Strategic
OIL & GAS LTD.

Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2016 and 2015

Strategic Oil & Gas Ltd.

Interim condensed consolidated balance sheets (unaudited)

($000) As at	Note		**March 31, 2016**		December 31, 2015
Assets					
Current Assets:					
Cash and cash equivalents		**$**	**26,535**	$	3
Term deposits	4		**4,570**		-
Trade and other receivables	5		**9,278**		9,217
Inventory			**131**		127
			40,514		9,347
Property, plant, and equipment, net	7		**112,943**		110,077
Exploration and evaluation assets	6		**15,301**		11,169
Total Assets		**$**	**168,758**	$	130,593
Liabilities					
Current Liabilities:					
Accounts payable and accrued liabilities		**$**	**8,094**	$	5,029
Bank indebtedness			**-**		42,857
Promissory notes			**-**		9,703
Decommissioning liabilities	8		**5,936**		5,782
		$	**14,030**	$	63,371
Long-term Liabilities:					
Convertible debentures	9		**79,399**		-
Decommissioning liabilities	8		**49,878**		48,107
Total Liabilities		**$**	**143,307**	$	111,478
Shareholders' Equity					
Share capital	10		**319,678**		319,678
Equity component of convertible debentures	9		**13,346**		-
Contributed surplus			**10,807**		10,558
Deficit			**(318,380)**		(311,121)
		$	**25,451**	$	19,115
Total Liabilities and Shareholders' Equity		**$**	**168,758**	$	130,593

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)

		For the three months ended March 31,	
($000, except per share amounts)	Note	**2016**	2015
Revenue			
Petroleum and natural gas sales		**$ 4,705**	$ 10,422
Royalties		**(613)**	(1,495)
Revenues, net of royalties		**4,092**	8,927
Unrealized loss on risk management contracts	15	**-**	(1,643)
Net realized gain on risk management contracts	15	**-**	2,017
Finance income		**20**	-
		$ 4,112	$ 9,301
Expenses			
Operating		**$ 4,020**	$ 6,286
Transportation		**129**	408
General and administrative		**1,417**	2,232
Finance costs	12	**1,833**	841
Stock-based compensation		**249**	151
Depletion, depreciation and amortization		**3,485**	7,993
Change in fair value of conversion option		**278**	-
Gain on disposal of property, plant and equipment	7	**(40)**	-
		$ 11,371	$ 17,911
Net loss and comprehensive loss for the period		**$ (7,259)**	$ (8,610)
Net loss per weighted average share			
Basic	10(c)	**$ (0.01)**	$ (0.02)
Diluted	10(c)	**$ (0.01)**	$ (0.02)

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

Strategic Oil & Gas Ltd.

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

($000)	Share Capital	Convertible Debenture Equity Component	Contributed Surplus	Deficit	Total Equity
Balance January 1, 2016	**$ 319,678**	**$ -**	**$ 10,558**	**$ (311,121)**	**$ 19,115**
Stock based compensation	-	-	249	-	249
Equity component of convertible debentures	-	13,346	-	-	13,346
Net loss	-	-	-	(7,259)	(7,259)
Balance March 31, 2016	**$ 319,678**	**$ 13,346**	**$ 10,807**	**$ (318,380)**	**$ 25,451**

($000)	Share Capital	Convertible Debenture Equity Component	Contributed Surplus	Deficit	Total Equity
Balance January 1, 2015	**$ 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**

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

Strategic Oil & Gas Ltd.

