

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

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CALGARY, Nov. 16, 2018 - Strategic Oil & Gas Ltd. ("Strategic" or the "Company") (TSXV: SOG) is pleased to report financial and operating results for the three and nine months ended September 30, 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](http://www.sogoil.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

## FINANCIAL AND OPERATIONAL SUMMARY

	Three months ended September 30 Nine months ended September 30		
	2018	2017	% change
Financial (\$thousands, except per share amounts)			
Oil and natural gas sales	8,605	8,271	4
Funds from (used in) operations <sup>(1)</sup>	(809	) (333	) 143
Per share basic <sup>(1) (2)</sup>	(0.02	) (0.01	) 100
Cash provided by operating activities	963	2,149	(55)
Per share basic <sup>(2)</sup>	0.02	0.05	(60)
Net loss	(21,482	) (36,779	) (42)
Per share basic <sup>(2)</sup>	(0.46	) (0.79	) (42)
Net capital expenditures	2,506	13,991	(82)
Working capital (deficiency) (comparative figure is as of December 31, 2017)	(1,159	) 13,087	-
Net debt (comparative figure is as of December 31, 2017) <sup>(1)</sup>	115,288	95,801	20
Operating			
Average daily production			
Crude oil (bbl per day)	1,345	1,806	(26)
Natural gas (mcf per day)	2,364	3,472	(32)
Barrels of oil equivalent (boe per day)	1,739	2,384	(27)
Average prices			
Oil & NGL, before risk management (\$ per bbl)	67.30	46.63	44
Natural gas (\$ per mcf)	1.26	1.64	(23)
Operating netback (\$ per boe) <sup>(1)</sup>			
Oil and natural gas sales	53.77	37.70	43
Royalties	(10.79	) (3.94	) 174
Operating expenses	(22.53	) (25.65	) (13)
Transportation expenses	(0.72	) (1.41	) (49)
Operating Netback <sup>(1)</sup>	19.73	6.70	196
Common Shares <sup>(2)</sup> (thousands)			
Common shares outstanding, end of period	46,421	46,391	-
Weighted average common shares (basic & diluted)	46,421	46,391	-

<sup>(1)</sup> Funds from operations, net debt and operating netback are Non-GAAP measures; see "Non-GAAP measures" in this MD&A.

<sup>(2)</sup> Adjusted for the share consolidation on a 20:1 basis on March 6, 2017.

## PERFORMANCE OVERVIEW AND OUTLOOK

On August 29, 2018, the Company announced that a special committee of the board of directors (the &ldquo;Committee&rdquo;) has been established to consider potential strategic alternatives available to Strategic. The Committee is comprised of substantially all of the independent directors of the Company. In conjunction with the special alternatives process, Strategic received an offer to restructure and provide additional capital to the Company as outlined below.

#### Potential recapitalization transactions

On November 5, 2018, Strategic announced that the Company&rsquo;s controlling shareholders (the &ldquo;GMT Funds&rdquo;) signed a letter of intent to: (i) provide a loan to the Company of up to \$30 million and (ii) settle their existing convertible debentures of the Company by way of a shares for debt settlement agreement (collectively, &ldquo;the Recapitalization Transactions&rdquo;). 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 settlement agreements with holders of 96% of the existing convertible debentures.

The loan by the GMT funds 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 bearing interest at 12% per annum and payable quarterly; and (ii) a second \$15 million tranche of notes on the same terms as the first tranche (the second tranche being callable by the Company on the occurrence of certain events).

In consideration of the Investment, Strategic will issue to the GMT Funds \$5 million of common share purchase warrants ("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 Recapitalization Transactions 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 Recapitalization Transactions are not completed as a result of Strategic sourcing an alternative financing structure prior to closing.

Pursuant to the shares for debt settlement agreements, Strategic has agreed to settle 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 of the Company at a deemed price of \$0.0773 per share. Assuming the conversion of all of the Company's outstanding convertible debentures, it is expected that current shareholders would own approximately 3% of the Company and former debenture holders would own approximately 97% of the post closing issued and outstanding common shares of Strategic.

It is a condition of the Recapitalization Transactions that the remaining holders of convertible debentures are offered the opportunity to convert their debentures to common shares at the same conversion price and that a minimum of 98% of the principal amounts of the debentures are so converted.

Strategic&rsquo;s new management team is encouraged by the additional investment provided by GMT funds and believes the Recapitalization Transactions significantly reduce the Company&rsquo;s leverage and annual interest costs while providing new capital to continue the development of the Muskeg light oil resource.

#### QUARTERLY SUMMARY

- Capital expenditures of \$2.5 million were incurred in the quarter, including a plant turnaround at the 9-17 processing facility, minor pipeline upgrades and compression testing for the debottleneck project.
- Revenues increased 4% from the third quarter of 2017 to \$8.6 million for the period due to an increase in realized oil prices, which were partially offset by lower production. The average WTI oil price for the quarter was US \$66.97/bbl. Revenues for the nine months ended September 30, 2018 increased by 7% to \$29.3 million compared to \$27.5 million for the comparative period in 2017 due to an increase in realized oil prices.

- Despite higher revenues, funds used in operations increased to \$0.8 million for the quarter from \$0.3 million for the three months ended September 30, 2017. The increase was despite a substantial decrease in operating costs, and was related to cash interest paid on convertible debentures and higher royalty rates in 2018. Interest on the debentures was paid in kind in 2017.
- Average production decreased 27% from the third quarter of 2017 to 1,739 boe/d for the third quarter of 2018 due to a slower pace of drilling activity, as only 2 Muskeg wells were drilled in 2018 compared to 5 wells drilled in the first half of 2017.
- On July 30, 2018, the Company sold certain oil and gas assets in northern British Columbia and southern Alberta for a nominal consideration. The carrying value of the disposed assets was minimal, but decommissioning liabilities were reduced by \$2.1 million and therefore a \$2.0 million gain on sale was recorded in the current quarter.

#### 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.

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#### 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:

- Potential Recapitalization Transactions and their impact on development, leverage and interest costs;
- 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 to 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.

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