



## **Interim Condensed Consolidated Financial Statements**

**For the three and nine months ended September 30, 2014 and 2013**

# Strategic Oil & Gas Ltd.

Interim condensed consolidated balance sheets (unaudited)

(\$000)	Note	September 30, 2014	December 31, 2013
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 640	\$ 226
Inventory		1,617	379
Trade and other receivables		8,125	9,080
Subscriptions receivable	10	46,032	-
		<b>56,414</b>	9,685
Long-term receivable	9	3,001	-
Property, plant, and equipment, net	4, 6	304,288	249,841
Exploration and evaluation assets	5	15,345	14,695
<b>Total Assets</b>		<b>\$ 379,048</b>	<b>\$ 274,221</b>
<b>Liabilities</b>			
Current Liabilities:			
Accounts payable and accrued liabilities		\$ 26,180	\$ 28,457
Bank indebtedness	7	53,649	63,775
Promissory notes	8	10,930	-
Decommissioning liabilities	9	210	-
Deferred price premium on flow-through shares		270	1,619
Risk management contracts	15	4,384	7,276
		<b>\$ 95,623</b>	<b>\$ 101,127</b>
Long term Liabilities:			
Risk management contracts	15	\$ 211	1,481
Decommissioning liabilities	9	43,831	35,932
<b>Total Liabilities</b>		<b>\$ 139,665</b>	<b>\$ 138,540</b>
<b>Shareholders' Equity</b>			
Share capital	10	313,126	197,970
Contributed surplus		9,943	9,227
Deficit		(83,686)	(71,516)
		<b>\$ 239,383</b>	<b>\$ 135,681</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 379,048</b>	<b>\$ 274,221</b>

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,		Nine months ended September 30,	
		2014	2013	2014	2013
<b>Revenue</b>					
Petroleum and natural gas sales		\$ 19,744	\$ 22,628	\$ 65,226	\$ 64,285
Royalties		(4,392)	(5,218)	(14,115)	(14,191)
<b>Revenues, net of royalties</b>		<b>15,352</b>	<b>17,410</b>	<b>51,111</b>	<b>50,094</b>
Unrealized gain (loss) on risk management contracts	15	6,758	(3,330)	4,162	(7,032)
Net realized loss on risk management contracts	15	(2,072)	(2,567)	(7,554)	(2,174)
Other income		-	2	-	94
		\$ 20,038	\$ 11,515	\$ 47,719	\$ 40,982
<b>Expenses</b>					
Production		\$ 7,881	\$ 7,714	\$ 28,421	\$ 23,836
General and administrative		1,564	1,248	5,159	4,651
Finance	12	1,424	1,243	3,597	2,585
Stock-based compensation	11	487	438	782	1,302
Depletion, depreciation and amortization		8,555	7,631	25,671	21,072
Gain on disposal of property, plant and equipment	4, 14	-	-	(2,304)	-
		\$ 19,911	\$ 18,274	\$ 61,326	\$ 53,446
<b>Operating income (loss) before taxes</b>		\$ 127	\$ (6,759)	\$ (13,607)	\$ (12,464)
Deferred tax recovery		86	-	1,437	-
<b>Net income (loss) and comprehensive income (loss) for the period</b>		\$ 213	\$ (6,759)	\$ (12,170)	\$ (12,464)
<b>Net income (loss) per weighted average share</b>					
Basic		\$ 0.00	\$ (0.03)	\$ (0.04)	\$ (0.06)
Diluted		\$ 0.00	\$ (0.03)	\$ (0.04)	\$ (0.06)
<b>Weighted average shares outstanding - Basic</b>	10(c)	<b>362,719</b>	211,282	<b>328,858</b>	203,882
<b>Weighted average shares outstanding - Diluted</b>	10(c)	<b>362,719</b>	211,282	<b>328,858</b>	203,882

