Strategic
OIL & GAS LTD.

Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2015 and 2014

Strategic Oil & Gas Ltd.

Interim condensed consolidated balance sheets (unaudited)

($000)	Note	March 31, 2015	December 31, 2014
Assets			
Current Assets			
Cash and cash equivalents		$ 192	$ 360
Inventory		142	272
Trade and other receivables		10,306	10,807
Risk management contracts	14	1,817	3,460
		12,457	14,899
Long-term receivable	4	800	800
Property, plant, and equipment, net	6	216,013	209,999
Exploration and evaluation assets	5	13,363	13,903
Total Assets		$ 242,633	$ 239,601
Liabilities			
Current Liabilities:			
Accounts payable and accrued liabilities		$ 16,872	$ 26,815
Bank indebtedness	7	48,425	29,016
Decommissioning liabilities	8	-	4,007
		$ 65,297	$ 59,838
Long term Liabilities:			
Decommissioning liabilities	8	56,936	50,904
Total Liabilities		$ 122,233	$ 110,742
Shareholders' Equity			
Share capital	9	319,678	319,678
Contributed surplus		10,338	10,187
Deficit		(209,616)	(201,006)
		$ 120,400	$ 128,859
Total Liabilities and Shareholders' Equity		$ 242,633	$ 239,601

See accompanying notes to the Interim Condensed Consolidated Financial Statements

Strategic Oil & Gas Ltd.

Interim condensed consolidated statements of net loss and comprehensive loss (unaudited)

($000, except per share amounts)	Note	Three months ended March 31, 2015	2014
Revenue			
Petroleum and natural gas sales		**$ 10,422**	$ 21,370
Royalties		**(1,495)**	(4,488)
Revenues, net of royalties		**8,927**	16,882
Unrealized gain (loss) on risk management contracts	14	**(1,643)**	(3,259)
Net realized gain (loss) on risk management contracts	14	**2,017**	(2,564)
Other income		**-**	3
		$ 9,301	$ 11,062
Expenses			
Operating costs		**$ 6,286**	$ 9,607
Transportation		**408**	1,154
General and administrative		**2,232**	1,690
Finance costs	11	**841**	1,161
Stock-based compensation		**151**	171
Depletion, depreciation and amortization		**7,993**	8,554
Gain on disposal of property, plant and equipment		**-**	(344)
		$ 17,911	$ 21,994
Operating loss before taxes		**$ (8,610)**	$ (10,931)
Deferred tax recovery		**-**	1,267
Net loss and comprehensive loss for the period		**$ (8,610)**	$ (9,664)
Net loss per weighted average share			
Basic		**$ (0.02)**	$ (0.04)
Diluted		**$ (0.02)**	$ (0.04)
Weighted average shares outstanding - Basic	9(c)	**542,319**	261,785
Weighted average shares outstanding - Diluted	9(c)	**542,319**	261,785

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

Strategic Oil & Gas Ltd.

Interim condensed consolidated statements of changes in shareholders' equity (unaudited)

($000)		Share Capital		Contributed Surplus		Deficit		Total equity
Balance January 1, 2015	**$**	**319,678**	**$**	**10,187**	**$**	**(201,006)**	**$**	**128,859**
Stock based compensation		-		151		-		151
Net loss		-		-		(8,610)		(8,610)
Balance March 31, 2015	**$**	**319,678**	**$**	**10,338**	**$**	**(209,616)**	**$**	**120,400**

($000)	Note		Share Capital		Contributed Surplus		Deficit		Total equity
Balance January 1, 2014		**$**	**197,970**	**$**	**9,227**	**$**	**(71,516)**	**$**	**135,681**
Issue of shares			50,000		-		-		50,000
Share issue costs			(666)		-		-		(666)
Stock options exercised			96		(28)		-		68
Stock based compensation			-		171		-		171
Net loss			-		-		(9,664)		(9,664)
Balance March 31, 2014		**$**	**247,400**	**$**	**9,370**	**$**	**(81,180)**	**$**	**175,590**

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

Strategic Oil & Gas Ltd.

