Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

Management's Report

Management's Responsibility on Consolidated Financial Statements

Management is responsible for the preparation of the accompanying consolidated financial statements. The consolidated financial statements have been prepared in accordance with the accounting policies detailed in the notes thereto. In Management's opinion, the consolidated financial statements are in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, have been prepared within acceptable limits of materiality, and have utilized supportable, reasonable estimates.

Management is responsible for the integrity of the consolidated financial statements. We ensure that the financial statements are prepared by qualified personnel, and that our organizational structure provides appropriate delegation of authority and division of responsibilities. Our policies and procedures are communicated throughout the organization including a written ethics and integrity policy that applies to all employees including the chief executive officer and chief financial officer.

The Board of Directors approves the consolidated financial statements. Their financial statement related responsibilities are fulfilled mainly through the Audit Committee. The Audit Committee is composed of a majority of independent directors, all with financial expertise. The Audit Committee meets regularly with Management and the external auditors to discuss reporting and control issues and ensures each party is properly discharging its responsibilities. The Audit Committee also considers the independence of the external auditors and reviews their fees.

Deloitte LLP ("Deloitte"), an independent firm of professional chartered accountants, was appointed by the shareholders to audit the consolidated financial statements of the Company and to provide an independent professional opinion. Deloitte's audit opinion is attached to these consolidated financial statements.

"Signed"	*"Signed"*
Gurpreet Sawhney, President & Chief Executive Officer	Aaron Thompson, Chief Financial Officer

April 1, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Strategic Oil & Gas Ltd.

We have audited the accompanying consolidated financial statements of Strategic Oil & Gas Ltd., which comprise the consolidated balance sheets as at December 31, 2015 and 2014, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Strategic Oil & Gas Ltd. as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
April 1, 2016
Calgary, Alberta

Strategic Oil & Gas Ltd.

Consolidated balance sheets

($000)	**Note**	**December 31, 2015**	December 31, 2014
Assets			
Current assets			
Cash and cash equivalents		**$ 3**	$ 360
Inventory		**127**	272
Trade and other receivables	4	**9,217**	10,807
Risk management contracts	18	**-**	3,460
		9,347	14,899
Long-term receivable	4	**-**	800
Property, plant, and equipment, net	5,7,8	**110,077**	209,999
Exploration and evaluation assets	6	**11,169**	13,903
Total Assets		**$ 130,593**	$ 239,601
Liabilities			
Current Liabilities:			
Accounts payable and accrued liabilities		**$ 5,029**	$ 26,815
Bank indebtedness	9	**42,857**	29,016
Promissory notes	10	**9,703**	-
Decommissioning liabilities	11	**5,782**	4,007
		$ 63,371	$ 59,838
Decommissioning liabilities	11	**48,107**	50,904
Total Liabilities		**$ 111,478**	$ 110,742
Shareholders' Equity			
Share capital	12	**319,678**	319,678
Contributed surplus		**10,558**	10,187
Deficit		**(311,121)**	(201,006)
		$ 19,115	$ 128,859
Total Liabilities and Shareholders' Equity		**$ 130,593**	$ 239,601

See accompanying notes to the consolidated financial statements

Commitments (Note 21)
Subsequent events (Note 22)

Approved by the Board of Directors

"Signed" *"Signed"*

Thomas Claugus *Rodger Hawkins*

Strategic Oil & Gas Ltd.

Consolidated statements of loss and comprehensive loss

Year ended December 31 **($000, except per share amounts)**	**Note**		**2015**		**2014**
Revenue					
Petroleum and natural gas sales		**$**	**36,496**	$	82,466
Royalties			**(4,203)**		(17,435)
Revenues, net of royalties			**32,293**		65,031
Unrealized (loss) gain on risk management contracts	18		**(3,460)**		12,217
Realized gain (loss) on risk management contracts	18		**5,439**		(6,322)
		$	**34,272**	$	70,926
Expenses					
Operating		**$**	**19,760**	$	32,513
Transportation			**964**		3,158
General and administrative			**6,655**		7,393
Finance costs	14		**4,184**		4,563
Stock-based compensation	13		**371**		1,026
Depletion, depreciation and amortization			**24,313**		42,011
Exploration and evaluation	6		**716**		399
Impairment	8		**87,734**		114,000
Change in fair value of conversion option	10		**(310)**		-
Gain on disposal of property, plant and equipment	5		**-**		(2,311)
		$	**144,387**	$	202,752
Operating loss before taxes		**$**	**(110,115)**	$	(131,826)
Deferred tax recovery	15		**-**		2,336
Net loss and comprehensive loss		**$**	**(110,115)**	$	(129,490)
Net loss per weighted average share					
Basic		**$**	**(0.20)**	$	(0.34)
Diluted		**$**	**(0.20)**	$	(0.34)
Weighted average shares outstanding – Basic & diluted	12(c)		**542,318,629**		381,239,640

See accompanying notes to the consolidated financial statements

Strategic Oil & Gas Ltd.

Consolidated statements of changes in shareholders' equity

For the years ended December 31, 2015 and 2014

($000)	Note	Share Capital	Contributed Surplus	Deficit	Total equity
Balance Jan 1, 2015		**$ 319,678**	**$ 10,187**	**$ (201,006)**	**$ 128,859**
Stock-based compensation	13	-	371	-	371
Net loss		-	-	(110,115)	(110,115)
Balance December 31, 2015		**$ 319,678**	**$ 10,558**	**$ (311,121)**	**$ 19,115**

($000)	Note	Share Capital	Contributed Surplus	Deficit	Total equity
Balance Jan 1, 2014		**$ 197,970**	**$ 9,227**	**$ (71,516)**	**$ 135,681**
Shares issued	12(b)	122,673	-	-	122,673
Share issue costs	12(b)	(1,170)	-	-	(1,170)
Stock options exercised	12(b)	205	(66)	-	139
Stock-based compensation	13	-	1,026	-	1,026
Net loss		-	-	(129,490)	(129,490)
Balance December 31, 2014		**$ 319,678**	**$ 10,187**	**$ (201,006)**	**$ 128,859**

See accompanying notes to the consolidated financial statements

Strategic Oil & Gas Ltd.