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)	Note	Share Capital	Contributed Surplus	Deficit	Total equity
<b>Balance January 1, 2014</b>		\$ 197,970	\$ 9,227	\$ (71,516)	\$ 135,681
Issue of shares	10(b)	115,716	-	-	115,716
Share issue costs	10(b)	(765)	-	-	(765)
Stock options exercised	10(b)	205	(66)	-	139
Stock based compensation		-	782	-	782
Net loss		-	-	(12,170)	(12,170)
<b>Balance September 30, 2014</b>		\$ 313,126	\$ 9,943	\$ (83,686)	\$ 239,383

(\$000)	Note	Share Capital	Contributed Surplus	Deficit	Total equity
<b>Balance January 1, 2013</b>		\$ 122,999	\$ 7,958	\$ (49,200)	\$ 81,757
Issue of shares	10(b)	48,185	-	-	48,185
Share issue costs	10(b)	(954)	-	-	(954)
Stock options exercised	10(b)	1,132	(455)	-	677
Stock based compensation		-	1,301	-	1,301
Net loss		-	-	(12,464)	(12,464)
<b>Balance September 30, 2013</b>		\$ 171,362	\$ 8,804	\$ (61,664)	\$ 118,502

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,		Nine months ended September 30,	
		2014	2013	2014	2013
<b>Operating activities:</b>					
Net income (loss) for the period		\$ 213	\$ (6,759)	\$ (12,170)	\$ (12,464)
Non-cash items:					
Depletion, depreciation, and amortization		8,555	7,631	25,671	21,072
Accretion of decommissioning liabilities		363	222	920	619
Stock-based compensation		487	438	782	1,301
Unrealized (gain) loss on risk management contracts	15	(6,758)	3,330	(4,162)	7,032
Deferred tax recovery		(86)	-	(1,437)	-
Gain on acquisition		-	-	-	(61)
Gain on disposal of property, plant and equipment	4, 14	-	-	(2,304)	-
Other non-cash items		-	(9)	-	(16)
<b>Funds from operations</b>		<b>\$ 2,774</b>	<b>\$ 4,853</b>	<b>\$ 7,300</b>	<b>\$ 17,483</b>
Expenditures on decommissioning liabilities		(446)	(14)	(1,747)	(659)
Change in non-cash working capital	13	(1,537)	1,570	(286)	(452)
<b>Cash provided by operating activities</b>		<b>\$ 791</b>	<b>\$ 6,409</b>	<b>\$ 5,267</b>	<b>\$ 16,372</b>
<b>Financing activities:</b>					
Issue of common shares		\$ 17,202	\$ 19,185	\$ 67,202	\$ 48,185
Increase in bank loan		-	-	-	27,932
Decrease in bank loan		(21,351)	(8,743)	(10,126)	-
Issue of flow-through shares		2,570	-	2,570	-
Issue of promissory notes		10,930	-	10,930	-
Exercise of options		-	-	139	677
Share issuance costs	10	(64)	(103)	(766)	(954)
<b>Cash provided by financing activities</b>		<b>\$ 9,287</b>	<b>\$ 10,339</b>	<b>\$ 69,949</b>	<b>\$ 75,840</b>
<b>Investing activities:</b>					
Expenditures – property, plant and equipment		\$ (24,733)	\$ (24,249)	\$ (74,290)	\$ (82,789)
Expenditures – exploration and evaluation assets		(138)	(368)	(2,574)	(6,878)
Acquisitions		-	-	-	(10,098)
Proceeds on disposal of property, plant and equipment	4, 14	-	-	3,821	-
Changes in non-cash working capital	13	8,740	6,689	(1,759)	5,250
<b>Cash used in investing activities</b>		<b>\$ (16,131)</b>	<b>\$ (17,928)</b>	<b>\$ (74,802)</b>	<b>\$ (94,515)</b>
<b>(Decrease) increase in cash and cash equivalents during the period</b>		<b>\$ (6,053)</b>	<b>\$ (1,180)</b>	<b>\$ 414</b>	<b>\$ (2,303)</b>
<b>Cash and cash equivalents, beginning of the period</b>		<b>6,693</b>	<b>1,387</b>	<b>226</b>	<b>2,510</b>
<b>Cash and cash equivalents, end of the period</b>		<b>\$ 640</b>	<b>\$ 207</b>	<b>\$ 640</b>	<b>\$ 207</b>

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

# Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)  
September 30, 2014 and 2013

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## 1. Corporate information

Strategic Oil & Gas Ltd. ("Strategic") is a company registered and domiciled in Alberta. On February 28, 2013, Strategic acquired all the outstanding common shares of Strategic Transmission Ltd. in conjunction with the acquisition of oil and gas assets in northwest Alberta and the Northwest Territories. Strategic Transmission Ltd. has nominal assets and no liabilities.