Interim condensed consolidated statements of cash flow (unaudited)

		Three months ended March 31,	
($000)	**Note**	**2015**	2014
Operating activities:			
Net loss for the period		**$ (8,610)**	$ (9,664)
Non-cash items:			
Depletion, depreciation, and amortization		**7,993**	8,554
Accretion of decommissioning liabilities		**262**	275
Stock-based compensation		**151**	171
Unrealized loss on risk management contracts	14	**1,643**	3,259
Deferred tax recovery		**-**	(1,267)
Gain on disposal of property, plant and equipment		**-**	(344)
Funds from operations		**$ 1,439**	$ 984
Expenditures on decommissioning liabilities		**(4,177)**	(1,281)
Change in non-cash working capital	12	**(860)**	10,398
Cash (used in) provided by operating activities		**$ (3,598)**	$ 10,101
Financing activities:			
Issue of common shares		**$ -**	$ 50,000
Increase in bank loan		**19,409**	11,225
Exercise of options		**-**	68
Share issuance costs	9	**-**	(666)
Cash provided by financing activities		**$ 19,409**	$ 60,627
Investing activities:			
Expenditures – property, plant and equipment		**$ (7,445)**	$ (36,334)
Expenditures – exploration and evaluation assets		**(81)**	(2,120)
Proceeds on disposal of property, plant and equipment		**-**	344
Changes in non-cash working capital	12	**(8,453)**	5,144
Cash used in investing activities		**$ (15,979)**	$ (32,966)
(Decrease) increase in cash and cash equivalents during the period		**$ (168)**	$ 37,762
Cash and cash equivalents, beginning of the period		**360**	226
Cash and cash equivalents, end of the period		**$ 192**	$ 37,988

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

1. Corporate information

Strategic Oil & Gas Ltd. ("Strategic") is a company registered and domiciled in Alberta. Strategic is a publicly traded Company whose shares are listed on the TSX Venture Exchange. Strategic, together with its subsidiaries, (collectively referred to as the "Company"), is engaged in the exploration for and development of petroleum and natural gas reserves in Western Canada with insignificant operations in the Western United States. The Company is headquartered in Canada at Suite 1100, 645 – 7th Avenue SW, Calgary, Alberta.

2. Basis of presentation

a) Going concern

These interim condensed consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. For the quarter ended March 31, 2015, the Company reported a net loss of $8.6 million. At March 31, 2015, the Company had negative working capital of $52.8 million and an accumulated deficit of $209.6 million. The Company's cash flows and compliance with debt covenants are highly dependent on realized oil pricing in 2015. Sustained low commodity prices will reduce the Company's cash flows, and there is material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

The interim condensed consolidated financial statements do not reflect adjustments that would be necessary if the going concern basis was not appropriate. The appropriateness of the going concern basis is dependent upon, among other things, the ability to obtain debt or equity financing, a joint venture or a sale of assets in order to have sufficient funds to meet its obligations that enables the Company to continue as a going concern, the ability to generate sufficient cash from operations and future profitable operations.

b) Statement of compliance

These interim condensed consolidated financial statements (the "financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Boards ("IASB"). These financial statements are condensed as they do not include all of the information required by IFRS for annual financial statements and therefore should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2014.

These financial statements were authorized for issue by the Board of Directors on May 15, 2015.

c) Basis of measurement

The financial statements have been prepared on a historical cost basis except for cash and cash equivalents, trade and other receivables, long-term receivable, bank indebtedness, accounts payable and accrued liabilities, certain share-based payment transactions and risk management contracts, which are measured at fair value. All accounting policies and methods of computation followed in the preparation of these financial statements are consistent with those disclosed in the Company's annual consolidated financial statements for the year ended December 31, 2014. There have been no changes in the application or use of estimates or judgments since December 31, 2014.

d) Functional and presentation currency

These financial statements are presented in Canadian dollars, the Company's functional currency.

e) Comparative figures

Certain comparative figures from prior periods have been reclassified to conform to the current year's presentation. Certain pipeline tariffs after the custody transfer point have been reclassified from transportation expense to petroleum and natural gas sales in the statement of loss and comprehensive loss.

3. Significant accounting policies

a) Future accounting policy changes

Financial instruments

- In July 2014, the IASB completed the final elements of IFRS 9 "Financial instruments." The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently evaluating the impact of this standard on its financial statements.