Consolidated statements of cash flows

Year Ended December 31 ($000)	Note		2015		2014
Operating activities:					
Net loss for the year		**$**	**(110,115)**	$	(129,490)
Non-cash items:					
Depletion, depreciation, and amortization			**24,313**		42,011
Accretion of decommissioning liabilities			**1,102**		1,188
Accretion on promissory notes	10, 14		**14**		-
Stock-based compensation	13		**371**		1,026
Unrealized loss (gain) on risk management contracts			**3,460**		(12,217)
Change in fair value of conversion option	10		**(310)**		-
Impairment	8		**87,734**		114,000
Exploration and evaluation			**716**		399
Deferred tax recovery			**-**		(2,336)
Gain on disposal of property, plant and equipment			**-**		(2,311)
Funds from operations		**$**	**7,285**	$	12,270
Expenditures on decommissioning liabilities	11	**$**	**(4,716)**	$	(1,745)
Changes in long-term receivable			**800**		187
Changes in non-cash working capital	16		**(1,561)**		2,871
Cash provided by operating activities		**$**	**1,808**	$	13,396
Financing activities:					
Increase (decrease) in bank loan		**$**	**13,840**	$	(34,758)
Issue of promissory notes			**10,000**		-
Issue of common shares			**-**		113,894
Issue of flow-through shares			**-**		9,497
Exercise of options			**-**		139
Share issuance costs			**-**		(1,171)
Changes in non-cash working capital	16		**156**		-
Cash provided by financing activities		**$**	**23,996**	$	87,601
Investing activities:					
Expenditures – property, plant and equipment		**$**	**(11,373)**	$	(98,414)
Expenditures – exploration and evaluation assets			**(369)**		(2,905)
Proceeds on disposal of property, plant and equipment			**-**		3,828
Changes in non-cash working capital	16		**(14,419)**		(3,372)
Cash used in investing activities		**$**	**(26,161)**	$	(100,863)
(Decrease) increase in cash and cash equivalents during the year		**$**	**(357)**	$	134
Cash and cash equivalents, beginning of the year			**360**		226
Cash and cash equivalents, end of the year		**$**	**3**	$	360

See accompanying notes to the consolidated financial statements

1. Corporate information

Strategic Oil & Gas Ltd. ("Strategic") is a company registered and domiciled in Alberta. Strategic is a publicly traded company whose shares are listed on the TSX Venture Exchange. Strategic, together with its subsidiaries, (collectively referred to as the "Company") is engaged in the exploration for and development of petroleum and natural gas reserves in Western Canada with insignificant operations in the Western United States. The Company is headquartered in Canada at Suite 1100, 645 – 7th Avenue SW, Calgary, Alberta.

2. Basis of presentation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued and outstanding as of December 31, 2015, and were prepared using accounting policies that are compliant with these standards.

These consolidated financial statements were approved by the Company's Board of Directors on April 1, 2016.

b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for cash and cash equivalents, certain share-based payment transactions, conversion option of the promissory notes and risk management contracts, which are measured at fair value.

d) Functional and presentation currency

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

e) Estimates and judgments

The timely preparation of the consolidated 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 outlined below.

The Company uses estimates of oil and natural gas reserves in the calculation of depreciation and depletion and also for value in use and fair value less costs to sell ("FVLCS") calculations of non-financial assets. By their nature, the estimates of reserves, including estimates of price, costs, discount rates and the related future cash flows, are subject to measurement uncertainty.

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, 2015 and December 31, 2014, Strategic conducts its operation through 4 CGUs, namely Steen/Marlow, Bistcho, other Canadian and USA.

The transfer of exploration and evaluation assets to property, plant and equipment is based on estimated reserves used in the determination of an asset's technical feasibility and commercial viability.

Amounts recorded for decommissioning obligations and the associated accretion are calculated based on estimates of asset retirement costs, timing of expenditures, risk free interest rates, site remediation and related cash flows.

Derivative financial instruments are measured at fair value which is subject to management uncertainty, due to the use of future oil and natural gas prices and the volatility in these prices.

The determination of fair value of stock-based compensation is based on estimates using an option pricing model which requires estimates of assumptions such as volatility, risk free interest rate, forfeiture rate, and expected option life.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. Income taxes are subject to measurement uncertainty, the timing and likelihood of any recognition of deferred income tax assets, which are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

3. Significant accounting policies

a) Basis of consolidation

Subsidiaries
The consolidated financial statements include the accounts of Strategic and its wholly-owned subsidiaries as follows:

Subsidiary	Jurisdiction	Nature of operations
Strategic Oil & Gas Ltd.	Alberta	Parent company
Strategic Oil & Gas, Inc.	Wyoming, USA	US oil and gas exploration and operations, inactive
Jed Oil (USA), Inc.	Wyoming, USA	US holding company
Strategic Transmission Ltd.	Northwest Territories	Holding company

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. Control exists when the Company has the power to govern the relevant activities of an entity so as to obtain benefits from those activities. The financial statements of the subsidiaries are prepared using consistent accounting policies and for the same reporting period as the parent. All inter-company balances and transactions are eliminated on consolidation.

