



Management's Discussion and Analysis Three months ended March 31, 2018

May 23, 2018

Strategic Oil & Gas Ltd. ("Strategic" or the "Company") is a publicly-traded oil and gas company, with operations focused on light oil development in northern Alberta. The following is management's discussion and analysis ("MD&A") of Strategic's consolidated operating and financial results for the three months ended March 31, 2018, as well as information concerning the Company's future outlook based on currently available information. This MD&A should be read in conjunction with the Company's interim condensed consolidated financial statements for the three months ended March 31, 2018 and 2017, together with the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

FINANCIAL AND OPERATIONAL SUMMARY

Financial (\$thousands, except per share amounts)	Three months ended March 31		
	2018	2017	% change
Oil and natural gas sales	10,081	8,888	13
Funds from operations ⁽¹⁾	1,554	2,383	(35)
Per share basic ^{(1) (2)}	0.03	0.05	(40)
Cash provided by (used in) operating activities	769	50	1,438
Per share basic ⁽²⁾	0.02	0.00	-
Net loss	(5,163)	(4,440)	16
Per share basic ⁽²⁾	(0.11)	(0.10)	10
Net capital expenditures	9,161	18,067	(49)
Working capital (comparative figure is as of December 31, 2017)	264	10,251	(97)
Net debt (comparative figure is as of December 31, 2017) ⁽¹⁾	109,825	95,801	15
Operating			
Average daily production			
Crude oil (bbl per day)	1,700	1,628	4
Natural gas (mcf per day)	2,902	3,872	(25)
Barrels of oil equivalent (boe per day)	2,183	2,273	(4)
Average prices			
Oil & NGL (\$ per bbl)	62.20	53.86	15
Natural gas (\$ per mcf)	2.17	2.86	(24)
Operating netback (\$ per boe) ⁽¹⁾			
Oil and natural gas sales	51.30	43.44	18
Royalties	(7.61)	(5.53)	38
Operating expenses	(25.93)	(18.57)	40
Transportation expenses	(0.64)	(1.43)	(55)
Operating Netback ⁽¹⁾	17.12	17.91	(4)
Common Shares ⁽²⁾ (thousands)			
Common shares outstanding, end of period	46,402	46,374	-
Weighted average common shares (basic & diluted)	46,396	45,549	2

⁽¹⁾ Funds from operations, adjusted working capital, net debt and operating netback are Non-GAAP measures; see "Non-GAAP measures" in this MD&A.

⁽²⁾ Adjusted for the share consolidation on a 20:1 basis on March 6, 2017.

About Strategic

Strategic is a junior oil and gas company committed to becoming a premier northern oil and gas operator by exploiting its light oil assets primarily in northern Alberta. The Company maintains control over its resource base through high working interest ownership in wells, construction and operation of its own processing facilities and a significant undeveloped land and opportunity base. Strategic's primary operating area is at Marlowe, Alberta. Strategic's common shares trade on the TSX Venture Exchange under the symbol SOG.

ADVISORIES

Basis of presentation

This discussion and analysis of Strategic's oil and natural gas production and related performance measures is presented on a working-interest, before royalty basis. For the purpose of calculating unit information, the Company's production and reserves are reported in barrels of oil equivalent ("boe"). Boe may be misleading, particularly if used in isolation. A boe conversion ratio for natural gas of 6 Mcf: 1 boe has been used, which is based on an energy equivalency conversion method primarily applicable at the burner tip and does not necessarily represent a value equivalency at the wellhead. As the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the reporting period. Management reviews these estimates, including those related to accruals, environmental and decommissioning liabilities, income taxes, and the determination of proved and probable reserves on an ongoing basis. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates.

Non-GAAP measures

The Company utilizes the following terms for measurement within the MD&A that do not have a standardized meaning or definition as prescribed by IFRS and therefore may not be comparable with the calculation of similar measures by other entities.

"Funds from operations" is a term used to evaluate operating performance and assess leverage. The Company considers funds from operations an important measure of its ability to generate funds necessary to finance capital expenditures including related decommissioning obligations, acquisitions and debt repayments if any. Funds from operations are calculated based on cash flow from operating activities before changes in non-cash working capital and decommissioning expenditures. Funds from operations as presented is not intended to represent cash flow from operating activities, net earnings, or other measures of financial performance calculated in accordance with IFRS.