Interim condensed consolidated statements of cash flow (unaudited)

		For the three months ended March 31,			
($000)	**Note**		**2016**		2015
Operating activities:					
Net loss for the period		**$**	**(7,259)**	$	(8,610)
Non-cash items:					
Depletion, depreciation, and amortization			**3,485**		7,993
Accretion of decommissioning liabilities			**267**		262
Accretion of promissory notes			**19**		-
Accretion of debentures	9		**189**		-
Stock-based compensation			**249**		151
Unrealized loss on risk management contracts			**-**		1,643
Change in fair value of conversion option			**278**		-
Interest paid in kind	12, 13		**632**		-
Gain on disposal of property, plant and equipment			**(40)**		-
Funds from (used in) operations		**$**	**(2,180)**	$	1,439
Expenditures on decommissioning liabilities			**(488)**		(4,177)
Change in non-cash working capital	13		**1,194**		(860)
Cash provided by operating activities		**$**	**(1,474)**	$	(3,598)
Financing activities:					
Issue of debentures, net of transaction costs		**$**	**92,556**	$	-
Increase in bank loan			**-**		19,409
Repayment of bank loan			**(42,857)**		-
Repayment of promissory notes			**(10,000)**		-
Change in non-cash working capital	13		**(136)**		-
Cash provided by financing activities		**$**	**39,563**	$	19,409
Investing activities:					
Expenditures – property, plant and equipment		**$**	**(3,851)**	$	(7,445)
Expenditures – exploration and evaluation assets			**(4,445)**		(81)
Investment in term deposits			**(4,570)**		-
Proceeds on disposal of property, plant and equipment			**15**		-
Changes in non-cash working capital	13		**1,294**		(8,453)
Cash used in investing activities		**$**	**(11,557)**	$	(15,979)
Increase (decrease) in cash and cash equivalents during the period		**$**	**26,532**	$	(168)
Cash and cash equivalents, beginning of the period			**3**		360
Cash and cash equivalents, end of the period		**$**	**26,535**	$	192

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) 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"). 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, 2015.

These financial statements were authorized for issue by the Board of Directors on May 16, 2016.

b) 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, 2015. There have been no changes in the application or use of estimates or judgments since December 31, 2015.

c) Functional and presentation currency

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

3. Significant accounting policies

a) Financial instruments

Cash and cash equivalents

Cash and cash equivalents include cash on hand and other short-term highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of changes in value, with a maturity of 3 months or less.

Convertible debentures

The convertible debentures were determined to be a compound financial instrument and therefore are separated into liability and equity components. The liability component is recognized initially at the fair value of a similar liability that does not have an equity conversion option and the equity component is recognized as the difference between the fair value of the convertible debenture as a whole and the fair value of the liability component. Any transaction costs are allocated to the liability and equity component in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of the convertible debentures is measured at amortized cost and is accreted to the original principal balance using the effective interest method. The equity component is not remeasured subsequent to initial recognition.

Convertible debentures can be converted to share capital at the option of the holder and the number of shares to be issued does not vary with changes in the fair value. The equity component and the accreted liability component will be reclassified to share capital upon conversion. Any balance in the equity component of convertible debentures that remains after the settlement of the liability will be transferred to contributed surplus.

4. Term deposit

The Company has pledged term deposits as collateral with a chartered bank for $4.6 million in outstanding letters of credit. These term deposits will be released upon extinguishment of the related letters of credit.

5. Insurance receivable

Included in accounts receivable as at March 31, 2016 is an insurance receivable of $6.0 million (December 31, 2015 - $6.0 million) representing the Company's final settlement with its insurer with respect to a prior year pipeline spill in the Marlowe area. The Company anticipates completing remediation of the spill in 2016, and related remediation costs of $5.3 million are included in current decommissioning liabilities as at March 31, 2016. The insurance receivable has been collected in full in May 2016.

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

($000)		**March 31, 2015**		December 31, 2015
Opening balance	**$**	**11,169**	$	13,903
E&E expenditures		**4,445**		369
E&E transfer to Property, plant and equipment		-		(511)
E&E expense		-		(716)
Amortization for the period		**(313)**		(1,879)
Closing balance	**$**	**15,301**	$	11,169

For the three months ended March 31, 2016, the Company expensed $nil (year ended December 31, 2015 - $0.7 million) related to seismic expenditures on land on which there are currently no plans for future exploration.