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") as issued by the International Accounting Standards Boards ("IASB"). These financial statements are condensed as they do not include all of the information required 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, 2013.

These financial statements were authorized for issue by the Board of Directors on November 17, 2014.

### b) Basis of measurement

The financial statements have been prepared on a historical cost basis except for cash and cash equivalents, trade and other receivables, subscriptions receivable, long-term receivable, bank debt, accounts payable and accrued liabilities, promissory notes, 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, 2013, except as noted in Note 3 "Significant Accounting Policies" in these financial statements. There have been no changes in the application or use of estimates or judgments since December 31, 2013.

### c) Functional and presentation currency

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

# Strategic Oil & Gas Ltd.

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## d) Estimates and judgments

The timely preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses for the period. Actual results may differ from these estimates. Information regarding the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty are the same as the audited annual Consolidated Financial Statements as at year ended December 31, 2013.

The recoverability of the carrying value of oil and gas properties is assessed at the cash generating unit ("CGU") level. Determination of the properties and other assets to be included within a particular CGU is based on management's judgment with respect to the integration between assets, shared infrastructure and cash flows. Changes in the assets comprising each CGU impacts recoverable amounts used in impairment assessments and could have a material impact on net income. At December 31, 2012 Strategic had 10 CGUs which were Steen/Marlow, Lessard, Larne, Bistcho, Taber, Conrad, Cheddarville, Maxhamish, Antelope and miscellaneous individual gas wells. In 2013, the Company acquired assets and infrastructure which was being used to process production from two existing CGUs, and as a result those were combined into the CGU for the acquired assets. Also, in 2013 changes were made in management reporting and analysis of the Company's operations and capital allocation among various assets. The focus on Marlowe led to a reduction in detailed monitoring and analysis on the results of operations of certain other CGUs, and no capital spending was planned for those assets, which lead to the combination of various minor CGUs. These changes resulted in 4 total CGUs at December 31, 2013 and remains the same as at September 30, 2014.

The financial statements include the accounts of the Company and its wholly owned subsidiaries, Strategic Oil & Gas Inc., Jed Oil (USA) Inc. and Strategic Transmission Ltd. All inter-entity transactions have been eliminated.

## 3. Significant accounting policies

### a) Accounting policies used

The financial statements have been prepared following the same accounting policies and methods of computation as the audited annual consolidated financial statements as at and for the year ended December 31, 2013, except for adoption of the following new standards and interpretations effective as of January 1, 2014:

#### Impairment of assets

- IAS 36 *Impairment of Assets - Amendments to IAS 36*. The amended standard requires entities to disclose the recoverable amount of an impaired Cash Generating Unit (CGU). The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014 and require retrospective application. This standard did not have an impact on the Company's financial position or performance.

#### Financial instruments

- IAS 39 "Financial Instruments: Recognition and Measurement" has been amended to clarify that there would be no requirement to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The retrospective adoption of the amendments does not have any impact on the Company's financial statements.

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## Levies

- IFRIC 21 *Levies - Interpretation of IAS 37 Provisions, contingent liabilities and assets*: IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event. The interpretation clarifies that the obligation that gives rise to the liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Company reviewed payments considered to be levies and concluded that the application of the standard did not have a significant impact on the Company.

The financial statements also include the following additional information:

The Company has joint agreements consisting of working interests in oil and gas wells with one or more partners. The agreements are not within the scope of IFRS 11, since they do not require unanimous consent of the parties to the agreement, and therefore do not constitute joint agreements or joint ventures. The Company's proportionate share of revenues, expenses, assets and liabilities are included in its accounts.