Joint arrangements
The Company conducts some of its oil and gas production activities through jointly controlled operations and the consolidated financial statements reflect only the Company's proportionate interest in such activities. Joint control exists for contractual arrangements governing the Company's assets whereby the Company has less than 100 per cent working interest, all of the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks. The Company does not have any joint arrangements that are individually material to the Company or that are structured through joint venture arrangements.

b) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or when the Company has transferred substantively all the risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Subsequent measurement depends upon the classification of the financial instrument as one of:
-Fair value through profit or loss
-Loans and receivables
-Available for sale
-Held to maturity
-Other financial liabilities

Financial instruments at fair value through profit or loss
An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments and financial risk management are designated at fair value through profit or loss if the Company makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management strategy. Upon initial recognition, any transaction costs attributable to the financial instruments are recognized through earnings when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in earnings.

Derivative financial instruments
The Company has entered into certain financial derivative contracts in order to reduce its exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus has not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recorded on the balance sheet at fair value. Attributable transaction costs are recognized in earnings when incurred. The estimated fair value of all derivative instruments is based on quoted market prices and/or third party market indications and forecasts.

Financial instruments classified as "loans and receivables", "held to maturity", or "financial liabilities measured at amortized cost" are subsequently measured at amortized cost using the effective interest method of amortization.

Financial assets classified as "available for sale" are measured at fair value, with the changes in fair value recognized in other comprehensive income.

The Company's financial assets and financial liabilities are classified and measured as follows:

Financial instrument	Classification	Subsequent measurement
Cash and cash equivalents	Fair value through profit or loss	Fair value
Trade and other receivables	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Bank indebtedness	Other financial liabilities	Amortized cost
Promissory notes – debt component	Other financial liabilities	Amortized cost using effective interest method
Promissory notes – conversion option	Fair value through profit or loss	Fair value
Risk management contracts	Fair value through profit or loss	Fair value

c) Business combinations

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of closing. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the statement of comprehensive loss. Transaction costs that the Company incurs in connection with a business combination are expensed as incurred.

d) Exploration and evaluation assets

The Company accounts for exploration and evaluation of petroleum and natural gas property ("E&E") costs in accordance with IFRS 6 "Exploration for and Evaluation of Mineral Resources". Costs incurred are classified as E&E costs when they relate to exploring and evaluating a property for which the Company has the license or right to explore and extract resources.

Pre-license costs are recognized in the statement of comprehensive loss as incurred. E&E costs, including the costs of acquiring undeveloped land, geological and geophysical costs, sampling and appraisals and related drilling costs are initially capitalized until the drilling of the well is complete and the results have been evaluated. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved or probable reserves are determined to exist. If proved and/or probable reserves are found, the accumulated costs are tested for impairment and the carrying value net of any impairment is transferred to property, plant and equipment. Undeveloped land costs are amortized over the initial lease term; other E&E costs are not amortized.

E&E assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

e) Property, plant and equipment

Development and production costs

The Company recognized property, plant and equipment (“PPE”) assets at cost less accumulated depletion, depreciation and impairment losses.

Items of property, plant and equipment, which include oil and natural gas development and production assets, costs incurred in acquiring, developing proved and/or probable reserves and bringing on or enhancing production from such reserves are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. The cost of development and production assets includes: transfers from E&E assets, which generally includes the cost of land and seismic upon determination of technical feasibility and commercial viability; the cost to drill, complete and tie-in the wells; facility costs; the cost of recognizing provisions for future restoration and decommissioning; property acquisitions; and directly attributable overheads. Repairs and maintenance and operational costs that do not extend or enhance the recoverable reserves are charged to profit or loss when incurred.

The costs of planned major overhaul, turnaround activities and equipment replacement that maintain PPE and benefit future years of operations are capitalized. Recurring planned maintenance activities performed on shorter intervals are expensed as operating costs. Replacements outside of a major overhaul or turnaround are capitalized when it is probable that future economic benefits will flow to the Company and the associated carrying amount of the replaced asset (or part of a replaced asset) is derecognized.

Development and production assets are grouped into CGUs for impairment testing and depletion calculations.

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in the statement of loss and comprehensive loss.

Depletion and depreciation

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives. Natural gas reserves and production are converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil, reflecting the approximate energy content. Where significant parts of an item of property, plant, and equipment have different lives than the oil and gas reserves, they are accounted for as separate items (major components) and depreciated over the expected life of the component.

Proved plus probable reserves are estimated annually by independent qualified reserve evaluators and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. The estimated useful lives for certain production assets for the current and comparative years are as follows:

Development and production assets	Unit of Production
Corporate assets	Straight Line - 5 years
Major components	Straight Line - 20 years
Major overhaul and turnaround activities	Straight Line – 2-3 years, depending on the plant

f) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the consolidated statement of loss and comprehensive loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment at the CGU level. If any such indication exists, then the carrying value of each CGU, including goodwill is compared to its recoverable amount. For goodwill and other intangible assets that have indefinite lives or that are not yet available for use an impairment test is completed each year. E&E assets are allocated to related CGU's when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (oil and natural gas interests in property, plant and equipment).

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves which are based on forecast prices and costs. Fair value less costs to sell is determined to be the amount for which the asset could be sold in an arm's length transaction.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the consolidated statement of loss and comprehensive loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

g) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a risk free interest rate. Provisions are not recognized for future operating losses.

