Strategic OIL & GAS LTD.

Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2015 and 2014

Strategic Oil & Gas Ltd.

Interim condensed consolidated balance sheets (unaudited)

($000)	Note	September 30, 2015	December 31, 2014
Assets			
Current Assets:			
Cash and cash equivalents		$ 2,368	$ 360
Trade and other receivables		4,781	10,807
Inventory		163	272
Risk management contracts	14	988	3,460
		8,300	14,899
Long-term receivable	4	800	800
Property, plant, and equipment, net	6	144,402	209,999
Exploration and evaluation assets	5	11,639	13,903
Total Assets		$ 165,141	$ 239,601
Liabilities			
Current Liabilities:			
Accounts payable and accrued liabilities		$ 8,728	$ 26,815
Bank indebtedness	7	52,000	29,016
Decommissioning liabilities	8	375	4,007
		$ 61,103	$ 59,838
Long term Liabilities:			
Decommissioning liabilities	8	53,178	50,904
Total Liabilities		$ 114,281	$ 110,742
Shareholders' Equity			
Share capital	9	319,678	319,678
Contributed surplus		10,515	10,187
Deficit		(279,333)	(201,006)
		$ 50,860	$ 128,859
Total Liabilities and Shareholders' Equity		$ 165,141	$ 239,601

See accompanying notes to the Interim Condensed Consolidated Financial Statements

Strategic Oil & Gas Ltd.

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

($000, except per share amounts)	Note	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Revenue					
Petroleum and natural gas sales		**$ 7,783**	$ 19,394	**$ 29,146**	$ 64,148
Royalties		**(1,175)**	(4,392)	**(3,195)**	(14,115)
Revenues, net of royalties		**6,608**	15,002	**25,951**	50,033
Unrealized gain (loss) on risk management contracts	14	**860**	6,758	**(2,472)**	4,162
Net realized gain (loss) on risk management contracts	14	**912**	(2,072)	**4,230**	(7,554)
		$ 8,380	$ 19,688	**$ 27,709**	$ 46,641
Expenses					
Operating		**$ 4,269**	$ 6,772	**$ 16,245**	$ 24,271
Transportation		**137**	759	**813**	3,072
General and administrative		**1,258**	1,564	**5,091**	5,159
Finance costs	11	**1,020**	1,424	**2,856**	3,597
Stock-based compensation		**100**	487	**328**	782
Depletion, depreciation and amortization		**5,088**	8,555	**19,177**	25,671
Valuation allowance	4	**-**	-	**1,100**	-
Exploration	5	**426**	-	**426**	-
Impairment	6	**60,000**	-	**60,000**	-
Gain on disposal of property, plant and equipment		**-**	-	**-**	(2,304)
		$ 72,298	$ 19,561	**$ 106,036**	$ 60,248
Operating income (loss) before taxes		**$ (63,918)**	$ 127	**$ (78,327)**	$ (13,607)
Deferred tax recovery		**-**	86	**-**	1,437
Net income (loss) and comprehensive income (loss) for the period		**$ (63,918)**	$ 213	**$ (78,327)**	$ (12,170)
Net income (loss) per weighted average share					
Basic	9(c)	**$ (0.12)**	$ 0.00	**$ (0.14)**	$ (0.04)
Diluted	9(c)	**$ (0.12)**	$ 0.00	**$ (0.14)**	$ (0.04)

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	-	328	-	328
Net loss	-	-	(78,327)	(78,327)
Balance September 30, 2015	**$ 319,678**	**$ 10,515**	**$ (279,333)**	**$ 50,860**

($000)	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance January 1, 2014	**$ 197,970**	**$ 9,227**	**$ (71,516)**	**$ 135,681**
Issue of shares	115,716	-	-	115,716
Share issue costs	(765)	-	-	(765)
Stock options exercised	205	(66)	-	139
Stock based compensation	-	782	-	782
Net loss	-	-	(12,170)	(12,170)
Balance September 30, 2014	**$ 313,126**	**$ 9,943**	**$ (83,686)**	**$ 239,383**

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

Strategic Oil & Gas Ltd.