## b) Accounting pronouncements not yet adopted

The Company continues to assess the impact of adopting the pronouncements from the IASB as described below:

### Financial instruments

- IFRS 9 *Financial Instruments*: IFRS 9 (July 2014) replaces earlier versions of IFRS 9 that had not yet been adopted by the Company and supersedes IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes a principle-based approach for classification and measurement of financial instruments, 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 continues to update and monitor the impact of this standard on its financial statements.

### Revenue

- IFRS 15 *Revenue from Contracts with Customers*: IFRS 15 specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and a number of revenue-related interpretations. IFRS 15 will be effective for annual periods beginning on or after January 1, 2017. Application of the standard is mandatory and early adoption is permitted. The Company has not yet determined the impact of the standard on the Company's financial statements.

## 4. Disposition

On June 16, 2014, the Company sold certain oil and gas assets in central Alberta for a total cash consideration of \$3.48 million.

(\$000)	September 30, 2014
Property, plant and equipment net book value	\$ 1,688
Decommissioning obligations on assets sold	(170)
Gain on sale of assets	1,960
Purchase price paid in cash	\$ 3,478



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Notes to the interim condensed consolidated financial statements (unaudited)  
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## 5. Exploration and evaluation ("E&E") assets

(\$000)	September 30, 2014	December 31, 2013
Opening balance	\$ 14,695	\$ 11,129
E&E expenditures	2,574	6,927
E&E transfer to property, plant and equipment	-	(683)
Amortization	(1,924)	(2,678)
Closing balance	\$ 15,345	\$ 14,695

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

(\$000)			
Carrying value before accumulated depletion and depreciation	D&P assets	Office	Total
As at December 31, 2013	\$ 332,280	\$ 1,106	\$ 333,386
Additions	74,221	69	74,290
Dispositions (Note 4)	(5,639)	(5)	(5,644)
Change in decommissioning costs	6,267	-	6,267
<b>As at September 30, 2014</b>	<b>\$ 407,129</b>	<b>\$ 1,170</b>	<b>\$ 408,299</b>

(\$000)			
Accumulated depletion and depreciation ("D&D")	D&P assets	Office	Total
As at December 31, 2013	\$ 82,777	\$ 768	\$ 83,545
D&D expensed	23,611	136	23,747
D&D capitalized to inventory	764	-	764
Dispositions (Note 4)	(4,040)	(5)	(4,045)
<b>As at September 30, 2014</b>	<b>\$ 103,112</b>	<b>\$ 899</b>	<b>\$ 104,011</b>

(\$000)			
Net carrying value	D&P assets	Office	Total
As at December 31, 2013	\$ 249,503	\$ 338	\$ 249,841
<b>As at September 30, 2014</b>	<b>\$ 304,017</b>	<b>\$ 271</b>	<b>\$ 304,288</b>

Substantially all of the Company's development and production ("D&P") assets are located within Canada. The cost of property, plant and equipment includes amounts in respect of the provision for decommissioning obligations. For the nine month period ended September 30, 2014, \$1.46 million of direct general and administrative expenses were capitalized to PPE (\$1.66 million for the nine month period ended September 30, 2013).

Future capital costs of \$127.0 million (September 30, 2013 - \$62.2 million) have been included in the depletable balance as at September 30, 2014. Major components account for \$72.5 million (September 30, 2013 - \$33.1 million) and are depreciated and tested for impairment separately.

# Strategic Oil & Gas Ltd.

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## 7. Bank indebtedness

At September 30, 2014 the Company had a \$80 million operating loan facility (the "Facility") with a Canadian chartered bank. 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. 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 revolving operating line is included in current assets and, the current portion of debt and risk management liabilities are both excluded from current liabilities. In addition to \$53.6 million drawn on the Facility at September 30, 2014, the Company has \$4.1 million letters of credit outstanding with third parties which reduce the amount of funds available under the Facility. The Facility has a renewal date of December 1, 2014. At September 30, 2014, the Company's was in compliance with all financial covenants.

