viking acreage, estimated at over 600 future drilling locations. However, given the current commodity price environment, subsequent to the end of the first quarter Toro chose to temporarily shut-in uneconomic producing wells which served to protect bottom line cash flow. In total, this represented approximately 70 boe/d.

Also noteworthy is that Toro has accumulated approximately six months of production data from its first and second phase 2015 drilling programs. The Company is pleased to report the average normalized Hamilton Lake Viking production over this period is consistent with the Hamilton Lake production type curve assumption used by Toro's independent reserve evaluator, Sproule Associates Limited. ("Sproule") This positive development provides additional confidence to Toro in planning and conducting future drilling programs which are anticipated to drive superior economics in an appreciating commodity price environment. Secondly, a high correlation to the Sproule type curve further validates volume conclusions as assessed in the December 31, 2015 Sproule reserve report. Production type curves used by Sproule for Hamilton Lake Viking locations exceed those type curves utilized by Sproule in assessing Viking resource bases in Saskatchewan pertaining both to initial production rates and estimated ultimate recovery. This is largely a function of superior reservoir qualities. With only 45 proven and probable undeveloped locations included in the December 2015 Sproule report out of the over 600 low and moderate risk locations estimated by Toro on its Viking acreage holdings, Toro anticipates material reserve additions in subsequent years upon successful execution of future drilling programs which will, among other positive attributes, enhance cash flows, increase reserve based lending assessments and drive overall corporate valuation.

## Liquidity Update

During the quarter and stemming from a combination of factors including but not limited to, funding recent acquisitions and its fourth quarter drilling and completion program, purchasing production facility equipment as highlighted above and weak commodity prices, Toro accessed its existing operating credit facility which prior to that point remained essentially undrawn. As at March 31, 2016, approximately $6.2 million was drawn under the operating facility. Although no formal decision has been made by Toro's lender on the size of the operating credit facility, as part of its ongoing semi-annual review Toro has been advised verbally subsequent to the end of the quarter that the $18 million development facility will no longer be available to Toro. Toro was informed that this decision is industry pervasive as opposed to specific to Toro. Despite the ability to access this portion of the overall facility previously, Toro did not once utilize the development facility nor did Toro consider its use in the Company's longer-term capital budgeting. With respect to the operating facility, Toro's overall draw on this portion remains below the previously approved $7 million limit. However, Toro is proactively working with its lender to ensure remaining amounts drawn, if any, would be in compliance with soon to be established reduced levels based on revised lower commodity pricing. Secondly, Toro's working capital covenant under the current operating credit facility must be maintained at a ratio of 1:1. As at March 31, 2016 Toro's ratio equated to 0.94:1 which is marginally below the requirement. As part of the Company's ongoing discussions with its lender, a waiver in respect of this quarter's covenant has been requested. The Company anticipates to be in compliance in future quarters as a result of one or more short term solutions currently being considered. Toro considers the extent of leverage in the Company at this point to be manageable and intends to modify the capital structure to better build the business in light of the current volatile commodity price environment.

## Corporate Strategy Update

Toro's corporate strategy has remained steadfast since inception. Control of a high quality resource is fundamental to weathering volatile commodity cycles. Further, during a period of modest activity over the last six months, the Company's concentration on cost mitigation and control has produced positive results. With those key themes and/or initiatives in mind, Toro intends to drive the business forward by executing on a four point strategy as follows:

- Position the Company for positive cash flow netbacks through continued cost reductions and a return to more constructive commodity markets, which has already been experienced to some extent during the initial stages of the second quarter of 2016;
- Conduct an anticipated second half 2016 drilling program, contingent on a return and sustained recovery of commodity prices, to bolster corporate production thereby providing further evidence of a best in class Viking resource play;
- Implement a prudent hedging program to protect against unanticipated future downturns of commodity prices to ensure the sustainability of the business; and
- Scope the marketplace for opportunistic and strategic acquisition targets to enhance the scale and cash flow of the Company.

Other Corporate Matters

Toro also announces the issuance of approximately 551,000 common shares of the Company to management, employees and directors in satisfaction of cash entitlements otherwise due to such individuals. In a continuing effort to reduce the cost structure, Toro reduced its operating personnel subsequent to the end of the quarter and as previously disclosed, all employees have taken salary reductions, in the case of senior management up to 40 per cent. These measures were considered necessary to improve the Company's G&A cost structure. Shares issued represent a portion of the salary relinquished by management, employees and directors. Shares issued will be subject to a four month hold period and will increase management and director ownership of the total outstanding shares to 23 per cent. The Company retained its key technical and senior management team which based on present activity levels allows Toro to remain fully operational and fulfill all corporate responsibilities. This share issuance has been conditionally approved by the TSX Venture Exchange.