Interim condensed consolidated statements of cash flow (unaudited)

($000)	Note	Three months ended September 30, 2015	2014	Nine months ended September 30, 2015	2014
Operating activities:					
Net income (loss) for the period		**$ (63,918)**	$ 213	**$ (78,327)**	$ (12,170)
Non-cash items:					
Depletion, depreciation, and amortization		**5,088**	8,555	**19,177**	25,671
Accretion of decommissioning liabilities		**286**	363	**839**	920
Stock-based compensation		**100**	487	**328**	782
Unrealized loss (gain) on risk management contracts		**(860)**	(6,758)	**2,472**	(4,162)
Valuation allowance		**-**	-	**1,100**	-
Exploration expense		**426**	-	**426**	-
Impairment	6	**60,000**	-	**60,000**	-
Deferred tax recovery		**-**	(86)	**-**	(1,437)
Gain on disposal of property, plant and equipment		**-**	-	**-**	(2,304)
Funds from operations		**$ 1,122**	$ 2,774	**$ 6,015**	$ 7,300
Expenditures on decommissioning liabilities		**79**	(446)	**(4,425)**	(1,747)
Change in non-cash working capital	12	**3,034**	(1,537)	**490**	(286)
Cash provided by operating activities		**$ 4,235**	$ 791	**$ 2,080**	$ 5,267
Financing activities:					
Issue of common shares, net of share issue costs		**$ -**	$ 19,708	**$ -**	$ 69,006
Increase in bank loan		**500**	-	**22,984**	-
Decrease in bank loan		**-**	(21,351)	**-**	(10,126)
Issue of promissory notes		**-**	10,930	**-**	10,930
Exercise of options		**-**	-	**-**	139
Cash provided by financing activities		**$ 500**	$ 9,287	**$ 22,984**	$ 69,949
Investing activities:					
Expenditures – property, plant and equipment		**$ (1,350)**	$ (24,733)	**$ (9,269)**	$ (74,290)
Expenditures – exploration and evaluation assets		**(51)**	(138)	**(206)**	(2,574)
Proceeds on disposal of property, plant and equipment		**-**	-	**-**	3,821
Changes in non-cash working capital	12	**(1,845)**	8,740	**(13,581)**	(1,759)
Cash used in investing activities		**$ (3,246)**	$ (16,131)	**$ (23,056)**	$ (74,802)
Increase (Decrease) in cash and cash equivalents during the period		**$ 1,489**	$ (6,053)	**$ 2,008**	$ 414
Cash and cash equivalents, beginning of the period		**879**	6,693	**360**	226
Cash and cash equivalents, end of the period		**$ 2,368**	$ 640	**$ 2,368**	$ 640

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 using the going concern basis of presentation, which 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 September 30, 2015, the Company reported a net loss of $63.9million. At September 30, 2015, the Company had negative working capital of $52.8 million and an accumulated deficit of $279.3 million. Subsequent to the reporting period, the Company executed a term sheet with the lender to amend its credit facility, which terms are described in Note 7. Strategic's cash flows and compliance with debt covenants are highly dependent on realized oil prices. Sustained low commodity prices will significantly reduce the Company's cash flows, resulting in 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.

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 November 13, 2015.

c) Basis of measurement

These financial statements are prepared using the same accounting policies and methods of computation as 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. For the three and nine months ended September 30, 2014, $0.35 million and $1.08 million, respectively of 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 evaluating 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 policy coverage, a receivable of $2.6 million has been recorded on the balance sheet as at September 30, 2015 (December 31, 2014 - $3.7 million) representing the cost of remediation work completed in the first quarter of 2015 and ongoing monitoring costs, that are virtually certain to be recovered, of which $1.8 million is included in current assets and $0.8 million in long-term receivables. A valuation allowance of current receivables in the amount of $1.1 million has been recorded based on preliminary discussions with the Company's insurers. On November 3, 2015, a $1.9 million interim payment was received from the insurer.