## 8. Promissory notes

During the period, a director and entities owned by the director provided a short-term USD \$10 million loan to the Company, to be repaid at the earliest of the closing of an equity raise by the Company or October 31, 2014. The loan bears interest at the greater of 1% per annum with interest being accrued monthly or 2% for the period of the loan. The loan was repaid on October 10, 2014.

## 9. 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 from 1 to 27 years, depending on the estimated reserve life. The undiscounted amount of the estimated costs at September 30, 2014 were \$78.9 million (December 31, 2013 - \$59.8 million). The estimated costs have been discounted at a risk free rate from 1.14% to 2.73% (December 31, 2013 - 1.13% to 3.20%) and an inflation rate of 2% (December 31, 2013 - 2%) was applied.

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

(\$000)	Nine months ended September 30, 2014	Year ended December 31, 2013
Balance beginning of the period	\$ 35,932	\$ 19,036
Liabilities incurred during the period	1,166	875
Acquisition of liabilities from asset acquisitions	-	14,579
Disposition of liabilities from asset disposition	(170)	-
Expenditures on existing liabilities	(1,747)	(762)
Change in estimated future cash flows	3,868	5,263
Change in discount rate	4,072	(3,928)
Accretion	920	869
Balance end of the period	\$ 44,041	\$ 35,932
Current	210	-
Long term	\$ 43,831	\$ 35,932

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During the nine months ended September 30, 2014, the change in estimated future cash flows includes \$3.4 million of additional decommissioning liabilities which were recorded related to remediation of soil and pipeline reclamation at Steen River for \$2.6 million and pipeline reclamation at Bistcho for \$1.2 million. The Steen River amounts are to be expended by the end of 2016. The Company has accrued \$3.0 million for amounts due from its insurer for certain decommissioning liabilities. The Bistcho amounts are expected to be expended by the end of 2034.

## 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	Nine months ended September 30, 2014	
Balance beginning of the period	260,600,646	\$	197,970
Exercise of options	400,000		205
Shares issued	263,926,091		115,716
Share issue costs	-		(765)
Balance end of the period	524,926,737	\$	313,126

(\$000, except for share amounts)	Number of shares	Year ended December 31, 2013	
Balance beginning of the year	186,415,268	\$	122,999
Exercise of options	788,333		1,132
Shares issued	73,397,045		76,687
Share issue costs	-		(2,848)
Balance end of the year	260,600,646	\$	197,970

On March 31, 2014, the Company issued 100.0 million common shares via a private placement at a price of \$0.50 per common share for gross proceeds of \$50.0 million (net proceeds of \$49.3 million after transaction costs). Of the \$50.0 million gross proceeds, \$40 million (80 million common shares) was purchased by entities controlled by a director of the Company and an additional \$0.29 million (575,200 common shares) were purchased by directors and officers of the Company.

On September 30, 2014, the Company issued 163.9 million common shares comprised of 158.1 million common shares and 5.8 million common shares issued on a flow-through basis pursuant to the Income Tax Act (Canada), for gross proceeds of \$65.8 million (\$65.7 million after transaction costs). \$53.0 million (132.5 million common shares) were acquired by entities controlled by a director of the Company and another \$2.3 million (5.8 million common shares) were acquired by directors and officers of the Company.

The private placement was closed based on a wire transfer confirmation. However, the wire transfer was late resulting in subscriptions receivable as at the reporting date. Subsequent to the reporting date, the amounts due from subscriptions receivable were received on October 7, 2014 in full.

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On October 16, 2014, the Company completed a second tranche private placement. The Company issued 1.7 million common shares at a price of \$0.40 per common shares and 15.7 million common shares issued on a flow-through basis pursuant to the Income Tax Act (Canada) at a price of \$0.44 per flow-through share, for gross proceeds of \$7.6 million. The total gross proceeds from the two private placement tranches was \$73.4 million.

