



Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2017 and 2016

Strategic Oil & Gas Ltd.

Interim condensed consolidated balance sheets (unaudited)

(\$000) As at	Note	September 30, 2017	December 31, 2016
Assets			
Current Assets:			
Cash and cash equivalents		\$ 20,515	\$ 50,802
Term deposits	4	4,541	4,667
Trade and other receivables		3,488	3,580
Inventory		172	108
		28,716	59,157
Property, plant, and equipment, net	6	178,507	175,073
Exploration and evaluation assets	5	12,669	14,438
Total Assets		\$ 219,892	\$ 248,668
Liabilities			
Current Liabilities:			
Accounts payable and accrued liabilities		\$ 12,100	\$ 5,760
Accrued interest on convertible debentures		697	2,633
Decommissioning liabilities	7	3,285	3,441
		16,082	11,834
Convertible debentures	8	93,605	84,489
Decommissioning liabilities	7	47,884	49,210
Total Liabilities		157,571	145,533
Shareholders' Equity			
Share capital	9	365,466	360,073
Equity component of convertible debentures	8	10,247	9,878
Contributed surplus		12,724	11,063
Deficit		(326,116)	(277,879)
		62,321	103,135
Total Liabilities and Shareholders' Equity		\$ 219,892	\$ 248,668

See accompanying notes to the Interim Condensed Consolidated Financial Statements
 Certain comparative figures have been reclassified to conform to the current year's presentation (Note 2).

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	
		2017	2016	2017	2016
Revenue					
Petroleum and natural gas sales		\$ 8,271	\$ 5,478	\$ 27,471	\$ 16,157
Royalties		(865)	(932)	(3,114)	(2,257)
Revenue, net of royalties		7,406	4,546	24,357	13,900
Finance income		83	70	294	160
		7,489	4,616	24,651	14,060
Expenses					
Operating		5,626	3,332	14,039	10,921
Transportation		309	126	831	385
General and administrative		1,741	1,054	4,346	3,651
Finance costs	11	3,133	2,798	9,185	7,383
Stock-based compensation	10	457	92	1,678	443
Depletion, depreciation and amortization		4,462	3,199	13,013	10,083
Impairment	6	30,400	-	30,400	-
Revaluation on decommissioning liabilities	7	(1,791)	-	(466)	-
Change in fair value of conversion option		-	-	-	278
Gain on disposal of property, plant and equipment		-	-	-	(40)
		44,337	10,601	73,026	33,104
Operating loss before taxes		(36,848)	(5,985)	(48,375)	(19,044)
Deferred tax recovery	12	69	-	138	3,776
Net loss and comprehensive loss		\$ (36,779)	\$ (5,985)	\$ (48,237)	\$ (15,268)
Net loss per weighted average share					
Basic & Diluted		\$ (0.79)	\$ (0.22)	\$ (1.05)	\$ (0.56)

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

Certain comparative figures have been reclassified to conform to the current year's presentation (Note 2).

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, 2017	\$ 360,073	\$ 9,878	\$ 11,063	\$ (277,879)	\$ 103,135
Shares issued	5,750	-	-	-	5,750
Share issue costs	(411)	-	-	-	(411)
Stock options exercised	49	-	(17)	-	32
Debentures converted	5	-	-	-	5
Stock based compensation	-	-	1,678	-	1,678
Equity component of convertible debentures	-	369	-	-	369
Net loss	-	-	-	(48,237)	(48,237)
Balance September 30, 2017	\$ 365,466	\$ 10,247	\$ 12,724	\$ (326,116)	\$ 62,321

(\$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 options exercised	13	-	(4)	-	9
Stock based compensation	-	-	443	-	443
Equity component of convertible debentures	-	13,654	-	-	13,654
Net loss	-	-	-	(15,268)	(15,268)
Balance September 30, 2016	\$ 319,691	\$ 13,654	\$ 10,997	\$ (326,389)	\$ 17,953

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

Certain comparative figures have been reclassified to conform to the current year's presentation (Note 2).

Strategic Oil & Gas Ltd.