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

($000)	September 30, 2015	December 31, 2014
Opening balance	**$ 13,903**	$ 14,695
E&E expenditures	**206**	2,905
E&E transfer to Property, plant and equipment	**(511)**	(702)
E&E expense	**(426)**	(399)
Amortization for the period	**(1,534)**	(2,596)
Closing balance	**$ 11,639**	$ 13,903

For the nine months ended September 30, 2015, the Company expensed $0.4 million (year ended December 31, 2014 - $0.4 million) related to seismic expenditures on land on which there are currently no plans for future exploration.

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	9,269	-	9,269
E&E transfer	511	-	511
Change in decommissioning costs	2,228	-	2,228
As at September 30, 2015	**$ 448,863**	**$ 1,170**	**$ 450,033**

($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	17,543	101	17,643
D&D capitalized to inventory	(39)	-	(39)
Impairment	60,000	-	60,000
As at September 30, 2015	**$ 304,592**	**$ 1,039**	**$ 305,631**

($000) Net carrying value	D&P assets	Office	Total
As at December 31, 2014	$ 209,767	$ 232	$ 209,999
As at September 30, 2015	**$ 144,271**	**$ 131**	**$ 144,402**

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 nine month period ended September 30, 2015, $0.91 million of direct general and administrative expenses were capitalized to PPE ($1.46 million for the nine month period ended September 30, 2014).

Future capital costs of $121.5 million (September 30, 2014 - $127.0 million) have been included in the depletable balance as at September 30, 2015. Major components account for $61.9 million (September 30, 2014 - $72.5 million) and are depreciated and tested for impairment separately.

Impairment

The Company's exploration, development and production assets are aggregated into cash generating units ("CGUs") based on their ability to generate largely independent cash flows.

The December 31, 2014 reserve volumes and values were evaluated by the Company's independent reserve evaluators. At September 30, 2015 the decline in forward commodity prices compared to December 2014 was an indicator of potential impairment.

The recoverable values of the Company's CGUs were estimated as the fair value less cost to sell based on the net present value of before tax cash flows (discounted at 10%) from crude oil and natural gas proved plus probable reserves originally estimated by the Company's third party reserve evaluators, internally updated for production since December 31, 2014, plus an internal estimate of incremental drilling locations. The value of resources incremental to the reserve report was further supported by contingent resource studies compiled by independent reserve engineers and discounted at a rate of 15%.

In determining impairment, the Company considered various estimates, including future pricing, timing of capital expenditures, and impact of changes in cost structures. Forecast benchmark prices and exchange rates were as follows:

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025+
WTI crude oil (US$/bbl)	50.00	55.00	61.20	65.00	69.00	73.10	77.30	81.60	86.20	87.90	89.60
Edmonton CS (CAD$/bbl)	60.68	67.40	73.40	78.10	80.90	86.00	91.10	96.40	102.00	104.00	106.00
AECO Gas Price (CAD$/mcf)	2.90	3.35	3.65	3.85	4.00	4.25	4.45	4.70	5.00	5.10	5.20

It was determined that the carrying value of certain CGU's exceeded the recoverable value and a $60.0 million (December 31, 2014 - $114.0 million) impairment was recognized. The impairment specifically relates to Steen/Marlow CGU ($54.4 million), Bistcho CGU ($4.5 million) and other Canadian CGU ($1.1). The impairment recorded reflects the Company's best estimates based on currently available information.

Three months ended September 30, 2015 ($000)	**Impairment Expense**	**Recoverable Amount**
Steen/Marlow CGU	$ 54,388	$ 146,173
Bistcho CGU	4,558	7,503
Other Canadian CGU	1,054	600
Total	**$ 60,000**	**$ 154,276**

At December 31, 2015, in conjunction with the December reserve report from the independent reserve evaluators, the Company will review the aforementioned estimates to determine any future potential impairment or reversal.