Revenue

- In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently evaluation the impact of this standard on its financial statements.

4. Insurance receivable

Included in decommissioning liabilities is an estimate of $8.5 million for remediation of a prior year pipeline spill in the Marlowe area. As the pipeline spill was claimed under the Company's insurance coverage, a receivable of $3.7 million has been recorded on the balance sheet as at March 31, 2015 (December 31, 2014 - $3.7 million) representing the cost of remediation work completed in the first quarter of 2015 and ongoing monitoring costs, of which $2.9 million is included in current assets and $0.8 million in long-term receivables.

5. Exploration and evaluation ("E&E") assets

($000)	**March 31, 2015**	December 31, 2014
Opening balance	**$ 13,903**	$ 14,695
E&E expenditures	**81**	2,905
E&E transfer to property, plant and equipment	**-**	(702)
E&E expense	**-**	(399)
Amortization	**(621)**	(2,596)
Closing balance	**$ 13,363**	$ 13,903

6. Property, plant, and equipment ("PPE")

($000) Carrying value before accumulated depletion and depreciation	D&P assets	Office	Total
As at December 31, 2014	$ 436,855	$ 1,170	$ 438,025
Additions	7,445	-	7,445
Change in decommissioning costs	5,938	-	5,938
As at March 31, 2015	**$ 450,238**	**$ 1,170**	**$ 451,408**

($000) Accumulated depletion and depreciation ("D&D")	D&P assets	Office	Total
As at December 31, 2014	$ 227,088	$ 938	$ 228,026
D&D expensed	7,345	27	7,372
D&D capitalized to inventory	(3)	-	(3)
As at March 31, 2015	**$ 234,430**	**$ 965**	**$ 235,395**

($000) Net carrying value	D&P assets	Office	Total
As at December 31, 2014	$ 209,767	$ 232	$ 209,999
As at March 31, 2015	**$ 215,808**	**$ 205**	**$ 216,013**

Substantially all of the Company's development and production ("D&P") assets are located within Canada. The cost of PPE includes amounts in respect to the provision for decommissioning obligations. For the three month period ended March 31, 2015, $0.34 million of direct general and administrative expenses were capitalized to PPE ($0.82 million for the three month period ended March 31, 2014).

Future capital costs of $127.8 million (March 31, 2014 - $94.0 million) have been included in the depletable balance as at March 31, 2015. Major components account for $62.3 million (March 31, 2014 - $54.5 million) and are depreciated and tested for impairment separately.

7. Bank indebtedness

At March 31, 2015 the Company had a $60 million credit facility (the "Facility") with a Canadian chartered bank, comprised of a $40 million revolving operating loan, with the balance being a non-revolving facility that is reduced at a rate of $0.5 million per month starting April 1, 2015. Amounts outstanding under the Facility are repayable on demand, and bear interest at a rate of 0.5% to 2.5% over the bank's prime lending rate for prime loans, or at bankers' acceptance rates plus a stamping fee ranging from 1.75% to 3.75%, depending on Strategic's debt to cash flow ratio. Amounts due under the non-revolving facility bear interest at a rate of 2.00% above the interest rates on the operating loan. The Facility is secured by a general security agreement including a floating charge on all property, plant and equipment. The Facility contains a financial covenant that requires the Company to maintain an adjusted working capital ratio of not less than 1:1, but for the purpose of the calculation the unused portion of the Facility is included in current assets and, the current portion of debt and risk management liabilities are both excluded from current liabilities. As of March 31, 2015, the Company was in compliance with all covenants under the Facility. In addition to $48.4 million drawn on the Facility at March 31, 2015, the Company has $4.4 million letters of credit outstanding with third parties which reduce the amount available under the Facility. The Facility is currently being renewed with the lenders.

8. Decommissioning liabilities

Total future decommissioning liabilities are estimated based on the Company's net working interest in all wells and facilities, the estimated costs to abandon and reclaim the wells, pipelines and facilities and the estimated timing of the costs to be incurred in future periods. These costs are expected to be incurred over a range up to 33 years, depending on the estimated reserve life. The undiscounted amount of the estimated costs at March 31, 2015 were $92.2 million (December 31, 2014 - $86.4 million). The estimated costs have been discounted at a risk free rate from 0.49% to 1.97% (December 31, 2014 – 1.01% to 2.96%) and an inflation rate of 2% (December 31, 2014 – 2%) was applied.