Interim condensed consolidated statements of cash flow (unaudited)

(\$000)	Note	Three months ended September 30		Nine months ended September 30	
		2017	2016	2017	2016
Operating activities:					
Net loss for the period		\$ (36,779)	\$ (5,985)	\$ (48,237)	\$ (15,268)
Non-cash items:					
Depletion, depreciation, and amortization		4,462	3,199	13,013	10,083
Stock-based compensation		457	92	1,678	443
Change in fair value of conversion option		-	-	-	278
Impairment	6	30,400	-	30,400	-
Revaluation on decommissioning liabilities		(1,791)	-	(466)	-
Deferred tax recovery	12	(69)	-	(138)	(3,776)
Non-cash finance costs	11	2,987	2,554	8,793	6,399
Gain on disposal of property, plant and equipment		-	-	-	(40)
Expenditures on decommissioning liabilities		(106)	(188)	(2,232)	(715)
Change in non-cash working capital	13	2,588	2,573	1,218	7,185
Cash provided by operating activities		2,149	2,245	4,029	4,589
Financing activities:					
Issue of common shares		-	-	5,750	-
Issue of debentures, net of transaction costs		(29)	-	(47)	92,556
Share issuance costs		-	-	(411)	-
Exercise of stock options		1	6	32	9
Repayment of bank loan		-	-	-	(42,857)
Repayment of promissory notes		-	-	-	(10,000)
Change in non-cash working capital	13	(109)	33	(93)	(123)
Cash provided by (used in) financing activities		(137)	39	5,231	39,585
Investing activities:					
Expenditures – property, plant and equipment		(13,962)	(10,812)	(44,742)	(15,816)
Expenditures – exploration and evaluation assets		(29)	-	(98)	(4,445)
Investment in term deposits		220	4	126	(4,566)
Proceeds on disposal of property, plant and equipment		-	-	-	15
Changes in non-cash working capital	13	2,539	4,049	5,167	3,317
Cash used in investing activities		(11,232)	(6,759)	(39,547)	(21,495)
Increase (decrease) in cash and cash equivalents during the period		(9,220)	(4,476)	(30,287)	22,679
Cash and cash equivalents, beginning of the period		29,735	27,158	50,802	3
Cash and cash equivalents, end of the period		\$ 20,515	\$ 22,682	\$ 20,515	\$ 22,682

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

Certain comparative figures have been reclassified to conform to the current year's presentation (Note 2).

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, 2017 and 2016

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, 2016. The comparative condensed statement of net loss and comprehensive loss has been adjusted to reflect a \$3.8 million deferred tax recovery recorded in 2016 (Note 12).

These financial statements were authorized for issue by the Board of Directors on November 14, 2017.

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, 2016. There have been no changes in the application or use of estimates or judgments since December 31, 2016.

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

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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.

b) Future accounting policy changes

In April 2016, the IASB issued its final amendments to IFRS 15 “Revenue from Contracts with Customers,” which replaces IAS 18 “Revenue,” IAS 11 “Construction Contracts,” and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by the Company on January 1, 2018. The Company is developing a project plan and is currently in the process of reviewing its various revenue streams and underlying contracts with customers to determine the impact, if any, that the adoption of IFRS 15 will have on its financial statements, as well as the impact that adoption of the standard will have on disclosure.

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 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the requirements of IAS 39. The Company anticipates that adoption of IFRS 9 will result in changes to the classification of the Company’s financial assets but will not change the classification of the Company’s financial liabilities. The Company does not anticipate any material changes in the carrying values of the Company’s financial instruments as a result of the adoption of IFRS 9. The Company does not anticipate that the new impairment model will result in material changes to the valuation of its financial assets on adoption of IFRS 9. IFRS 9 also contains a new model to be used for hedge accounting. The Company does not currently have any risk management contracts and therefore does not anticipate any impact on adoption of IFRS 9. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied on a retrospective basis by the Company on January 1, 2018.

In January 2016, the IASB issued IFRS 16 “Leases,” which replaces IAS 17 “Leases.” For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 “Revenue from Contracts with Customers.” The standard is required to be adopted either retrospectively or using a modified retrospective approach. IFRS 16 will be applied by the Company on January 1, 2019 and the Company is currently evaluating the impact of the standard on the Company’s financial statements.

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Notes to the interim condensed consolidated financial statements (unaudited)

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4. Term deposits

The Company has term deposits with a chartered bank for \$4.5 million, all of which is pledged (December 31, 2016 - \$4.7 million) as collateral for outstanding letters of credit.