The following table reconciles funds from operations to cash provided by operating activities:

(\$thousands)	Three months ended March 31	
	2018	2017
Cash provided by operating activities	769	50
Expenditures on decommissioning liabilities	2,515	1,668
Changes in non-cash working capital	(1,730)	665
Funds from operations	1,554	2,383

"Operating Netback" is used to evaluate operating performance of crude oil and natural gas assets. The term netback is calculated as oil and gas sales revenue excluding realized and unrealized gains and losses on risk

management contracts, less royalties, and production costs. There is no IFRS measurement that would be directly comparable to operating netbacks.

“Adjusted working capital” was previously used to assess capital on hand for funding development and sustaining operations. Adjusted working capital is equal to working capital excluding accrued interest on convertible debentures, as prior to the first quarter of 2018 interest was being paid in additional debentures (“PIK option”) as opposed to cash. The PIK option was available for the first two years of interest payments ending on February 28, 2018. Going forward, the Company anticipates paying convertible debenture interest in cash and therefore this measure is no longer used.

“Available working capital (deficiency)” is used to assess working capital accessible by the Company to fund short-term liabilities, and is defined as working capital excluding term deposits. Term deposits are held as collateral for letters of credit outstanding and cannot be liquidated to fund short-term cash requirements.

“Net debt” is used to assess capital requirements and leverage, as well as evaluate funds available for capital spending programs and operations. Net debt is calculated as convertible debentures, measured at principal amount outstanding, less working capital or plus working capital deficiency.

PERFORMANCE OVERVIEW, STRATEGY AND OUTLOOK

During the first quarter, Strategic was focused on the execution of a two-well Muskeg development drilling program at West Marlowe. The 1-2 and 5-1 wells were both drilled with a 1,900 metre lateral section and were completed with 28 and 30 stages, respectively. Initially only a fraction of the total stages were opened on each well to assess contributions from the new frac system employed. Initial production rates were consistent with expectations. The Company is encouraged by the unconstrained deliverability of the wells and believes the new frac systems were effective in linking net pay intervals within the Muskeg zone. The wells are currently experiencing some surface restrictions due to pipeline pressures. Strategic is actively evaluating alternatives to debottleneck the system at west Marlowe to fully optimize the new wells. Average rates over the first 30 days of production are as follows:

Well	IP30		Current rate	
	Total (boe/d)	% oil	Total (boe/d)	% oil
1-2	309	86%	122	83%
5-1	165	87%	168	91%

Corporate production volumes decreased 10% from the fourth quarter of 2017 to 2,183 boe/d for the current period due to natural declines and a Company-operated pipeline being evaluated at north Marlowe which resulted in a loss of 145 boe/d. The decline was partially offset by production volumes from the new Muskeg wells drilled in the first quarter.

Strategic had estimated a total of \$9 million in capital spending for the first half of 2018. First quarter capital expenditures totaled \$9.2 million, and the Company expects an additional \$1 million in spending in the second quarter to complete the program, with the increase related to minor facilities projects and additional completion costs incurred while monitoring the effectiveness of the new frac design.

Strategic is encouraged by the production potential of the latest Muskeg wells, and feels that the new drilling and completion techniques were effective in correcting the well placement and connectivity issues experienced with the 2017 drilling program. The Company is working on reducing surface restrictions to enhance productivity of the west Marlowe area. The information gained from the two-well winter program will be incorporated into the next development plan, which is currently in the planning stage.

QUARTERLY SUMMARY

- Capital expenditures of \$9.2 million were incurred in the quarter, primarily related to the two well Muskeg development drilling program and minor recompletion and pipeline projects.
- Revenues increased 13% from the first quarter of 2017 to \$10.1 million for the period, due to higher oil production and an increase in realized oil prices. The average WTI oil price for the quarter was US \$62.87/bbl, and WTI prices are currently over US \$70/bbl.
- Despite higher revenues, funds from operations decreased to \$1.6 million for the quarter from \$2.4 million for the three months ended March 31, 2017 and \$3.0 million for the fourth quarter of 2017. The decrease was primarily related to higher operating costs, higher royalty rates driven by the increase in commodity prices and cash interest expense on the Company's convertible debentures starting March 1, 2018.
- Average production decreased 4% from the first quarter of 2017 to 2,183 boe/d for the first three months of 2018, as contributions from the two new Muskeg wells drilled during the quarter were offset by downtime caused by pipeline maintenance work, primarily at north Marlowe.
- The Company issued \$4.1 million of additional convertible debentures as payment in kind of interest payable on February 28, 2018 to preserve cash while pursuing its capital spending program. The additional debentures have the same terms as the original debentures except that they are convertible into common shares of the Company at a price of \$1.08 per share.