The following table reconciles the changes to the Company's decommissioning liabilities:

($000)	Three months ended March 31, 2015	Year ended December 31, 2014
Balance beginning of the period	**$ 54,911**	$ 35,932
Liabilities incurred during the period	**364**	1,349
Disposition of liabilities	**-**	(170)
Expenditures on existing liabilities	**(4,177)**	(1,745)
Change in estimated future cash flows	**(398)**	13,655
Change in discount rate	**5,974**	4,702
Accretion	**262**	1,188
Balance end of the period	**$ 56,936**	$ 54,911
Current	**-**	4,007
Long term	**$ 56,936**	$ 50,904

9. Share capital

a) Authorized

The Company is authorized to issue an unlimited number of common shares without par value.

b) Issued and outstanding

($000, except for share amounts)	Number of shares	Three months ended March 31, 2015
Balance beginning and end of the period	542,318,629	$ 319,678

There were no activities related to share capital for the three months ended March 31, 2015.

c) Weighted average shares

(000)	Three months ended March 31	
	2015	2014
Weighted average shares (basic)	**542,319**	261,785
Weighted average shares (diluted)	**542,319**	261,785

10. Stock-based compensation

The outstanding number and weighted average exercise price of stock options are as follows:

	Number of options	Weighted average Exercise Price
Balance at December 31, 2014	**15,313,334**	$ 0.79
Cancelled	(8,334)	0.44
Expired	(450,000)	0.65
Balance at March 31, 2015	**14,855,000**	$ 0.79

The following table sets out the outstanding and exercisable options as at March 31, 2015:

Outstanding Options			Exercisable Options	
Number of Options	Weighted Average Exercise Price	Weighted Average Life Years	Number of Options	Weighted Average Exercise Price
6,390,000	$ 0.42	4.43	2,129,984	$ 0.42
105,000	0.47	4.09	53,338	0.48
120,000	0.63	2.49	113,334	0.62
530,000	0.83	2.64	526,667	0.83
1,365,000	0.90	1.91	1,365,000	0.90
165,000	0.95	2.28	146,668	0.94
1,360,000	1.10	0.79	1,356,667	1.10
4,435,000	1.16	2.75	4,281,671	1.16
10,000	1.19	3.15	6,667	1.19
375,000	1.30	2.86	350,000	1.30
14,855,000	$ 0.79	3.22	10,329,996	$ 0.94

No new stock options were granted for the three months ended March 31, 2015.

11. Finance costs

($000)	Three months ended March 31 **2015**	2014
Interest expense	**$ 579**	$ 886
Accretion of decommissioning liabilities	**262**	275
	$ 841	$ 1,161

12. Supplemental cash flow information

	Three months ended March 31	
($000)	**2015**	2014
Interest paid	**$ 579**	$ 886
Changes in non-cash working capital		
Trade and other receivables	**501**	(2,920)
Inventory	**128**	48
Accounts payable and accrued liabilities	**(9,942)**	18,664
	$ (9,313)	$ 15,792
Operating	**(860)**	10,398
Investing	**(8,453)**	5,144
	$ (9,313)	$ 15,542

13. Transactions with related parties

For the three months ended March 31, 2015, legal fees in the amount of $0.02 million (March 31, 2014 - $0.11 million) were incurred with a legal firm of which a director is a partner, and these amounts are included as general and administrative expenses. Software charges of $0.05 million (March 31, 2014 - $0.05 million) were charged by a company controlled by an officer. Trade and other receivables at March 31, 2015 include $0.01 million (December 31, 2014 - $nil) receivable from related parties. Accounts payable and accrued liabilities at March 31, 2015 include $0.03 million (December 31, 2014 - $0.09 million) due to related parties. The above transactions were conducted in the normal course of operations and were recorded at exchange amounts which were agreed upon between the Company and the related parties.