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

(\$000)	September 30, 2017	December 31, 2016
Opening balance	\$ 14,438	\$ 11,169
E&E expenditures	98	4,447
E&E transfer to Property, plant and equipment	(1,407)	(11)
Amortization for the period	(460)	(1,167)
Closing balance	\$ 12,669	\$ 14,438

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

(\$000)			
Carrying value before accumulated depletion, depreciation and impairment	D&P assets	Office	Total
As at December 31, 2016	\$ 475,529	\$ 1,171	\$ 476,700
Additions	44,737	5	44,742
E&E transfer	1,407	-	1,407
Change in decommissioning costs	252	-	252
As at September 30, 2017	\$ 521,925	\$ 1,176	\$ 523,101

(\$000)			
Accumulated depletion, depreciation and impairment	D&P assets	Office	Total
As at December 31, 2016	\$ 300,498	\$ 1,129	\$ 301,627
Depreciation and depletion	12,521	32	12,553
Depreciation and depletion capitalized to inventory	14	-	14
Impairment	30,400	-	30,400
As at September 30, 2017	\$ 343,433	\$ 1,161	\$ 344,594

(\$000)			
Net carrying value	D&P assets	Office	Total
As at December 31, 2016	\$ 175,031	\$ 42	\$ 175,073
As at September 30, 2017	\$ 178,492	\$ 15	\$ 178,507

Substantially all of the Company's development and production assets are located within Canada. The cost of PPE includes the provision for decommissioning obligations. For the three and nine month periods ended September 30, 2017, \$0.2 million and \$0.7 million, respectively, of general and administrative expenses related to technical office staff that are directly involved in the Company's capital spending programs were capitalized to PPE (\$0.2 million and \$0.6 million for the three and nine month periods ended September 30, 2016).

Future capital costs of \$143.4 million (September 30, 2016 - \$138.3 million) have been included in the depletable balance as at September 30, 2017. Major components costs – such as facilities and pipelines, which are depreciated separately, are \$59.2 million (September 30, 2016 - \$63.8 million) with a net carrying value of \$46.9 million (September 30, 2016 - \$52.8 million).

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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, 2016 reserve volumes and values were evaluated by the Company's independent reserve evaluators. At September 30, 2017 the decline in the Company's market capitalization compared to December 2016 and well performance from certain wells drilled in 2017 were indicators 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 12%) from crude oil and natural gas proved plus probable reserves originally estimated by the Company's third party reserve evaluators, internally updated for production and drilling activities since December 31, 2016.

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:

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027+
Edmonton CS (CAD\$/bbl)	69.80	72.70	75.50	81.10	86.60	88.30	90.00	91.80	93.70	95.60	97.40
AECO Gas Price (CAD\$/mcf)	3.40	3.15	3.30	3.60	3.90	3.95	4.10	4.25	4.30	4.40	4.50

It was determined that the carrying value of the Steen/Marlowe CGU exceeded the recoverable value of \$178.5 million and a \$30.4 million impairment was recognized (three and nine months ended September 30, 2016 - \$nil). The impairment recorded reflects the Company's best estimates based on currently available information. At December 31, 2017, 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. 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 34 years, depending on the estimated reserve life. The undiscounted amount of the estimated costs at September 30, 2017 were \$101.7 million (December 31, 2016 - \$97.6 million). The estimated costs have been discounted at a risk free rate from 1.58% to 2.49% (December 31, 2016 - 0.78% to 2.34%) and an inflation rate of 2% (December 31, 2016 - 2%) was applied.

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Notes to the interim condensed consolidated financial statements (unaudited)

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

(\$000)	Nine months ended September 30, 2017	Year ended December 31, 2016
Balance beginning of the period	\$ 52,651	\$ 53,889
Liabilities incurred during the period	674	530
Disposition of decommissioning liabilities	-	(25)
Expenditures on existing liabilities	(2,232)	(1,625)
Change in estimated future cash flows	1,029	2,284
Change in discount rate	(1,916)	(3,458)
Accretion	963	1,056
Balance end of the period	\$ 51,169	\$ 52,651
Current	3,285	3,441
Long term	\$ 47,884	\$ 49,210

The change in estimated future cash flows includes an increase of \$1.5 million (December 31, 2016 - \$2.6 million) in the cost estimate of the decommissioning liability related to plant remediation at Steen River, expected to be expended by the end of 2048. The change in discount rate includes \$0.5 million related to CGUs that had previously been impaired and was recorded as a revaluation on decommissioning liabilities through the interim condensed consolidated statements of net loss and comprehensive loss.

8. Convertible Debentures

The Company has senior secured convertible debentures ("Debentures") outstanding. The Debentures mature on February 28, 2021 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 various conversion prices, 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 four times the conversion price, 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.