Decommissioning liabilities
The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning liabilities are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows or changes in discount rate are capitalized and amortized over the same period as the underlying asset. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent a provision was established.

h) Income tax

Income tax expense comprises current tax and deferred tax. Income tax expense is recognized in comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted as of the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

i) Flow-through common shares

Periodically, the Company finances a portion of its exploration and development activities through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes related to exploratory development activities are renounced to investors in accordance with tax legislation. Flow-through shares issued are recorded in share capital at the fair value of common shares on the date of issue. The premium received on issuing flow-through shares is initially recorded as a liability. As qualifying expenditures are incurred, the premium is reversed and a deferred income tax liability is recorded. Any difference between the issuance premium and the deferred income tax liability is recognized as deferred income tax expense/recovery.

j) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net loss for the year attributable to equity owners of the Company by the weighted average number of common shares outstanding during the year.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, and similar instruments is computed using the treasury stock method. The Company's potentially dilutive instruments, includes stock options and convertible promissory notes granted to employees and directors.

k) Finance income and expenses

Finance expense comprises interest expense on borrowings, accretion of the discount on promissory notes and decommissioning liabilities and impairment losses recognized on financial assets.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in comprehensive loss using the effective interest method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

Interest income is recognized as it accrues in the consolidated statement of loss and comprehensive loss.

l) Revenue recognition

Revenue from the sale of oil and natural gas is recognized when the significant risks and rewards of ownership is transferred, which is generally when title passes to the customer in accordance with the terms of the sales contract. Revenue from the production of oil and natural gas from properties in which the Company has an interest with other producers is recognized on the Company's net working interest only.

m) Inventory

Inventory of crude oil, consisting of production for which title has not yet transferred to the buyer, is valued at the lower of cost or net realizable value, based on per barrel weighted average cost of production.

n) New accounting policies

Future Accounting Policy Changes

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by the Company on January 1, 2018 and the Company is currently evaluating the impact of the standard on its financial statements.

In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied by the Company on January 1, 2018 and the Company is currently evaluating the impact of the standard on its financial statements.

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." IFRS 16 will be applied by the Company on January 1, 2019 and the Company is currently evaluating the impact of the standard on its financial statements.

4. Insurance receivable

Included in accounts receivable as at December 31, 2015 is an insurance receivable of $6.0 million (December 31, 2014 - $3.7 million) representing the Company's final settlement with its insurer with respect to a prior year pipeline spill in the Marlowe area. The Company anticipates completing remediation of the spill in 2016, and related remediation costs of $5.3 million are included in current decommissioning liabilities as at December 31, 2015. The insurance receivable is expected to be collected in full in 2016.

5. Asset dispositions

a) On June 16, 2014, the Company sold certain oil and gas assets in central Alberta for a total cash consideration of $3.4 million.

($000)	December 31, 2014
Property, plant and equipment net book value	$ 1,597
Decommissioning obligations on assets sold	(170)
Gain on disposition of assets	1,967
Purchase price received in cash	$ 3,394

b) In 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 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.

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

($000)		**December 31, 2015**		December 31, 2014
Opening balance	**$**	**13,903**	$	14,695
E&E expenditures		**369**		2,905
E&E transfer to property, plant and equipment		**(511)**		(702)
E&E expense		**(716)**		(399)
Amortization		**(1,876)**		(2,596)
Closing balance	**$**	**11,169**	$	13,903

In 2015, the Company expensed $0.7 million (2014 - $0.4 million) related to land and seismic expenditures on land which is not intended to be further explored.

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

($000) **Carrying value before accumulated depletion, depreciation and impairment**		**D&P Assets**		**Office**		**Total**
As at December 31, 2014	$	436,855	$	1,170	$	438,025
Additions		11,373		-		11,373
E&E transfer		511		-		511
Change in decommissioning liabilities estimates		2,592		-		2,592
As at December 31, 2015	**$**	**451,331**	**$**	**1,170**	**$**	**452,501**

($000) **Accumulated depletion, depreciation and impairment**		**D&P Assets**		**Office**		**Total**
As at December 31, 2014	$	227,088	$	938	$	228,026
Depreciation and depletion		22,305		132		22,437
Depreciation and depletion capitalized to inventory		(39)		-		(39)
Impairment *(Note 8)*		92,000		-		92,000
As at December 31, 2015	**$**	**341,354**	**$**	**1,070**	**$**	**342,424**

($000) **Net carrying value**		**D&P Assets**		**Office**		**Total**
As at December 31, 2015	**$**	**109,977**	**$**	**100**	**$**	**110,077**

($000) Carrying value before accumulated depletion, depreciation and impairment	D&P Assets	Office	Total
As at December 31, 2013	$ 332,280	$ 1,106	$ 333,386
Additions	98,345	69	98,414
E&E transfer	702	-	702
Dispositions	(5,637)	(5)	(5,642)
Change in decommissioning liabilities estimates	11,165	-	11,165
As at December 31, 2014	**$ 436,855**	**$ 1,170**	**$ 438,025**

($000) Accumulated depletion, depreciation and impairment	D&P Assets	Office	Total
As at December 31, 2013	$ 82,777	$ 768	$ 83,545
Depreciation and depletion	39,240	175	39,415
Depreciation and depletion capitalized to inventory	111	-	111
Dispositions *(Note 5)*	(4,040)	(5)	(4,045)
Impairment *(Note 8)*	109,000	-	109,000
As at December 31, 2014	**$ 227,088**	**$ 938**	**$ 228,026**

($000) Net carrying value	D&P Assets	Office	Total
As at December 31, 2014	**$ 209,767**	**$ 232**	**$ 209,999**

Substantially all of the Company's development and production assets are located within Canada. The cost of PPE includes amounts in respect of the provision for decommissioning obligations. For the year ended December 31, 2015, $0.9 million of direct general and administrative expenses were capitalized to PPE ($1.8 million for the year ended December 31, 2014).