## c) Weighted average shares

(000)	Three months ended		Nine months ended	
	September 30		September 30	
	2014	2013	2014	2013
Weighted average shares (basic)	362,719	211,282	328,858	203,882
Weighted average shares (diluted)	362,719	211,282	328,858	203,882

## 11. Stock-based compensation

For the nine months ended September 30, 2014, the Company issued 6,520,000 common share options which will vest over three years. These options expire five years from the date of issue.

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

	Number of options	Weighted average Exercise Price
<b>Balance at December 31, 2013</b>	<b>13,235,000</b>	\$ 0.98
Issued	6,520,000	0.42
Exercised	(400,000)	0.35
Forfeited	(773,332)	1.00
Expired	(2,895,000)	0.84
<b>Balance at September 30, 2014</b>	<b>15,686,668</b>	\$ 0.79

The following table sets out the outstanding and exercisable options as at September 30, 2014:

	Outstanding Options			Exercisable Options	
	Number of Options	Weighted Average Exercise Price	Weighted Average Life Years	Number of Options	Weighted Average Exercise Price
	6,353,334	\$ 0.42	4.92	2,119,984	\$ 0.42
	370,000	0.49	1.54	293,340	0.50
	573,334	0.65	0.88	560,002	0.64
	530,000	0.83	3.14	350,000	0.83
	1,375,000	0.90	2.40	1,375,000	0.90
	165,000	0.95	2.78	133,335	0.94
	1,370,000	1.10	1.29	1,366,667	1.10
	4,565,000	1.16	3.25	3,086,662	1.16
	10,000	1.19	3.65	6,667	1.19
	375,000	1.30	3.35	250,000	1.30
	15,686,668	\$ 0.79	3.55	9,541,657	\$ 0.89

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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	
	2014	2013
Assumptions		
Risk free interest rate (%)	1.52	1.67
Expected life (years)	3.65	3.80
Expected volatility (%)	74.40	81.94
Forfeiture rate (%)	13.37	6.42
Weighted average fair value of options granted (\$)	0.18	0.52

Forfeiture rate is calculated based on historical forfeiture data of the Company. The weighted average share price at the date of exercise for share options exercised during the nine months ended September 30, 2014 was \$0.35 (September 30, 2013 - \$1.27).

## 12. Finance costs

(\$000)	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Interest expense	\$ 1,061	\$ 1,021	\$ 2,677	\$ 2,020
Foreign exchange gain realized	-	-	-	(54)
Accretion of decommissioning liabilities	363	222	920	619
	\$ 1,424	\$ 1,243	\$ 3,597	\$ 2,585

## 13. Supplemental cash flow information

(\$000)	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Interest paid	\$ 1,061	\$ 1,021	\$ 2,677	\$ 2,020
Changes in non-cash working capital				
Trade and other receivables <sup>(1)</sup>	2,550	1,919	705	(679)
Inventory	(1,204)	(127)	(1,238)	(208)
Inventory acquired	-	-	-	490
Accumulated depletion in inventory	764	-	764	-
Accounts payable and accrued liabilities	5,093	6,467	(2,276)	5,179
	7,203	8,259	\$ (2,045)	\$ 4,782
Operating	(1,537)	1,570	(286)	(452)
Investing	8,740	6,689	(1,759)	5,250
	\$ 7,203	8,259	\$ (2,045)	\$ 4,798

(1): included in the trade and other receivables is \$0.25 million of transfer to long-term receivable.

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## 14. Transactions with related parties

For the three and nine months ended September 30, 2014, legal fees in the amount of \$0.08 million and \$0.27 million (September 30, 2013 - \$0.04 million and \$0.30 million) respectively, were incurred with a legal firm of which a director is a partner, and these amounts are included as general and administrative expenses or share issue costs. Software charges of \$0.05 million and \$0.15 million (September 30, 2013 - \$0.05 million and \$0.15 million) respectively, were charged to a company controlled by an officer. Trade and other receivables at September 30, 2014 include \$46.3 million (December 31, 2013 - \$nil) receivable from related parties including subscriptions receivable of \$46.0 million. Accounts payable and accrued liabilities at September 30, 2014 include \$0.07 million (December 31, 2013 - \$0.31 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.