On February 28, 2017, \$3.7 million of debentures were issued as payment of interest in kind. Of the \$3.7 million, \$2.9 million were issued to entities controlled or jointly controlled by directors of the Company and an additional \$0.2 million were issued to directors and officers of the Company. The carrying amount of the financial liability of these convertible debentures was determined by discounting the stream of future payments of interest and principal, using a rate of 10.15% the estimated rate for debt with similar terms without conversion features.

On August 31, 2017, \$3.8 million of debentures were issued as payment of interest in kind. Of the \$3.8 million, \$3.0 million were issued to entities controlled or jointly controlled by directors of the Company and an additional \$0.2 million were issued to directors and officers of the Company. The carrying amount of the financial liability of these convertible debentures was determined by discounting the stream of future payments of interest and principal, using a rate of 10.40% the estimated rate for debt with similar terms without conversion features.

Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)

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

(\$000)	Liability Component	Equity Component	Total
Balance at December 31, 2016	\$ 84,489	\$ 9,878	\$ 94,367
Additional debentures issued as payment in kind of interest	7,077	511	7,587
Issuance costs	(44)	(3)	(47)
Deferred tax recovery (Note 12)	-	(138)	(138)
Debentures converted	(4)	(1)	(5)
Accretion expense	2,087	-	2,087
Balance at September 30, 2017	\$ 93,605	\$ 10,247	\$ 103,852

The liability component of all debentures issued is being accreted to the adjusted principal amount of \$106.1 million at maturity. Below is a summary of the debentures issued and the related conversion prices:

Issue Date	Principal Amount (\$000)	Conversion Price (\$/share)
February 29, 2016	94,847	1.80
August 31, 2016	3,617	3.30
February 28, 2017	3,724	2.70
August 31, 2017	3,864	2.03

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)	Number of shares (000)	Nine months ended September 30, 2017
Balance at December 31, 2016	43,978	\$ 360,073
Shares issued	2,396	5,750
Share issue costs	-	(411)
Debentures converted	3	5
Exercise of options	14	49
Balance at September 30, 2017	46,391	\$ 365,466

On January 31, 2017, the Company issued a total of 2.4 million common shares via a brokered private placement offering (the "Private Placement") at a price of \$2.40 per common share for gross proceeds of \$5.7 million (net proceeds of \$5.3 million after transaction costs).

c) Weighted average shares

(000)	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Weighted average shares (basic & diluted)	46,391	27,120	46,111	27,120

For the three and nine month periods ended September 30, 2017, outstanding stock options and convertible debentures were excluded from the calculations as they were anti-dilutive.

Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)

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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, 2016	1,031,750	\$ 8.24
Granted	1,523,000	2.65
Exercised	(14,434)	2.12
Cancelled/Forfeited	(7,750)	10.36
Expired	(42,750)	17.30
Balance at September 30, 2017	2,489,816	\$ 4.69

The following table sets out the outstanding and exercisable options as at September 30, 2017:

	Outstanding Options			Exercisable Options	
	Number of Options	Weighted Average Exercise Price	Weighted Average Life Years	Number of Options	Weighted Average Exercise Price
	2,025,566	\$ 2.44	4.23	984,166	\$ 2.31
	259,000	8.39	1.93	259,000	8.39
	2,750	9.71	1.57	2,750	9.71
	500	15.00	0.25	500	15.00
	26,500	16.61	0.14	26,500	16.61
	2,000	19.55	0.83	2,000	19.55
	500	21.20	0.85	500	21.20
	154,250	23.14	0.26	154,750	23.14
	18,750	25.92	0.35	18,750	25.92
	2,489,816	\$ 4.69	3.66	1,448,416	\$ 6.67

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	
	2017	2016
Risk free interest rate (%)	1.01	1.12
Expected life (years)	3.41	3.54
Expected volatility (%)	100.29	83.10
Forfeiture rate (%)	7.91	12.79
Weighted average fair value of options granted	1.74	0.05

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11. Finance costs

(\$000)	Three months ended		Nine months ended	
	September 30		September 30	
	2017	2016	2017	2016
Interest	\$ 10	\$ 37	\$ 45	\$ 776
Interest expense on convertible debentures – paid in kind	1,917	1,735	5,743	4,264
Interest expense on convertible debentures – cash portion	135	208	347	208
Accretion of decommissioning liabilities	351	249	963	779
Accretion on promissory notes	-	-	-	19
Accretion on debentures	719	569	2,087	1,337
Total finance costs	\$ 3,132	\$ 2,798	\$ 9,185	\$ 7,383

12. Income taxes

For the nine months ended September 30, 2017, the Company recorded a deferred tax liability of \$0.1 million (Nine months ended September 30, 2016 - \$3.8 million) related to the temporary difference between accounting and tax values of the equity component of convertible debentures issued during the period. As a result, the Company was able to realize \$0.1 million (September 30, 2016 - \$3.8 million) of previously unrecognized deferred tax assets and a corresponding deferred tax recovery.