Future capital costs of $121.6 million (December 31, 2014 - $132.3 million) have been included in the depletable balance as at December 31, 2015. Depletion has been calculated using proved plus probable reserves. Major components account for $61.9 million (December 31, 2014 - $75.6 million) and are depreciated separately.

8. Impairment

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

The recoverable amount was determined based on the fair value less costs to sell method for reserves as well as resources estimated by management to be realized based on planned future drilling locations not considered in the reserve report. The key assumptions used in determining the recoverable amount include the future cash flows using reserve and resource forecasts, forecasted commodity prices, discount rates, inflation rates and future development costs estimated for reserves by independent reserve engineers and by internal estimates based on historical experiences and trends for planned future drilling locations.

The fair value less costs to sell values used to determine the recoverable amounts of each CGU are classified as Level 3 fair value measures as they are based on the Company's estimate of key assumptions that are not based on observable market data.

The estimated cash flows were based on future cash flows of proved plus probable reserves discounted at a pre-tax rate of 10 percent (2014 – 10 percent). The future cash flows also consider, when appropriate, past capital activities, observable market conditions, comparable transactions and future development costs primarily based on anticipated development capital programs.

The value of resources incremental to the reserve report was obtained from internal analysis completed by management most notably through the review of its drilling program results and future drilling plans outlined in its current five-year plan. This was further supported by contingent resource studies that were compiled by independent reserve engineers. Based on this internal analysis, Strategic identified and risked potential drilling locations that were not assigned any proved plus probable reserves. The value attributed to these additional drilling locations was included in the recoverable amount, based on the net present value of proved undeveloped locations within the same resource play from the Company's most recent annual reserve report. A pre-tax discount rate of 15 percent was applied to determine an estimate of the present value of the future cash flows from these future drilling locations.

In determining the future net cash flows, the Company utilized benchmark pricing forecasts from its reserve evaluator. The impairment test at December 31, 2015 was based the following forward commodity price estimates:

	Natural Gas	**Crude Oil**	
	AECO Gas Price (Cdn$/mcf)	Edmonton Par Price (Cdn$/bbl)	West Texas Intermediate (US$/bbl)
2016	2.70	47.60	40.00
2017	3.20	66.40	53.60
2018	3.55	72.80	62.40
2019	3.85	80.90	69.00
2020	3.95	83.20	73.10
2021	4.20	88.20	77.30
2022	4.45	93.30	81.60
2023	4.70	98.70	86.20
2024	4.80	100.70	87.90
2025	4.90	102.60	89.60
Thereafter	+2.0%/yr	+2.0%/yr	+2.0%/yr

The impairment test resulted in impairment of property, plant and equipment of $92.0 million being recognized for the year ended December 31, 2015 (December 31, 2014 - $109.0 million). Impairment on these CGUs arose primarily due to a fall in oil prices. Further declines to commodity prices for crude oil and natural gas could result in additional impairment charges in future periods.

($000)	**December 31, 2015**		December 31, 2014	
	Impairment Expense	**Recoverable Amount**	Impairment Expense	Recoverable Amount
Steen/Marlow CGU	**$ 85,907**	**$ 114,282**	$ 92,111	$ 195,847
Bistcho CGU	**5,039**	**6,277**	14,811	12,237
Other Canadian CGU	**1,054**	**-**	2,078	1,605
	$ 92,000	**$ 120,559**	$ 109,000	$ 209,689
(Reversal) impairment of long term receivable	**(4,266)**	**-**	5,000	-
Total	**$ 87,734**	**$ 120,559**	$ 114,000	$ 209,689

A change in discount rate of 1.0% would have resulted in a change in impairment of $7.0 million for the year ended December 31, 2015 (2014 - $12.2 million), while a ten percent decrease in the forward commodity price estimate, keeping exchange rates consistent, would result in an additional impairment of approximately $30.0 million (2014 – $49.3 million).

9. Bank indebtedness

At December 31, 2015, the Company had a $55.5 million credit facility with a Canadian Chartered bank, consisting of a $40 million revolving operating loan and a $15.5 million non-revolving facility (the "facility"). In addition to $42.9 million drawn on the facility at December 31, 2015, the Company has $4.5 million letters of credit outstanding with third parties which reduce the amount of funds available under the facility. Amounts outstanding under the amended revolving facility are repayable on demand, and bear interest at a rate of 3.0% over the bank's prime lending rate. Amounts due under the non-revolving facility bear interest at a rate of 2.0% above the interest rates on the operating loan. The Facility is secured by a general security agreement including a floating charge on all property, plant and equipment. The non-revolving facility was being reduced as follows:

- $0.5 million per month
- An additional $9.5 million on or before February 1, 2016
- The balance of the non-revolving facility on or before June 1, 2016

The Company was also required to raise $40 million in capital subordinated to the lender on or before June 1, 2016, with a minimum of $25.0 million raised prior to February 1, 2016, and drill two wells before March 31, 2016 primarily to retain certain undeveloped lands.

At December 31, 2015 the Company was in compliance with all covenants under the facility. However, as of February 1, 2016 the Company had not raised $25.0 million in capital or made the required repayments to the lender, and therefore was in violation of the facility covenants. Following the issuance of $94.9 million of 8% convertible notes on February 29, 2016 (see note 22), the Company repaid all its indebtedness owing to the lender in full, and the lender cancelled the credit facility and provided the company with a release and discharge of the guarantees and the security formerly required under the facility agreement.