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

($000) Carrying value before accumulated depletion and depreciation	D&P assets	Office	Total
As at December 31, 2015	$ 451,331	$ 1,170	$ 452,501
Additions	3,851	-	3,851
Change in decommissioning costs	2,171	-	2,171
As at March 31, 2016	**$ 457,353**	**$ 1,170**	**$ 458,523**

($000) Accumulated depletion and depreciation ("D&D")	D&P assets	Office	Total
As at December 31, 2015	$ 341,354	$ 1,070	$ 342,424
D&D expensed	3,152	20	3,172
D&D capitalized to inventory	(16)	-	(16)
As at March 31, 2016	**$ 344,490**	**$ 1,090**	**$ 345,580**

($000) Net carrying value	D&P assets	Office	Total
As at December 31, 2015	$ 109,977	$ 100	$ 110,077
As at March 31, 2016	**$ 112,863**	**$ 80**	**$ 112,943**

The Company exchanged certain assets in Bistcho area, Alberta with a third party, and disposed of other minor assets resulting in a nominal gain.

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 2016, $0.2 million of general and administrative expenses were capitalized to PPE ($0.3 million for the three month period ended March 31, 2015).

Future capital costs of $142.3 million (March 31, 2015 - $127.8 million) have been included in the depletable balance as at March 31, 2016. Major components account for $62.3 million (March 31, 2015 - $62.3 million) and a net carrying value of $52.5 million (March 31, 2015 - $56.2 million) and are depreciated and tested for impairment separately, if required.

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 32 years, depending on the estimated reserve life. The undiscounted amount of the estimated costs at March 31, 2016 were $92.4 million (December 31, 2015 - $91.5 million). The estimated costs have been discounted at a risk free rate from 0.53% to 2.00% (December 31, 2015 – 0.48% to 2.16%) and an inflation rate of 2% (December 31, 2015 – 2%) was applied.

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

($000)	Three months ended March 31, 2016	Year ended December 31, 2015
Balance beginning of the period	**$ 53,889**	$ 54,911
Liabilities incurred during the period	**450**	244
Disposition of liabilities	**(25)**	-
Expenditures on existing liabilities	**(488)**	(4,716)
Change in estimated future cash flows	**(1)**	53
Change in discount rate	**1,722**	2,295
Accretion	**267**	1,102
Balance end of the period	**$ 55,814**	$ 53,889
Current	**5,936**	5,782
Long term	**$ 49,878**	$ 48,107

9. Debentures

On February 29, 2016, the Company issued secured senior convertible debentures (the "debentures") for gross proceeds of $94.9 million (net proceeds of $92.6 million after transaction costs). Of the $94.9 million gross proceeds, $58.8 million was purchased by entities controlled by a director of the Company and an additional $4.1 million were purchased by directors and officers of the Company. The debentures have a five-year term, and bear an annual interest rate of 8.0%, payable semi-annually in arrears, with an option for the Company to pay the interest in an equivalent principal amount of debentures for the first two years. The debentures are convertible into common shares at a conversion price of $0.09 per share, subject to adjustment in certain events. The Company intends to pay the interest in kind on the first payment due on August 31, 2016.

The debentures can be called prior to the maturity date by the Company if either a) the 90-day weighted average trading price of Strategic common shares is over $0.36 per share, or b) anytime in the fifth year of the term. If the Company elects to call the debentures under option b), interest must be paid from the date the debentures are called up to the original maturity date.

The convertible debentures have been classified as a financial liability, net of issue costs and net of the equity component. The initial carrying amount of the financial liability was determined by discounting the stream of future payments of interest and principal, using a rate of 12% which was the estimated rate for debt with similar terms without conversion features. The liability component is being accreted to the principal amount of $94.9 million at maturity.

Below is a summary of the debt and equity balances:

($000)	Convertible Debentures Liability	Equity Component of Convertible Debentures	Total
Balance, January 1, 2016	**$** -	**$ -**	$ -
Issued	81,174	13,677	94,851
Issuance costs	(1,964)	(331)	(2,295)
Accretion expense	189	-	189
Balance, March 31, 2016	$ **79,399**	**$ 13,346**	**$ 92,745**

10. 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, 2016
Balance beginning and end of the period	542,318,629	$ 319,678

There were no changes related to share capital for the three months ended March 31, 2016.

c) Weighted average shares

(000)	Three months ended March 31	
	2016	2015
Weighted average shares (basic and diluted)	**542,319**	542,319

For the three months ended March 31, 2016, outstanding stock options and convertible debentures were excluded from the dilution calculations as they were anti-dilutive.

