



## **Interim Condensed Consolidated Financial Statements**

**For the three and nine months ended September 30, 2016 and 2015**

# Strategic Oil & Gas Ltd.

Interim condensed consolidated balance sheets (unaudited)

(\$000) As at	Note	September 30, 2016	December 31, 2015
<b>Assets</b>			
Current Assets:			
Cash and cash equivalents		\$ 22,682	\$ 3
Term deposits	4	4,566	-
Trade and other receivables	5	2,557	9,217
Inventory		120	127
		<b>29,925</b>	<b>9,347</b>
Property, plant, and equipment, net	7	125,817	110,077
Exploration and evaluation assets	6	14,691	11,169
<b>Total Assets</b>		<b>\$ 170,433</b>	<b>\$ 130,593</b>
<b>Liabilities</b>			
Current Liabilities:			
Accounts payable and accrued liabilities		\$ 9,410	\$ 5,029
Bank indebtedness		-	42,857
Promissory notes		-	9,703
Decommissioning liabilities	8	6,903	5,782
		<b>16,313</b>	<b>63,371</b>
Convertible debentures	9	83,856	-
Decommissioning liabilities	8	56,087	48,107
<b>Total Liabilities</b>		<b>156,256</b>	<b>111,478</b>
<b>Shareholders' Equity</b>			
Share capital	10	319,691	319,678
Equity component of convertible debentures	9	13,654	-
Contributed surplus		10,997	10,558
Deficit		(330,165)	(311,121)
		<b>14,177</b>	<b>19,115</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 170,433</b>	<b>\$ 130,593</b>

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 September 30		Nine months ended September 30	
		2016	2015	2016	2015
<b>Revenue</b>					
Petroleum and natural gas sales		\$ 5,478	\$ 7,783	\$ 16,157	\$ 29,146
Royalties		(932)	(1,175)	(2,257)	(3,195)
<b>Revenue, net of royalties</b>		<b>4,546</b>	<b>6,608</b>	<b>13,900</b>	<b>25,951</b>
Unrealized gain (loss) on risk management contracts	15	-	860	-	(2,472)
Net realized gain on risk management contracts	15	-	912	-	4,230
Finance income		<b>70</b>	-	<b>160</b>	-
		<b>4,616</b>	<b>8,380</b>	<b>14,060</b>	<b>27,709</b>
<b>Expenses</b>					
Operating		<b>3,332</b>	4,269	<b>10,921</b>	16,245
Transportation		<b>126</b>	137	<b>385</b>	813
General and administrative		<b>1,054</b>	1,258	<b>3,651</b>	5,091
Finance costs	12	<b>2,798</b>	1,020	<b>7,383</b>	2,856
Stock-based compensation		<b>92</b>	100	<b>443</b>	328
Depletion, depreciation and amortization		<b>3,199</b>	5,088	<b>10,083</b>	19,177
Valuation allowance		-	-	-	1,100
Exploration	6	-	426	-	426
Impairment		-	60,000	-	60,000
Change in fair value of conversion option		-	-	<b>278</b>	-
Gain on disposal of property, plant and equipment		-	-	<b>(40)</b>	-
		<b>10,601</b>	<b>72,298</b>	<b>33,104</b>	<b>106,036</b>
<b>Net loss and comprehensive loss for the period</b>		<b>\$ (5,985)</b>	<b>\$ (63,918)</b>	<b>\$ (19,044)</b>	<b>\$ (78,327)</b>
<b>Net loss per weighted average share</b>					
Basic & Diluted		<b>\$ (0.01)</b>	<b>\$ (0.12)</b>	<b>\$ (0.04)</b>	<b>\$ (0.14)</b>

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
<b>Balance January 1, 2016</b>	<b>\$ 319,678</b>	<b>\$ -</b>	<b>\$ 10,558</b>	<b>\$ (311,121)</b>	<b>\$ 19,115</b>
Stock options exercised	13	-	(4)	-	9
Stock based compensation	-	-	443	-	443
Equity component of convertible debentures	-	13,654	-	-	13,654
Net loss	-	-	-	(19,044)	(19,044)
<b>Balance September 30, 2016</b>	<b>\$ 319,691</b>	<b>\$ 13,654</b>	<b>\$ 10,997</b>	<b>\$ (330,165)</b>	<b>\$ 14,177</b>