RESULTS OF OPERATIONS

Production

Average daily production volumes	Three months ended March 31	
	2018	2017
Oil & NGL (bbl/d)	1,700	1,628
Natural gas (mcf/d)	2,902	3,872
Total (boe/d)	2,183	2,273

Average daily oil & NGL production for the three months ended March 31, 2018 increased by 4% from the comparative period in 2017, due to new oil production from Muskeg wells drilled in 2017 and 2018. Natural gas production volumes for the three months ended March 31, 2018 decreased 25% from 2017, as the Muskeg wells drilled in 2017 and the first quarter of 2018 have lower gas-oil production ratios than most of the earlier wells drilled at west Marlowe. In addition, fuel gas usage was higher in the current period due to colder winter weather compared to 2017.

Revenue

(\$thousands, except where noted)	Three months ended March 31	
	2018	2017
Sales		
Oil & NGL	9,516	7,893
Natural gas	565	995
Oil and natural gas sales	10,081	8,888
Net realized gain on risk management contracts	6	-
Finance income	55	122
	10,142	9,010
Average prices		
Oil & NGL (\$/bbl)	62.20	53.86
Natural gas (\$/mcf)	2.17	2.86
Reference prices		
Oil – WTI (\$US/bbl)	62.87	51.91
Edmonton par (\$/bbl)	72.06	63.98
Natural gas – AECO Daily Index (\$/MMBtu)	2.07	2.68

Average oil prices received are a function of the benchmark West Texas Intermediate (“WTI”) oil price, less foreign exchange, transportation and quality differentials to arrive at Canadian dollar price received at delivery points in northern Alberta. WTI oil prices began strengthening late in 2017 and into early 2018 as a result of reduced inventory levels in North America and continued strong global demand. Strategic’s average realized oil price for the first quarter of 2018 increased by 15% from the corresponding period in 2017 due to higher WTI oil prices, partially offset by a stronger Canadian dollar and an increase in the Edmonton differential in the current period.

Substantially all of the Company’s natural gas is sold at AECO pricing, adjusted for fuel charges. Strategic’s average natural gas price for the first quarter of 2018 decreased by 24% from the corresponding period in 2017 due to lower AECO gas prices. The Company receives a premium to AECO as a result of the relatively high heat content of natural gas production at Marlowe.

The Company’s oil and natural gas sales increased to \$10.1 million for the three months ended March 31, 2018 from \$8.9 million for the respective period in 2017. The increase was due to a 15% increase in oil prices and a slight increase in oil production levels.

Risk management contracts

The Company’s net income and funds from operations are exposed to fluctuations in commodity prices, interest rates and foreign exchange rates. As part of its risk management program, Strategic may enter into financial commodity price management contracts for up to 50 percent of expected production levels, depending on current commodity prices, price volatility and the size and nature of the Company’s capital spending programs.

A summary of Strategic’s commodity price risk management contracts as at March 31, 2018 is as follows:

WTI crude oil contracts

Term	Contract Settlement	Volume (bbl/d)	Fixed Price (US\$/bbl)	Index	
01-Mar-2018	31-Aug-2018	Financial swap	100	\$64.20	WTI - NYMEX
01-Feb-2018	30-Sep-2018	Physical swap	500	\$62.00	WTI – NYMEX

Royalties

(\$thousands, except where noted)	Three months ended March 31	
	2018	2017
Crown royalties	1,414	1,049
Freehold and overriding royalties	82	83
Total royalties	1,496	1,132
Per boe	7.61	5.53
Percentage of oil and natural gas sales	14.8%	12.7%

Royalty expenses include Crown, freehold and overriding royalties paid to the owners of mineral rights. Crown royalties are dependent on commodity prices, well productivity and well vintage, and are calculated using a sliding scale where lower rates are applied during periods of low commodity prices and to wells that are mature or less productive. In Alberta, new wells drilled benefit from a 5% royalty on all production until the revenue generated from the well exceeds a standard measure of the average drilling and completion cost for a similar well drilled in the province.