11. 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, 2015	**11,365,000**	$ 0.76
Granted	10,640,000	0.09
Cancelled/Forfeited	(10,000)	0.15
Expired	(755,000)	1.10
Balance at March 31, 2016	**21,240,000**	$ 0.41

The following table sets out the outstanding and exercisable options as at March 31, 2016:

Outstanding Options			Exercisable Options	
Number of Options	Weighted Average Exercise Price	Weighted Average Life Years	Number of Options	Weighted Average Exercise Price
10,655,000	$ 0.09	4.87	3,556,676	$ 0.09
5,390,000	0.42	3.43	3,593,318	0.42
85,000	0.48	3.08	71,668	0.49
110,000	0.61	1.37	110,000	0.61
530,000	0.83	1.64	530,000	0.83
765,000	0.90	0.90	765,000	0.90
165,000	0.95	1.28	165,000	0.95
10,000	1.10	0.45	10,000	1.10
3,155,000	1.16	1.76	3,155,000	1.16
375,000	1.30	1.85	375,000	1.30
21,240,000	$ 0.41	3.71	12,331,662	$ 0.60

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:

	Three months ended March 31	
Assumptions	**2016**	2015
Risk free interest rate (%)	1.12	1.52
Expected life (years)	3.54	3.65
Expected volatility (%)	83.10	74.37
Forfeiture rate (%)	14.84	11.69
Weighted average fair value of options granted	0.05	0.00

12. Finance costs

	Three months ended March 31	
($000)	**2016**	2015
Interest	**$ 726**	$ 579
Interest expense on convertible debentures	**632**	-
Accretion of decommissioning liabilities	**267**	262
Accretion on promissory notes	**19**	-
Accretion on debentures	**189**	-
Total finance costs	**$ 1,833**	$ 841

13. Supplemental cash flow information

	Three months ended March 31,			
($000)		**2016**		2015
Interest paid	**$**	**726**	$	579
Changes in non-cash working capital				
Trade and other receivables		**(61)**		501
Inventory		**(4)**		131
Accumulated depletion in inventory		**(16)**		(3)
Accounts payable and accrued liabilities		**3,065**		(9,942)
Interest paid in kind		**(632)**		-
	$	**2,352**	$	(9,313)
Operating		**1,194**		(860)
Financing		**(136)**		-
Investing		**1,294**		(8,453)
	$	**2,352**	$	(9,313)

14. Transactions with related parties

For the three months ended March 31, 2016, legal fees in the amount of $0.1 million (March 31, 2015 - $0.02 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 $0.05 million (March 31, 2015 - $0.05 million) were incurred with a company controlled by an officer. Accounts payable and accrued liabilities at March 31, 2016 include $0.02 million (December 31, 2015 - $0.2 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.

15. Financial instruments and financial risk management

The Company's financial instruments include cash and cash equivalents, term deposits, trade and other receivables, accounts payable and accrued liabilities, convertible debentures and risk management contracts. The carrying value of cash and cash equivalents, term deposits, accounts receivable, and accounts payable and accrued liabilities approximate their fair values due to their relatively short periods to maturity. The financial liability component of the convertible debentures has been recorded using the effective interest method based on interest at rates available to the Company and accordingly the fair value approximates the carrying value.

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 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, 2016, there were no risk management contracts outstanding, fair value was $nil (December 31, 2015 - $nil).

16. 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 working capital excluding risk management contracts.

17. 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
2016	$ 98	$ 343
2017	68	458
2018	-	201
2019	-	90
2020	-	72
2021 and thereafter	-	25
	$ 166	$ 1,189

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.