14. Financial instruments and financial risk management

The Company's financial instruments include cash and cash equivalents, trade and other receivables, long-term receivable, bank indebtedness, accounts payable and accrued liabilities, and risk management contracts. The carrying values of cash and cash equivalents, trade and other receivables, long-term receivable, accounts payable and accrued liabilities, and bank indebtedness are carried at fair values.

The Company is required to classify fair value measurements using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is as follows:

- Level 1 - quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for the asset or liability that are not based on observable market data.

The fair value of cash and cash equivalents is measured at level 1. The fair value of risk management contracts is measured at level 2.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments. The following presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing commodity risks. Further quantitative disclosures are included throughout these financial statements.

Commodity price risk

Commodity price risk is the risk that the fair value of assets or liabilities or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar. The Company may, in certain circumstances, enter into forward oil or natural gas sales contracts to mitigate commodity price risk.

At March 31, 2015, the following risk management contracts were outstanding with a mark-to-market asset value of $1.8 million (March 31, 2014 – liability value of $12.0 million).

Financial WTI crude oil contracts

Term		**Contract Type**	**Volume (bbl/d)**	**Fixed Price (Cdn$/bbl)**	**Index**
01-Jan-2015	30-Jun-2015	Swap	750	$90.15	WTI – NYMEX
01-Jul-2015	31-Dec-2015	Option [(1)]	250	$90.00	WTI - NYMEX

[(1)] Counterparty has an option to convert into a swap at the fixed price indicated. The 250 bbl/d option expires monthly during the contract term.

Subsequent to March 31, 2015, the Company entered into a fixed price swap agreement for 500 bbl/d for July to December 2015 at a price of US$61.65/bbl at WTI.

Financial AECO gas contracts

Term		**Contract Type**	**Volume (GJ/d)**	**Fixed Price ($/GJ)**	**Index**
01-Apr-2015	31-Oct-2015	Swap	300	2.70	AECO

The Company does not apply hedge accounting to these risk management contracts and they are recorded as fair value with changes in fair value included in the condensed consolidated statement of loss and comprehensive loss. For the three months ended March 31, 2015, Strategic recorded an unrealized loss on risk management contracts of $1.6 million (March 31, 2014 – loss of $3.3 million).

The following table summarizes the fair value as at March 31, 2015 and the change in fair value for the three months ended March 31, 2015:

($000)	**March 31, 2015**	December 31, 2014
Derivative assets, beginning of period	**$ 3,460**	$ (8,757)
Unrealized change in fair value	**(1,643)**	12,217
Derivative assets, end of period	**1,817**	3,460

Net realized gains on risk management contracts for the three months ended March 31, 2015 were $2.0 million (March 31, 2014 – net realized loss of $2.6 million).

15. Capital management

Strategic considers its capital structure to include shareholders' equity and working capital employed including bank indebtedness. The objectives of the Company are to maintain a strong balance sheet affording the Company financial flexibility to achieve goals of continued growth and access to capital. In order to maintain or adjust the capital structure, the Company may issue new common shares, issue new debt, or adjust exploration and development capital expenditures.

The Company monitors its capital program based on available funds, which is the combination of working capital (excluding risk management contracts) and remaining unused line of credit, as calculated below:

($000)		**March 31, 2015**		December 31, 2014
Credit facility *(Note 6)*	**$**	**60,000**	$	80,000
Amount drawn		**(48,425)**		(29,016)
Letters of credit		**(4,385)**		(4,385)
Unutilized portion of debt facility	**$**	**7,190**	$	46,599

16. Commitments and contingencies

a) The Company has lease agreements for office space, office equipment and natural gas transportation resulting in the following commitments:

Year		**Office ($000)**		**Gas transportation ($000)**
2015	$	226	$	453
2016		7		425
2017		-		401
2018		-		147
	$	233	$	1,426

b) By nature of its oil and gas operations in Northern Alberta, the Company is subject to numerous safety and environmental regulations, with which non-compliance may result in adverse financial impact. The Company mitigates these risks through the adherence to formal safety and environmental policies, as well as adequate insurance coverage. The Company is currently remediating an environmental spill at Marlowe. While the Company believes it has recorded its best estimate of the impact of these contingencies in these financial statements, the ultimate outcome of these incidents is uncertain.