Royalties increased to \$1.5 million for the three months ended March 31, 2018 from \$1.1 million for the comparative period in 2017 due to higher commodity prices and production from a well drilled in 2016 coming off the 5% reduced royalty rate. Royalty rates increased to 14.8% for the three months ended March 31, 2018 from 12.7% for the comparative period in 2017 due to higher commodity prices. Royalty expense for the 2017 quarter also benefited from oil trucking rebates from the Alberta government, as a significant quantity of oil was trucked during that period due to the temporary shut down of a third party pipeline.

Operating and transportation costs

(\$thousands, except per boe amounts)	Three months ended March 31	
	2018	2017
Operating costs	5,096	3,800
Transportation costs	126	294
	5,222	4,094
Per boe		
Operating	25.93	18.57
Transportation	0.64	1.43
	26.57	20.00

Operating costs for the three months ended March 31, 2018 increased 34% to \$5.1 million from \$3.8 million for the comparative period in 2017. The increase in operating costs in the first quarter was a result of higher environmental remediation and regulatory costs (\$0.5 million), increased repairs and maintenance expense (\$0.3 million), and higher chemical purchases (\$0.5 million) reflecting the higher operated wellbase and enhanced chemical programs implemented at Marlowe. The additional remediation and chemicals costs are related to specific pipeline and weather issues encountered in the current period and are not expected to be recurring in 2018. The Company is currently evaluating alternative lift systems to maximize production from new Muskeg wells. Operating costs per boe for the three months ended March 31, 2018 increased by 40% from the comparative period in 2017 due to the combination of increased costs and slightly lower production during the first quarter of 2018.

Transportation costs for the three months ended March 31, 2018 decreased to \$0.1 million from \$0.3 million for the comparative period in 2017 due to a reduction in trucked oil volumes in 2018. Oil trucking was required in the first quarter of 2017 due to a temporary shutdown of a third party sales pipeline. Unit transportation costs for the three months ended March 31, 2018 decreased to \$0.64/boe from \$1.43/boe for the first quarter of 2017.

Netbacks

(\$/boe)	Three months ended March 31	
	2018	2017
Revenue	51.30	43.44
Royalties	(7.61)	(5.53)
Operating costs	(25.93)	(18.57)
Transportation costs	(0.64)	(1.43)
Operating netback	17.12	17.91

Strategic's operating netback decreased 4% to \$17.12/boe for the first quarter of 2018 from \$17.91/boe for the comparative period in 2017 as higher revenues and lower transportation costs were offset by higher royalties and operating costs related to increased chemicals and repairs and maintenance expense.

Strategic's focus area is Marlowe, which is 100% owned and operated by the Company. The Marlowe netback for the first quarter of 2018 decreased to \$20.99/boe from \$22.10/boe for the first quarter of 2017 as a result of higher operating costs and royalties, offset by higher revenues. The corporate netback is negatively affected by high fixed operating costs at the Company's minor oil properties in southern Alberta and British Columbia and fixed costs at Bistcho/Cameron Hills, which is currently shut-in due to low commodity prices. Of the Company's total operating costs in the first quarter of 2018 of \$5.1 million, \$0.8 million relates to non-Marlowe assets which produced only 55 boe/d for the period (first quarter of 2017 - \$1.0 million related to non-Marlowe assets which produced 54 boe/d).

G&A expense

(\$thousands, except per boe amounts)	Three months ended March 31	
	2018	2017
Gross general and administrative expense	1,375	1,601
Overhead recoveries	(68)	(70)
Capitalized G&A	(258)	(252)
Net G&A expenses	1,049	1,279
Per boe	5.34	6.25

G&A expense reflects all head office costs, a portion of which are charged to operated wells and facilities through overhead recoveries. Costs related to technical office staff that are directly involved in the Company's capital spending programs are capitalized to PP&E. G&A expense for the first quarter ended March 31, 2018 was \$1.0 million compared to \$1.3 million for the first quarter in 2017. The decrease was driven by a \$0.2 million reduction in salaries due to terminations in the second half of 2017. On a units-of-production basis, G&A expenses decreased to \$5.34/boe for the three months ended March 31, 2018 compared to \$6.25/boe for the same period in 2017 primarily due to lower G&A costs.