In the first quarter of 2014, the Company disposed of a working interest in a non-producing property to a company controlled by a director for consideration of \$0.3 million, which was the deemed fair value of the property at the sale date. As the property had a \$nil carrying value, a \$0.3 million gain on disposition of property, plant and equipment was recorded in the period.

## 15. 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, subscriptions receivable, long-term receivable, accounts payable and accrued liabilities, bank indebtedness and promissory notes 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 and bank indebtedness 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.

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## 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, 2014, the following risk management contracts were outstanding with a mark-to-market liability value of \$4.6 million (September 30, 2013 - \$7.3 million).

## Financial WTI crude oil contracts

Term	Contract Type	Volume (bbl/d)	Fixed Price (\$/bbl)	Index	
01-Oct-2014	31-Dec-2014	Swap	1,500	CAD\$92.00	WTI - NYMEX
01-Jan-2015	30-Jun-2015	Swap	750	CAD\$90.15	WTI - NYMEX
01-Jan-2015	31-Dec-2015	Option <sup>(1)</sup>	600	CAD\$90.00	WTI - NYMEX
01-Jul-2015	31-Dec-2015	Option <sup>(1)</sup>	250	CAD\$90.00	WTI - NYMEX

<sup>(1)</sup> Counterparty has an option to convert into a swap at the fixed price indicated. The 600 bbl/d option expires on the last business day before the term begins, while the 250 bbl/d option expires monthly during the contract term.

The Company has also entered into a contract to fix the WTI – Edmonton light differential at CAD\$9.25/bbl on 1,000 bbl/d for October to December 2014.

## Financial AECO gas contracts

Term	Contract Type	Volume (GJ/d)	Fixed Price (\$/GJ)	Index	
01-Oct-2014	31-Dec-2014	Swap	1,500	3.50	AECO
01-Oct-2014	31-Dec-2014	Swap	300	3.75	AECO
01-Apr-2014	31-Oct-2014	Swap	500	4.41	AECO

The Company has also entered into a contract to sell \$9.5 million USD for \$10.32 million CAD fixing the USD/CAD exchange rate at 1.0865 on August 29, 2014 and purchasing \$9.5 million USD for \$10.34 million CAD fixing the USD/CAD exchange rate at 1.0884 as at October 29, 2014. These contracts were put in place to mitigate foreign exchange risk related to the promissory notes payable (Note 8).

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 September 30, 2014, Strategic recorded unrealized gains on risk management contracts of \$6.76 million (September 30, 2013 – loss of \$3.33 million). For the nine months ended September 30, 2014, Strategic recorded unrealized gains on risk management contracts of \$4.16 million (September 30, 2013 – loss of \$7.03 million).

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The following table summarizes the fair value as at September 30, 2014 and the change in fair value for the three and nine months ended September 30, 2014:

<b>(\$000)</b>	<b>September 30, 2014</b>	<b>December 31, 2013</b>
Net derivative liabilities, beginning of period	\$ (8,757)	\$ (224)
Unrealized change in fair value	4,162	(8,533)
Net derivative liabilities, end of period	(4,595)	(8,757)
Derivative assets, end of period	300	-
Gross derivative liabilities, end of period	(4,895)	(8,757)
Net derivative liabilities, end of period	\$ (4,595)	\$ (8,757)

Net realized losses on risk management contracts for the three and nine months ended September 30, 2014 were \$2.07 million (September 30, 2013 – \$2.57 million) and \$7.55 million (September 30, 2013 – \$2.17 million).

## 16. Capital management

Strategic considers its capital structure to include shareholders' equity and working capital 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:

<b>(\$000)</b>	<b>September 30, 2014</b>	<b>December 31, 2013</b>
Operating loan (Note 8)	\$ 80,000	\$ 80,000
Amount drawn	(53,649)	(63,775)
Letters of credit	(4,139)	(4,139)
<b>Unutilized portion of debt facility</b>	<b>22,212</b>	<b>12,086</b>