10. Promissory notes

On November 19, 2015, the Company obtained a loan of $10 million, in the form of convertible unsecured promissory notes, from entities which are significant shareholders in the Company and controlled by the Chairman of the Board of Directors. The notes bear interest at 1% per month, compounded monthly, up to March 31, 2016 and at 1.5% per month thereafter. The notes, together with accrued interest, are repayable at any time without penalty, at the earlier of the closing of a raise of capital subordinated to the credit facility or June 30, 2016.

The principal amount and accrued interest, or any part of such amount, are convertible into common shares of the Company at the holder's option, at a price equal to the lesser of $0.115 per share, or that price per common share that is the issue price of shares issued on an equity raise prior to January 31, 2017.

The promissory notes were determined to be a hybrid instrument with an embedded derivative, classified as a financial liability through profit and loss. The fair value of the financial liability was allocated at inception between a debt component and a conversion option component. Discounted future payments of interest and principal were used in the determination of the fair value of the debt component, while the fair value of the conversion option was determined using a trinomial model taken into consideration various factors such as the Company's stock price, days to expiration and various other assumptions related to expected volatility and option exercise price. The conversion option is revalued at each reporting date, with the differences recorded as a gain or loss on the income statement.

The following table indicates the change in value of the convertible promissory notes:

($000)	Option conversion component	Debt component
Valuation at inception	$ 366	$ 9,634
Accretion expense on promissory note	-	14
Change in fair value of conversion option	(310)	-
Balance, December 31, 2015	$ 56	$ 9,648

Subsequent to the reporting period, the promissory notes were repaid in full, including principal and interest on February 29, 2016 (see note 22).

11. 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 and facilities and the estimated timing of the costs to be incurred in future periods. These costs are expected to be incurred over a range up to 32 years, depending on the estimated reserve life. The undiscounted amount of the estimated costs at December 31, 2015 were $91.5 million (December 31, 2014 - $86.4 million). The estimated costs have been discounted at a risk free rate from 0.48% to 2.16% (December 31, 2014 – 1.01% to 2.33%) and an inflation rate of 2% (December 31, 2014 – 2%) was applied.

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

($000)	December 31, 2015	December 31, 2014
Balance beginning of the year	$ 54,911	$ 35,932
Liabilities incurred during the year	244	1,349
Disposition of liabilities	-	(170)
Expenditures on existing liabilities	(4,716)	(1,745)
Change in estimated future cash flows	53	13,655
Change in discount rate	2,295	4,702
Accretion	1,102	1,188
Balance end of year	$ 53,889	$ 54,911
Current at December 31, 2015 and 2014	5,782	4,007
Long term at December 31, 2015 and 2014	$ 48,107	$ 50,904

In 2014, the change in estimated future cash flows includes additional decommissioning liabilities which were recorded related to soil remediation at Steen River for $8.5 million, pipeline reclamation at Steen River for $2.3 million, pipeline reclamation at Bistcho for $2.7 million and pipeline reclamation at other Canadian wells for $0.5 million. $5.3 million of the Steen River amounts are to be expended by the end of 2016 and the rest by the end of 2048. The Bistcho and other Canadian wells amounts are expected to be expended by the end of 2033 and 2038 respectively.

12. Share capital

a) Authorized

The Company is authorized to issue an unlimited number of common shares without par value.

b) Issued and outstanding

($000)	# of Shares		Amount
Balance as at January 1, 2014	260,600,646	$	197,970
Exercise of options	400,000		205
Shares issued	281,317,983		122,673
Share issue costs	-		(1,170)
Balance as at December 31, 2014 and 2015	542,318,629		319,678

There were no changes to share capital for the year ended December 31, 2015.

c) Weighted average shares

	December 31, 2015	December 31, 2014
Weighted average shares (basic)	**542,318,629**	381,239,640
Weighted average shares (diluted)	**542,318,629**	381,239,640

13. Stock-based compensation

The Company has a stock option plan under which officers, directors, consultants and employees are eligible to receive stock options. The Company may reserve for issuance under the plan up to 10% of the issued and outstanding common shares. Options granted under the plan generally have a term of five years and vest at terms to be determined by the directors. Vesting terms have varied from immediate vesting to a three year vesting period. During 2015, the Company issued 25,000 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
Balance - January 1, 2014	**13,235,000**	$	0.98
Issued	6,585,000		0.42
Exercised	(400,000)		0.35
Cancelled/Forfeited	(961,666)		1.00
Expired	(3,145,000)		0.82
Balance at December 31, 2014	**15,313,334**	$	0.79
Issued	25,000		0.15
Cancelled/Forfeited	(3,523,334)		0.89
Expired	(450,000)		0.65
Balance at December 31, 2015	**11,365,000**	$	0.76

The following table sets out the outstanding and exercisable options as at December 31, 2015:

	Outstanding Options			Exercisable Options
Number of Options	Weighted Average Exercise Price	Weighted Average Life in Years	Number of Options	Weighted Average Exercise Price
5,415,000	$ 0.42	3.68	3,601,652	$ 0.42
85,000	0.48	3.33	56,669	0.48
110,000	0.61	1.62	106,667	0.61
530,000	0.83	1.89	530,000	0.83
765,000	0.90	1.15	765,000	0.90
165,000	0.95	1.53	165,000	0.95
765,000	1.10	0.02	765,000	1.10
3,155,000	1.16	2.01	3,155,000	1.16
375,000	1.30	2.10	375,000	1.30
11,365,000	**$ 0.76**	**2.61**	**9,519,988**	**$ 0.83**

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

	December 31, 2015	December 31, 2014
Assumptions		
Risk free interest rate (%)	**1.51**	1.52
Expected life (years)	**3.65**	3.65
Expected volatility (%)	**74.36**	74.36
Forfeiture rate (%)	**15.72**	12.30
Weighted average fair value of options granted ($)	**0.07**	0.18

The Company recorded compensation expense of $0.4 million (2014 – $1.0 million) relating to the stock option plan for the year ended December 31, 2015. Forfeiture rate is calculated based on historical forfeiture data of the Company.