Finance expense

(\$thousands)	Three months ended March 31	
	2018	2017
Interest expense	11	20
Interest expense on convertible debentures – paid in kind ("PIK")	1,345	1,898
Interest expense on convertible debentures – non-PIK	810	102
Accretion of decommissioning liabilities	377	306
Accretion on debentures	747	683
Total	3,290	3,009

Finance expense increased to \$3.3 million for the first quarter of 2018 from \$3.0 million for the three months ended March 31, 2017 due to increased interest and accretion expense on convertible debentures, as a result of an increase in the amount of debentures outstanding. Interest on convertible debentures was paid using the PIK

option, which was only available until February 28, 2018. Subsequent interest payments are and will be made in cash and therefore the cash (non-PIK) portion of debenture interest expense has increased from prior year. In addition to debenture interest incurred, an accretion expense is recorded to bring the debenture liability up to the face value of the debentures over the remaining term.

Accretion of decommissioning liabilities is an expense intended to reflect an increase in Strategic's discounted decommissioning liability due to the passage of time. Accretion of decommissioning liabilities increased in 2018 compared to 2017 as discount rates increased during the current period.

Stock based compensation

Stock based compensation is a non-cash charge which reflects the estimated value of stock options granted. The Company uses the fair value method of accounting for stock options granted to directors, officers, employees and consultants. The fair value of all stock options granted is recorded as a charge to net loss over the period from the grant date to the vesting date of the option. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes options pricing model.

Strategic issued 0.9 million stock options in the first quarter of 2018 and no stock options in the first three months of 2017. A third of the options vest at the time they are granted; therefore, the fair value of the vested options was expensed on the grant date. As a result, stock-based compensation expense increased to \$0.4 million for the three months ended March 31, 2018 from \$nil for the first quarter of 2017.

Depletion, depreciation & amortization

(\$thousands, except per boe amounts)	Three months ended March 31	
	2018	2017
Depreciation, depletion and amortization ("DD&A")	4,051	3,961
Per boe	20.62	19.36

DD&A is computed individually for each producing area on a unit of production basis, using proved and probable reserves and including future development expenditures in the cost base subject to depletion. DD&A expense also includes amortization of undeveloped land costs. Major components, such as facilities and pipelines, are separated from oil and gas properties and depreciated on a straight-line basis over their estimated useful lives. DD&A expense for the three months ended March 31, 2018 and 2017 was consistent at \$4.0 million as production levels were similar for both periods. The DD&A rate per boe was slightly higher in 2018 as the lower property, plant and equipment balances caused by impairment losses recorded in the third and fourth quarters of 2017 were offset by a reduction in proved and probable reserves from year to year.

Deferred Taxes

Deferred income taxes arise from differences between accounting and tax basis of assets and liabilities, and are recorded based on the current tax status of the Company, income tax rates and management's best estimate of future events, including development expenditures and cash flows. In the first quarter of 2018, Strategic recorded a \$0.1 million deferred tax liability related to the equity portion of convertible debentures issued during the quarter (2017 - \$0.1 million). As a result, the Company recognized an offsetting amount of previously unrecognized deferred tax assets and a deferred tax recovery of \$0.1 million for 2018 (2017 - \$0.1 million). The Company has approximately \$540 million in tax pools and accumulated losses available to shelter future income, and does not anticipate paying income taxes in the foreseeable future.

Funds from operations and net loss

(\$thousands, except per share amounts)	Three months ended March 31	
	2018	2017
Funds from operations	1,554	2,383
Per share – basic & diluted ⁽¹⁾	0.03	0.05
Cash flow provided by operating activities	769	50
Per share – basic & diluted ⁽¹⁾	0.02	0.00
Net loss for the period	(5,163)	(4,440)
Per share – basic & diluted ⁽¹⁾	(0.11)	(0.10)

⁽¹⁾ Adjusted for the share consolidation on a twenty to one basis.