(\$000)	Share Capital	Convertible Debenture Equity Component	Contributed Surplus	Deficit	Total Equity
<b>Balance January 1, 2015</b>	<b>\$ 319,678</b>	<b>\$ -</b>	<b>\$ 10,187</b>	<b>\$ (201,006)</b>	<b>\$ 128,859</b>
Stock based compensation	-	-	328	-	328
Net loss	-	-	-	(78,327)	(78,327)
<b>Balance September 30, 2015</b>	<b>\$ 319,678</b>	<b>\$ -</b>	<b>\$ 10,515</b>	<b>\$ (279,333)</b>	<b>\$ 50,860</b>

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	
		2016	2015	2016	2015
<b>Operating activities:</b>					
Net loss for the period		\$ (5,985)	\$ (63,918)	\$ (19,044)	\$ (78,327)
Non-cash items:					
Depletion, depreciation, and amortization		3,199	5,088	10,083	19,177
Accretion of decommissioning liabilities		249	286	779	839
Accretion of promissory notes		-	-	19	-
Accretion of debentures	9	569	-	1,337	-
Stock-based compensation		92	100	443	328
Unrealized loss on risk management contracts		-	(860)	-	2,472
Valuation allowance		-	-	-	1,100
Change in fair value of conversion option		-	-	278	-
Interest paid in kind	12, 13	1,735	-	4,264	-
Exploration expense		-	426	-	426
Impairment		-	60,000	-	60,000
Gain on disposal of property, plant and equipment		-	-	(40)	-
<b>Funds from (used in) operations</b>		<b>(141)</b>	<b>1,122</b>	<b>(1,881)</b>	<b>6,015</b>
Expenditures on decommissioning liabilities		(188)	79	(715)	(4,425)
Change in non-cash working capital	13	2,573	3,034	7,185	490
<b>Cash provided by operating activities</b>		<b>2,244</b>	<b>4,235</b>	<b>4,589</b>	<b>2,080</b>
<b>Financing activities:</b>					
Issue of debentures, net of transaction costs		-	-	92,556	-
Exercise of stock options		6	-	9	-
Increase in bank loan		-	500	-	22,984
Repayment of bank loan		-	-	(42,857)	-
Repayment of promissory notes		-	-	(10,000)	-
Change in non-cash working capital	13	33	-	(123)	-
<b>Cash provided by financing activities</b>		<b>39</b>	<b>500</b>	<b>39,585</b>	<b>22,984</b>
<b>Investing activities:</b>					
Expenditures – property, plant and equipment		(10,812)	(1,350)	(15,816)	(9,269)
Expenditures – exploration and evaluation assets		-	(51)	(4,445)	(206)
Redemption of (investment in) term deposits		4	-	(4,566)	-
Proceeds on disposal of property, plant and equipment		-	-	15	-
Changes in non-cash working capital	13	4,049	(1,845)	3,317	(13,581)
<b>Cash used in investing activities</b>		<b>(6,759)</b>	<b>(3,246)</b>	<b>(21,495)</b>	<b>(23,056)</b>
<b>Increase (decrease) in cash and cash equivalents during the period</b>		<b>(4,476)</b>	<b>1,489</b>	<b>22,679</b>	<b>2,008</b>
<b>Cash and cash equivalents, beginning of the period</b>		<b>27,158</b>	<b>879</b>	<b>3</b>	<b>360</b>
<b>Cash and cash equivalents, end of the period</b>		<b>\$ 22,682</b>	<b>\$ 2,368</b>	<b>\$ 22,682</b>	<b>\$ 2,368</b>

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

# Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)

As at and for the three and nine month periods ending September 30, 2016 and 2015

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## 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 November 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 are a compound financial instrument, 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.

# Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)

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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 deposits

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 September 30, 2016 is an insurance receivable of \$nil (December 31, 2015 - \$6.0 million). The balance at December 31, 2015 represented 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 2017, and related remediation costs of \$5.1 million are included in current decommissioning liabilities as at September 30, 2016.

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

(\$000)	September 30, 2016	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	(923)	(1,876)
Closing balance	\$ 14,691	\$ 11,169

For the nine months ended September 30, 2016, the Company expensed \$nil (September 30, 2015 - \$0.4 million) related to seismic expenditures on land on which there are currently no plans for future exploration.

# Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)

As at and for the three and nine month periods ending September 30, 2016 and 2015

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

<b>(\$000)</b>			
<b>Carrying value before accumulated depletion, depreciation and impairment</b>	<b>D&amp;P assets</b>	<b>Office</b>	<b>Total</b>
As at December 31, 2015	\$ 451,331	\$ 1,170	\$ 452,501
Additions	15,816	-	15,816
Change in decommissioning costs	9,062	-	9,062
<b>As at September 30, 2016</b>	<b>\$ 476,209</b>	<b>\$ 1,170</b>	<b>\$ 477,379</b>

  

<b>(\$000)</b>			
<b>Accumulated depletion, depreciation and impairment</b>	<b>D&amp;P assets</b>	<b>Office</b>	<b>Total</b>
As at December 31, 2015	\$ 341,354	\$ 1,070	\$ 342,424
Depreciation and depletion	9,114	46	9,160
Depreciation and depletion capitalized to inventory	(22)	-	(22)
<b>As at September 30, 2016</b>	<b>\$ 350,446</b>	<b>\$ 1,116</b>	<b>\$ 351,562</b>

  

<b>(\$000)</b>			
<b>Net carrying value</b>	<b>D&amp;P assets</b>	<b>Office</b>	<b>Total</b>
As at December 31, 2015	\$ 109,977	\$ 100	\$ 110,077
<b>As at September 30, 2016</b>	<b>\$ 126,763</b>	<b>\$ 54</b>	<b>\$ 125,817</b>

On March 31, 2016, the Company exchanged certain assets in the 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 nine month period ended September 30, 2016, \$0.6 million of general and administrative expenses were capitalized to PPE (\$0.9 million for the nine month period ended September 30, 2015).

Future capital costs of \$138.3 million (September 30, 2015 - \$121.5 million) have been included in the depletable balance as at September 30, 2016. Major components account for \$63.8 million (September 30, 2015 - \$61.9 million) and a net carrying value of \$52.8 million (September 30, 2015 - \$54.1 million) and are depreciated separately.

## 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 31 years, depending on the estimated reserve life. The undiscounted amount of the estimated costs at September 30, 2016 were \$96.5 million (December 31, 2015 - \$91.5 million). The estimated costs have been discounted at a risk free rate from 0.51% to 1.64% (December 31, 2015 - 0.48% to 2.16%) and an inflation rate of 2% (December 31, 2015 - 2%) was applied.



# Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)

As at and for the three and nine month periods ending September 30, 2016 and 2015

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

(\$000)	Nine months ended September 30, 2016	Year ended December 31, 2015
Balance beginning of the period	\$ 53,889	\$ 54,911
Liabilities incurred during the period	302	244
Acquisition of decommissioning liabilities	3,005	-
Disposition of decommissioning liabilities	(3,030)	-
Expenditures on existing liabilities	(715)	(4,716)
Change in estimated future cash flows	2,871	53
Change in discount rate	5,889	2,295
Accretion	779	1,102
Balance end of the period	\$ 62,990	\$ 53,889
Current	6,903	5,782
Long term	\$ 56,087	\$ 48,107

In 2016, the change in estimated future cash flows is due to updated cost estimate of the decommissioning liability related to plant remediation at Steen River for \$2.6 million, expected to be expended by the end of 2048.

## 9. Convertible 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 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.

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.

On August 31, 2016, \$3.6 million of debentures were issued as payment of interest in kind. Of the \$3.6 million additional debentures issued, \$2.2 million were issued to entities controlled by a director of the Company and an additional \$0.8 million were issued to directors and officers of the Company. The carrying amount of the financial liability of these convertible debentures issued was determined by discounting the stream of future payments of interest and principal, using a rate of 10.5% which was the estimated rate for debt with similar terms without conversion features.

The maturity date and the other terms of these debentures issued as payment of interest in kind are identical to the original convertible debentures other than the conversion price which is \$0.165 per share.

# Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)

As at and for the three and nine month periods ending September 30, 2016 and 2015

Below is a summary of the debt and equity components of the convertible debentures:

(\$000)	Convertible Debentures Component	Equity Component	Total
Issued on February 29, 2016	\$ 81,174	\$ 13,677	\$ 94,851
Issuance costs	(1,964)	(331)	(2,295)
Additional debentures issued as payment in kind of interest	3,309	308	3,617
Accretion expense	1,337	-	1,337
Balance end of period	\$ 83,856	\$ 13,654	\$ 97,510

The liability component of all debentures issued is being accreted to the adjusted principal amount of \$98.5 million at maturity.

## 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, 2016
Balance beginning of the period	542,318,629	\$ 319,678
Exercise of options	91,667	13
Balance end of the period	542,410,296	\$ 319,691

### c) Weighted average shares

(000)	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Weighted average shares (basic and diluted)	542,408	542,319	542,340	542,319

For the nine months ended September 30, 2016, outstanding stock options and convertible debentures were excluded from the dilution calculations as they were anti-dilutive.

# Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)

As at and for the three and nine month periods ending September 30, 2016 and 2015

## 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
<b>Balance at December 31, 2015</b>	<b>11,365,000</b>	\$ 0.76
Granted	10,640,000	0.09
Exercised	(91,667)	0.09
Cancelled/Forfeited	(413,333)	0.36
Expired	(765,000)	1.10
<b>Balance at September 30, 2016</b>	<b>20,735,000</b>	\$ 0.41

The following table sets out the outstanding and exercisable options as at September 30, 2016:

	Outstanding Options			Exercisable Options	
	Number of Options	Weighted Average Exercise Price	Weighted Average Life Years	Number of Options	Weighted Average Exercise Price
	10,340,000	\$ 0.09	4.37	3,430,009	\$ 0.09
	5,295,000	0.42	2.93	5,276,667	0.42
	75,000	0.48	2.59	75,000	0.48
	110,000	0.61	0.87	110,000	0.61
	530,000	0.83	1.14	530,000	0.83
	755,000	0.90	0.40	755,000	0.90
	140,000	0.93	0.59	140,000	0.93
	10,000	1.06	1.85	10,000	1.06
	3,105,000	1.16	1.26	3,105,000	1.16
	375,000	1.30	1.35	375,000	1.30
	<b>20,735,000</b>	<b>\$ 0.41</b>	<b>3.20</b>	<b>13,806,676</b>	<b>\$ 0.58</b>

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:

Assumptions	Nine months ended September 30	
	2016	2015
Risk free interest rate (%)	<b>1.12</b>	1.51
Expected life (years)	<b>3.54</b>	3.65
Expected volatility (%)	<b>83.10</b>	74.36
Forfeiture rate (%)	<b>12.79</b>	15.94
Weighted average fair value of options granted	<b>0.05</b>	0.07

# Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)

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## 12. Finance costs

(\$000)	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Interest	\$ 37	\$ 734	\$ 776	\$ 2017
Interest expense on convertible debentures – paid in kind	1,735	-	4,264	-
Interest expense on convertible debentures – cash portion	208	-	208	-
Accretion of decommissioning liabilities	249	286	779	839
Accretion on promissory notes	-	-	19	-
Accretion on debentures	569	-	1,337	-
Total finance costs	\$ 2,798	\$ 1,020	\$ 7,383	\$ 2,856

## 13. Supplemental cash flow information

(\$000)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Interest paid	\$ 245	\$ 734	\$ 984	\$ 2,017
Changes in non-cash working capital				
Trade and other receivables	432	3,470	6,660	6,026
Valuation allowance of trade receivables	-	-	-	(1,100)
Inventory	24	(20)	7	109
Accumulated depletion in inventory	(20)	6	(22)	(39)
Accounts payable and accrued liabilities	4,337	(2,267)	4,381	(18,087)
Interest paid in kind	(1,735)	-	(4,264)	-
Debentures issued as paid in kind interest (Note 9)	3,617	-	3,617	-
	\$ 6,655	1,189	\$ 10,379	\$ (13,091)
Operating	2,573	3,034	7,185	490
Financing	33	-	(123)	-
Investing	4,049	(1,845)	3,317	(13,581)
	\$ 6,655	1,189	\$ 10,379	\$ (13,091)

## 14. Transactions with related parties

In addition to the financing transaction disclosed in Note 9, the Company undertook the following related party transaction. For the nine months ended September 30, 2016, legal fees in the amount of \$0.2 million (September 30, 2015 - \$0.2 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 \$0.2 million (September 30, 2015 - \$0.2 million) were incurred with a company controlled by an officer. Accounts payable and accrued liabilities at September 30, 2016 include \$0.1 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.

# Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)

As at and for the three and nine month periods ending September 30, 2016 and 2015

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## 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.

There were no risk management contracts outstanding at September 30, 2016 and December 31, 2015.

## 16. Capital management

Strategic considers its capital structure to include shareholders' equity, convertible debentures 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 expenditures.

The Company monitors its spending programs based on available funds, which is working capital excluding risk management contracts and term deposits which are pledged as collateral for outstanding letters of credit.

# Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)

As at and for the three and nine month periods ending September 30, 2016 and 2015

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## 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	\$ 56	\$ 114
2017	445	458
2018	391	201
2019	371	90
2020	1	72
2021 and thereafter	-	25
	\$ 1,264	\$ 960

- 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, the ultimate outcome of these matters is uncertain.