13. Supplemental cash flow information

(\$000)	Three months ended		Nine months ended	
	September 30		September 30	
	2017	2016	2017	2016
Interest paid	\$ 145	\$ 245	\$ 392	\$ 984
Changes in non-cash working capital				
Trade and other receivables	670	432	92	6,660
Inventory	53	24	(64)	7
Accumulated depletion in inventory	(45)	(20)	14	(22)
Accounts payable and accrued liabilities	4,427	4,337	6,340	4,381
Withholding tax on debenture interest	(87)	1,882	(90)	(647)
	\$ 5,018	\$ 6,655	\$ 6,292	\$ 10,379
Operating	2,588	2,573	1,218	7,185
Financing	(109)	33	(93)	(123)
Investing	2,539	4,049	5,167	3,317
	\$ 5,018	\$ 6,655	\$ 6,292	\$ 10,379

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14. Transactions with related parties

For the three and nine month periods ended September 30, 2017, legal fees in the amount of \$0.1 million and \$0.1 million (September 30, 2016 - \$0.1 million and \$0.2 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 rental expense of \$0.2 million (September 30, 2016 - \$0.2 million) were incurred with a company controlled by an officer. Accounts payable and accrued liabilities at September 30, 2017 include \$0.1 million (December 31, 2016 - \$0.1 million) due to related parties. Accrued interest on convertible debentures at September 30, 2017 include \$0.6 million (December 31, 2016 - \$2.2 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 and convertible debentures. 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.

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.

a) Market risk

Market risk consists of interest rate risk, currency risk and commodity price risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Company may use both financial derivatives and physical delivery sales contracts to manage market risks.

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

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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, 2017 and December 31, 2016.

Interest rate risk

The Company is exposed to interest rate risk as changes in interest rates may affect future cash flows. The Company's cash balance and primary debt facility has a floating interest rate that will fluctuate based on prevailing market conditions. Cash flows are sensitive to changes in interest rates on this instrument. As at September 30, 2017, the Company did not hold any floating interest rate debt and therefore was not exposed to interest rate risk on its long-term debt.

Foreign exchange risk

Prices for oil are determined in global markets and generally denominated in United States dollars. Natural gas and oil prices obtained by the Company are influenced by both US and Canadian demand and the corresponding North American supply, and recently, by imports of liquefied natural gas. The exchange rate effect cannot be quantified but generally an increase in the value of the \$CDN as compared to the \$US will reduce the prices received by the Company for its petroleum and natural gas sales. As at September 30, 2017 and December 31, 2016, the Company had no contracts in place to mitigate foreign exchange risk. As at September 30, 2017, the Company held \$0.1 million (December 31, 2016 - \$0.6 million) in United States dollars.

b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditure. The Company also attempts to match its payment cycle with collection of oil and natural gas revenue on the 25th of each month.

c) Credit risk

Credit risk is the risk that a customer or counterparty will fail to perform an obligation or fail to pay amounts due causing a financial loss. The Company's trade and other receivables are with customers in the oil and gas industry and are subject to normal credit risks. For the period ended September 30, 2017, 100% (December 31, 2016 – 100%) of the Company's oil and natural gas production is being sold through marketing companies and revenues are collected on the 25th day of the month following the month of production. In order to mitigate collection risk, the Company assesses the credit worthiness of customers

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and counter parties by assessing the financial strength of the customers and by routinely monitoring credit risk exposures.

The Company's most significant customer, a Canadian oil and natural gas marketer, accounts for 70% of the trade receivables at September 30, 2017 (December 31, 2016 – 72%) and 79% of revenues (December 31, 2016 – 88%).

The total accounts receivable 90 days past due amounted to \$0.2 million at September 30, 2017 (December 31, 2016 - \$0.1 million). The allowance for doubtful accounts at September 30, 2017 was \$0.1 million (December 31, 2016 - \$nil).

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.

17. Commitments and contingencies

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

Year	Office	Gas transportation
2017	\$ 106	\$ 243
2018	391	454
2019	371	433
2020	1	414
2021	-	367
2022 and thereafter	-	432
	\$ 869	\$ 2,343

- 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 certain environmental spills 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.