7. Bank indebtedness

Strategic had a $57.0 million credit facility at September 30, 2015, consisting of a $40 million revolving operating loan and a $17.0 million non-revolving facility that is reduced at a rate of $0.5 million per month ($16.0 million as of November 1, 2015). Subsequent to the reporting period, Strategic executed a term sheet with the lender to amend its credit facility. Upon amendment, the Company will continue to reduce the non-revolving facility by $0.5 million per month and is required to repay additional amounts as follows:

- $9.5 million on or before February 1, 2016
- the balance of the non-revolving facility on or before June 1, 2016

The Company is also required to raise $40.0 million in capital subordinated to the lender on or before June 1, 2016, with a minimum of $25.0 million raised prior to February 1, 2016, and drill 2 wells before March 31, 2016, primarily to retain certain undeveloped lands.

Amounts outstanding under the amended revolving facility are repayable on demand, and bear interest at a rate of 3.0% over the bank's prime lending rate. Amounts due under the non-revolving facility bear interest at a rate of 2.0% 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 September 30, 2015 the adjusted working capital ratio was 0.84:1. In conjunction with the term sheet, the working capital covenant under the credit facility is not applicable until February 1, 2016, but will be tested monthly thereafter. In addition to $52.0 million drawn on the facility at September 30, 2015, the Company has $4.7 million letters of credit outstanding with third parties which reduce the amount of funds available under the facility.

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 September 30, 2015 were $91.9 million (December 31, 2014 - $86.4 million). The estimated costs have been discounted at a risk free rate from 0.60% to 2.21% (December 31, 2014 – 1.01% to 2.33%) and an inflation rate of 2% (December 31, 2014 – 2%) was applied.

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

($000)	Nine months ended September 30, 2015	Year ended December 31, 2014
Balance beginning of the period	**$ 54,911**	$ 35,932
Liabilities incurred during the period	**126**	1,349
Disposition of liabilities	**-**	(170)
Expenditures on existing liabilities	**(4,425)**	(1,745)
Change in estimated future cash flows	**55**	13,655
Change in discount rate	**2,047**	4,702
Accretion	**839**	1,188
Balance end of the period	**$ 53,553**	$ 54,911
Current	**375**	4,007
Long term	**$ 53,178**	$ 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	Nine months ended September 30, 2015
Balance beginning and end of the period	542,318,629	$ 319,678

There were no changes related to share capital for the three and nine months ended September 30, 2015.

c) Weighted average shares

(000)	Three months ended September 30		Nine months ended September 30	
	2015	2014	**2015**	2014
Weighted average shares (basic)	**542,319**	362,719	**542,319**	328,858
Weighted average shares (diluted)	**542,319**	362,719	**542,319**	328,858

For the three and nine months ended September 30, 2015, the outstanding stock options were excluded from the dilution calculations as they were anti-dilutive.

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
Granted	25,000	0.15
Cancelled/Forfeited	(3,498,334)	0.89
Expired	(450,000)	0.65
Balance at September 30, 2015	**11,390,000**	$ 0.76

The following table sets out the outstanding and exercisable options as at September 30, 2015:

	Outstanding Options		Exercisable Options	
Number of Options	Weighted Average Exercise Price	Weighted Average Life Years	Number of Options	Weighted Average Exercise Price
5,430,000	$ 0.42	3.93	3,593,319	$ 0.42
85,000	0.48	3.58	56,669	0.48
110,000	0.61	1.87	106,667	0.61
530,000	0.83	2.14	526,667	0.83
765,000	0.90	1.40	765,000	0.90
165,000	0.95	1.78	155,001	0.95
765,000	1.10	0.27	765,000	1.10
3,165,000	1.16	2.27	3,165,000	1.16
375,000	1.30	2.35	375,000	1.30
11,390,000	$ 0.76	2.86	9,508,323	$ 0.83

The fair value of options granted was estimated on the date of grant using a Black-Scholes option pricing model with the following weighted average inputs:

	Nine months ended September 30	
Assumptions	**2015**	2014
Risk free interest rate (%)	1.51	1.52
Expected life (years)	3.65	3.65
Expected volatility (%)	74.36	74.40
Forfeiture rate (%)	15.94	13.37
Weighted average fair value of options granted	0.07	0.18