14. Finance costs

	Year ended December 31	
($000)	**2015**	2014
Interest expense	**$ 3,068**	$ 3,375
Accretion of decommissioning liabilities	**1,102**	1,188
Accretion on promissory notes	**14**	-
	$ 4,184	$ 4,563

15. Income Taxes

The following table reconciles the expected income tax expense (recovery) at the Canadian federal and provincial statutory income tax rates to the amounts recognized in the consolidated statements of loss and comprehensive loss for the years ended December 31, 2015 and 2014.

($000)	**2015**	2014
Loss before income taxes	**(110,115)**	(131,826)
Statutory income tax rates	**26.0%**	25.0%
Expected income tax recovery	**(28,630)**	(32,956)
Non-deductible expenses	**6**	10
Share issuance costs	**-**	(293)
Changes in tax rates	**(5,633)**	(3)
Tax effect of flow-through shares	**-**	3,006
Change in unrecorded deferred tax benefits	**34,160**	27,644
Stock-based compensation	**97**	256
Income tax recovery	**-**	(2,336)

The statutory tax rate increased from 25% to 26% due to an increase in the Alberta provincial tax rate on July 1, 2015.

Details of deferred tax assets (liabilities) are as follows:

($000)	**December 31, 2015**	December 31, 2014
Deferred tax assets (liabilities)		
Non-capital loss carry forwards	**1,695**	865
Insurance receivable	**(1,615)**	-
Promissory notes	**(80)**	-
Risk management contract	**-**	(865)
Deferred tax asset	**-**	-

Details of the unrecognized deductible temporary differences are as follows:

($000)	**December 31, 2015**	December 31, 2014
Non-capital loss carry forwards	**242,719**	215,096
Share issuance cost	**1,844**	3,236
Oil and gas properties – US	**5,371**	5,353
Oil and gas properties – Canada	**113,300**	11,868
Decommissioning liabilities	**53,889**	54,911
Other	**30**	332
Unrecognized deductible temporary differences	**417,153**	290,796

At this stage of the Company's development, it cannot be reasonably estimated that there will be future taxable profits, so no deferred income tax assets were recognized.

As at December 31, 2015, the Company has non-capital losses of approximately $249.0 million (2014 - $218.6 million) which may be carried forward to apply against future years' taxable income for Canadian tax purposes, subject to final determination by taxation authorities and expiring as follows:

	($000)
2023	**31,508**
2024	**27,667**
2025	**23,885**
2026	**50**
2027	**9,098**
2028	**5,841**
2029	**22,519**
2030	**1,442**
2031	**20,742**
2032	**35,398**
2033	**29,228**
2034	**11,769**
2035	**29,850**
	248,997

16. Supplemental cash flow information

($000)		**December 31, 2015**		December 31, 2014
Interest paid	**$**	**3,068**	$	3,375
Changes in non-cash working capital				
Trade and other receivables (1)	**$**	**5,856**	$	923
Inventory		**145**		107
Accumulated depletion in inventory		**(39)**		111
Accounts payable and accrued liabilities		**(21,786)**		(1,642)
	$	**(15,824)**	$	(501)
Operating		**(1,561)**		2,871
Financing		**156**		-
Investing		**(14,419)**		(3,372)
	$	**(15,824)**	$	(501)

(1) Changes in Trade and other receivables for the year ended December 31, 2015 exclude the effect of the reversal of the $4.2 million impairment recorded in 2015 with respect to the long term receivable (Note 4).

17. Related parties

a) Transactions with related parties

Legal fees in the amount of $0.2 million (2014 - $0.37 million) were incurred and paid to a legal firm of which a director is a partner, and are included as general and administrative expenses or share issue costs. Software charges of $0.2 million (2014 - $0.2 million) were incurred and paid to a software firm which is controlled by an officer of the Company under a five year agreement which is up for renewal in 2018. Accounts payable and accrued liabilities at 2015 include $0.2 million (2014 - $0.1 million) due to related parties. Promissory notes in the amount of $10 million were received from entities controlled by a director of the Company in November 2015 (Note 10). 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.

b) Transactions with key management personnel

The Company has determined that the key management personnel of the Company consist of its officers and directors. Short-term benefits are comprised of salaries and directors fees, annual bonuses, and other benefits. In addition, the Company provides share-based compensation to its key management personnel under the long-term incentive plans and the officers participate in the Company's share option plan. The compensation included in general and administrative expenses relating to key management personnel for the year is as follows:

($000)	**2015**	2014
Salaries, wages and other short-term benefits	**$ 1,257**	$ 1,968
Stock-based compensation	**222**	655
Total compensation	**$ 1,479**	$ 2,623

18. Financial instruments and financial risk management

The Company's financial instruments include cash and cash equivalents, trade and other receivables, bank indebtedness, accounts payable and accrued liabilities, long-term receivable, share-based payment transactions, promissory notes and derivative financial instrument contracts. The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, bank indebtedness and debt component of the promissory notes approximate their fair values due to their relatively short periods to maturity.

The Company is required to classify fair value measurements using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is as follows:

- Level 1 - quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for the asset or liability that are not based on observable market data.