About Toro Oil & Gas Ltd.

Toro is a junior oil and gas energy company listed on the TSX Venture Exchange. Toro is focused on acquiring, developing and exploiting large oil in place pools within the Alberta-Saskatchewan Viking light oil fairway. Toro intends to grow by way of organic development and strategic acquisitions while maintaining strict financial discipline to maximize shareholder return.

Abbreviations

| | |
|---|---|
| bbls | barrels |
| bbls/d | barrels per day |
| boe | barrels of oil equivalent |
| boe/d | barrels of oil equivalent per day |
| mcf | thousand cubic feet |
| mcf/d | thousand cubic feet per day |

Forward-Looking Information

The reader is advised that some of the information contained herein may constitute forward-looking information within the meaning of National Instrument 51-102 and other relevant securities legislation. Forward-looking information contained herein includes, but is not limited to, anticipated future capital efficiencies, the expected reduction in per unit operating costs, forecasted future operating costs per unit, Toro's ability to maintain compliance with covenants under its existing credit facilities, the continued availability of Toro's existing credit facilities, future drilling programs, future hedging programs and Toro's future liquidity and funding sources. Such forward-looking information is based on the Company's current expectations regarding its future business and reflects management's current beliefs and assumptions based on information currently available to them. Statements relating to "reserves" are also deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future. Actual results may vary from forward-looking information and readers are cautioned not to place undue reliance on forward-looking information. The forward-looking information contained in this press release is presented as of the date hereof and the Company does not undertake any obligation to release publicly any revisions to forward-looking information contained herein to reflect events or circumstances that occur after the date hereof or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

Forward-looking information involves significant known and unknown risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information including risks associated with the impact of general economic conditions, industry conditions, governmental regulation, volatility of commodity prices, currency fluctuations, imprecision of reserve and resource estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and the Company's ability to access sufficient capital from internal and external sources. Additional risks and uncertainties are described in the Company's Annual Information Form dated March 31, 2016 which is filed under the Company's SEDAR profile at www.sedar.com.

Non-IFRS Measures

This press release provides certain financial measures that do not have a standardized meaning prescribed by IFRS. These non-IFRS financial measures may not be comparable to similar measures presented by other issuers. Cash flow from (used in) operations, operating netback and net debt (surplus) are not recognized measures under IFRS. Management believes that in addition to net income (loss), cash flow from operations, operating netback and net debt (surplus) are useful supplemental measures that demonstrate the Company's ability to generate the cash necessary to repay debt or fund future capital investment. Investors are cautioned, however, that these measures should not be construed as an alternative to net income (loss) determined in accordance with IFRS as an indication of Toro's performance. Toro's method of calculating these measures may differ from other companies and accordingly, they may not be comparable to measures used by other companies. Cash flow from (used in) operations is calculated by adjusting net income (loss) for other income, unrealized gains or losses on financial derivative instruments, transaction costs, accretion, share based compensation, impairment and depletion and depreciation. Operating netback is calculated based on oil and gas revenue less royalties, production expenses and transportation expenses. Net debt (surplus) is the total of cash plus accounts receivable, prepaids and deposits, less accounts payable plus bank debt.

51-101 Advisory

In conformity with 51-101, natural gas volumes have been converted to barrels of oil equivalent ("boe") using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil. In certain circumstances, natural gas liquid volumes have been converted to a thousand cubic feet equivalent ("mcfe") on the basis of one barrel of natural gas liquids to six thousand cubic feet of gas. Boes and mcfes may be misleading, particularly if used in isolation. A conversion ratio of one barrel to six thousand cubic feet of natural gas is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion ratio on a 6:1 basis may be misleading as an indication of value.

Estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation. Estimated values of reserves may or may not represent the fair market value of the reserve estimates.



SOURCE Toro Oil & Gas Ltd

Contact
Barry Olson, President and Chief Executive Officer, Greg Phaneuf, Vice President, Finance and Chief Financial Officer, Telephone: (403) 237-9996