11. Finance costs

	Three months ended September 30		Nine months ended September 30	
($000)	**2015**	2014	**2015**	2014
Interest expense	**$ 734**	$ 1,061	**$ 2,017**	$ 2,677
Accretion of decommissioning liabilities	**286**	363	**839**	920
	$ 1,020	$ 1,424	**$ 2,856**	$ 3,597

12. Supplemental cash flow information

($000)	Nine months ended September 30 2015	2014
Interest paid	**$ 2,017**	$ 2,677
Changes in non-cash working capital		
Valuation allowance of trade and other receivables	**(1,100)**	-
Trade and other receivables	**6,026**	705
Inventory	**109**	(1,238)
Accumulated depletion in inventory	**(39)**	764
Accounts payable and accrued liabilities	**(18,087)**	(2,276)
	$ (13,091)	$ (2,045)
Operating	**490**	(286)
Investing	**(13,581)**	(1,759)
	$ (13,091)	$ (2,045)

13. Transactions with related parties

For the nine months ended September 30, 2015, legal fees in the amount of $0.15 million (September 30, 2014 - $0.27 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 rental of $0.15 million (September 30, 2014 - $0.15 million) were charged by a company controlled by an officer. Trade and other receivables at September 30, 2015 include $0.02 million (December 31, 2014 - $nil) receivable from related parties. Accounts payable and accrued liabilities at September 30, 2015 include $0.17 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 value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and bank indebtedness approximate their fair values due to their relatively short periods to maturity.

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 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 September 30, 2015, the following risk management contracts were outstanding with a mark-to-market asset value of $0.99 million (September 30, 2014 – liability value of $4.6 million).

Financial WTI crude oil contracts

Term		Contract Type	Volume (bbl/d)	Fixed Price (Cdn$/bbl)	Index
01-Jul-2015	31-Dec-2015	Option [1]	250	$90.00	WTI – NYMEX
01-Jul-2015	31-Dec-2015	Swap	500	USD $61.65	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.

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
01-Jun-2015	31-Oct-2015	Swap	200	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.

The following table summarizes the fair value as at September 30, 2015 and the change in fair value for the three and nine months ended September 30, 2015:

($000)	**September 30, 2015**	December 31, 2014
Risk management contracts, beginning of period	**$ 3,460**	$ (8,757)
Unrealized change in fair value	**(2,472)**	12,217
Risk management contracts, end of period	**988**	3,460
Gross assets, end of period	**989**	3,460
Gross liabilities, end of period	**$ (1)**	$ -

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:

($000)		**September 30, 2015**		December 31, 2014
Credit facility *(Note 7)*	**$**	**57,000**	$	80,000
Amount drawn		**(52,000)**		(29,016)
Letters of credit		**(4,689)**		(4,385)
Unutilized portion of debt facility	**$**	**311**	$	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**		**Gas transportation**
2015	$	64	$	113
2016		65		453
2017		-		453
2018		-		199
2019		-		89
2020 and thereafter		-		95
	$	129	$	1,402

b) By the 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 industry standard insurance coverage. The Company is currently remediating an environmental spill in the Marlowe area. While the Company believes it has recorded its best estimate of the impact of these contingencies in these financial statements, and accrued its best estimate of amounts expected to be received under its insurance policy, the ultimate outcome of these matters is uncertain.

17. Subsequent event

Subsequent to the reporting period, the Company obtained a $10.0 million loan from an entity which is a significant shareholder in the Company and controlled by the Chairman of the Board of Directors, in order to fund the Company's working capital deficiency, credit facility repayments and initiate the land retention drilling program required by its lender. The loan bears interest at 1% per month up to March 31, 2016 and 1.5% per month thereafter and is repayable on the earlier of the closing of a raise of capital subordinated to the credit facility or June 30, 2016. The loan is convertible at the option of the holder into common shares of the Company at a conversion price which is the lesser of $0.115 per common share or a price per common share that is the issue price of the common shares issued on any equity raise on or before March 1, 2016.