The fair value of cash and cash equivalents is measured at level 1. The fair value of risk management contracts and conversion option component of promissory notes are 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 consolidated 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 by world economic and geopolitical 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 December 31, 2015, there were no risk management contracts outstanding, fair value was $nil (December 31, 2014 – asset of $3.46 million).

For the year ended December 31, 2015, if oil prices changed by $1.00 per bbl, net income would have changed by $0.7 million. If natural gas prices changed by $0.25 per Mcf, then net income would have changed by $0.3 million.

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 consolidated statement of loss and comprehensive loss. The following table summarizes the fair value of risk management contracts as at December 31, 2015 and the change in fair value for the year:

($000)	**December 31, 2015**	December 31, 2014
Risk management contracts, beginning of year	**$ 3,460**	$ (8,757)
Unrealized change in fair value	**(3,460)**	12,217
Risk management contracts, end of year	**-**	3,460

Net realized gains on risk management contracts for the year ended December 31, 2015 was $5.44 million compared to a loss of $6.32 million for the year ended December 31, 2014.

Interest rate risk

The Company is exposed to interest rate risk as changes in interest rates may affect future cash flows. The Company's 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 December 31, 2015, if interest rates had increased by 1% with all other variables held constant, net income would have decreased by $0.35 million (2014 – $0.46 million).

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 December 31, 2015 and 2014, the Company had no contracts in place to mitigate foreign exchange risk.

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. Subsequent to year end, the Company issued $94.9 million of convertible debentures to provide liquidity in light of continued commodity price uncertainty (see note 22).

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. In 2015, 100% (2014 – over 93%) 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 and counter parties by assessing the financial strength of the customers and by routinely monitoring credit risk exposures.

Collection of the remaining balances can be dependent upon industry factors such as commodity prices and risk of unsuccessful drilling. Otherwise, the Company does not typically obtain collateral from customers, and relies upon industry standard legal remedies for collection.

The Company's most significant customer, a Canadian oil and natural gas marketer, accounts for 45% of the trade receivables at December 31, 2015 (December 31, 2014: 21%) and 73% of revenues (December 31, 2014: 36%).

The total accounts receivable 90 days past due amounted to $0.83 million at December 31, 2015 (2014 - $0.24 million). The allowance for doubtful accounts at December 31, 2015 was $nil (2014 - $nil).

d) Offsetting financial assets and liabilities

The Company's risk management contracts are subject to master agreements that create a legally enforceable right to offset by counterparty the related financial assets and financial liabilities simultaneously. The following table summarizes the gross asset and liability positions of the Company's risk management contracts that are offset on the balance sheet as at December 31, 2014. The Company had no outstanding risk management contracts at December 31, 2015.

($000)					December 31, 2014
	Gross Amount	Amount Offset	Net Amount Prior to Credit Risk Adjustment	Credit Risk Adjustment	Net Amount
Current asset	$ 3,460	$ -	$ 3,460	$ -	$ 3,460
Long term asset	-	-	-	-	-
Current liability	-	-	-	-	-
Long term liability	-	-	-	-	-
Net position	$ 3,460	$ -	$ 3,460	$ -	$ 3,460

19. Capital management

Strategic considers its capital structure to include shareholders' equity and working capital including bank debt. The objectives of the Company are to maintain a balance sheet that allows 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 deferred price premium on flow-through shares and risk management contracts) and remaining unused line of credit, as calculated below:

($000)	**December 31, 2015**	December 31, 2014
Operating loan	**$ 55,500**	$ 80,000
Amount drawn	**(42,857)**	(29,016)
Letters of credit	**(4,469)**	(4,385)
Unutilized portion of debt facility	**$ 8,174**	$ 46,599

20. Supplemental disclosure

Strategic's consolidated statement of loss and comprehensive loss is prepared primarily by nature of expense, with the exception of employee compensation costs which are included in both operating and general and administrative expenses.

The following table details the amount of total employee compensation costs included in the operating and general and administrative expense line items in the consolidated statements of loss and comprehensive loss.

($000)	**2015**	2014
Operating	**$ 1,995**	$ 2,567
General and administrative	**5,093**	6,055
Total employee compensation costs	**$ 7,088**	$ 8,622

21. Commitments and contingencies

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

Year	Operating leases ($000)	Gas transportation ($000)
2016	$ 141	$ 458
2017	68	458
2018	-	201
2019	-	90
2020	-	72
2021 and thereafter	-	25
	$ 209	$ 1,304

b) By 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 adequate insurance coverage. The Company is currently remediating an environmental spill at Marlowe and is subject to a claim from the Occupational, Health and Safety division of the Government of Alberta. 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 incidents is uncertain.

22. Subsequent events

On February 11, 2016, the Company announced a financing transaction to raise approximately $90 million by way of an offering of convertible debentures (the "Debentures") on a private placement basis. The offering provided necessary funding to the Company to repay its existing credit facilities and execute its winter capital program. The offering closed on February 29, 2016, raising 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 $3.8 million were purchased by directors and officers of the Company. The Debentures are for a five year term and bear interest at a rate of 8% per annum, payable semi-annually in arrears, with an option for the Company to pay the interest in equivalent principal amount of Debentures for the first two years. The Debentures are convertible into common shares of the Company at a price of $0.09 per share and are callable based on certain established criteria.

Immediately following the closing of the offering, the Company repaid the $10 million of outstanding promissory notes together with accrued interest as well at its full indebtedness under its credit facility, with the exception of outstanding letters of credit of $4.5 million which have been secured by cash deposits.

On February 11, 2016, the Company issued 10.6 million stock options with an exercise price of $0.09 per option pursuant to the Company's stock option plan.