Funds from operations decreased to \$1.6 million for the three months ended March 31, 2018 from \$2.4 million for the same period in 2017, as higher revenues were more than offset by increases in operating costs and royalties, as well as cash interest expense on convertible debentures.

Cash flow provided by operating activities increased to \$0.8 million for the current period due to an increase in accounts payable balances compared to the prior year.

Net loss increased to \$5.2 million for the three months ended March 31, 2018 from \$4.4 million for the same period in 2017 due to lower funds from operations and increased stock-based compensation for the current period.

Capital expenditures

(\$thousands)	Three months ended March 31	
	2018	2017
Drilling, completions and equipping	8,601	15,930
Pipelines and facilities	560	2,107
	9,161	18,037
Dispositions	(127)	-
Total property, plant and equipment	9,034	18,037
Total exploration and evaluations (“E&E”)	-	30
Net capital expenditures	9,034	18,067

Capital expenditures for the quarter ended March 31, 2018 decreased to \$9.0 million compared to \$18.1 million for the first quarter of 2017. Current period projects included drilling, completing and equipping two Muskeg wells at Marlowe. The comparative period capital expenditures related to the execution of the 2017 five well winter Muskeg drilling program at Marlowe.

Decommissioning liabilities

Decommissioning liabilities decreased to \$60.4 million at March 31, 2018 from \$62.5 million at December 31, 2017 due to decommissioning expenditures during the period of \$2.5 million, partially offset by additional liabilities incurred on new wells drilled. The current portion of the decommissioning liabilities at March 31, 2018 increased to \$5.9 million from \$3.2 million at December 31, 2017, due to significant abandonment and remediation spending required in the first quarter of 2019 in Alberta and Cameron Hills, NWT. These requirements are in accordance with Directive 13 legislation issued by the Alberta Energy Regulator and well suspension and abandonment guidelines issued by the government of the Northwest Territories in 2017.

SUMMARY OF QUARTERLY FINANCIAL DATA

The following table summarizes quarterly financial results:

Quarter ended (\$thousands, except where noted)	Mar 31, 2018	Dec 31, 2017	Sept 30, 2017	Jun 30, 2017
Petroleum and natural gas sales	10,081	10,396	8,271	10,312
Net (loss) income	(5,163)	(41,264)	(36,779)	(7,020)
Net (loss) income per share – basic & diluted ⁽¹⁾	(0.11)	(0.89)	(0.79)	(0.15)
Average daily production (boed)	2,183	2,424	2,384	2,661
Average price (\$/boe)	51.30	46.61	46.63	42.58

Quarter ended (\$thousands, except where noted)	Mar 31, 2017	Dec 31, 2016	Sept 30, 2016	Jun 30, 2016
Petroleum and natural gas sales	8,888	7,721	5,478	5,974
Net loss	(4,440)	48,510	(5,985)	(5,800)
Net (loss) income per share – basic ⁽¹⁾	(0.10)	1.69	(0.22)	(0.21)
Net (loss) income per share – diluted ⁽¹⁾	(0.10)	0.62	(0.22)	(0.21)
Average daily production (boed)	2,273	1,859	1,577	1,829
Average price (\$/boe)	43.44	45.13	44.23	35.89

⁽¹⁾ Adjusted for the share consolidation on a twenty to one basis.

Oil and natural gas sales are a function of average daily production levels, the oil/gas production mix and commodity prices. Sales are over \$10 million for the second and fourth quarter of 2017 as production volumes were over 2,400 bo/d for those periods, and also in the first quarter of 2018 due to an average realized price of \$51.30/boe. Sales were lowest in the third quarter of 2016 due to low production levels.

Net loss varies with funds from operations, as well as non-cash expenses incurred such as stock-based compensation, non-cash finance costs, DD&A and impairment. Net income of \$48.5 million for the fourth quarter in 2016 was driven by a net impairment recovery of \$52.7 million. Net losses were high in the third and fourth quarter of 2017 due to impairment charges of \$30.4 million and \$28.4 million, respectively. Maintaining positive net income on a consistent basis will depend on the Company's ability to increase sales volumes and reduce unit production costs and DD&A, as well as on an increase in commodity prices.

LIQUIDITY AND CAPITAL RESOURCES

Going concern

The interim condensed consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Sustained low commodity prices and production levels in recent years have put pressure on the Company's cash flows. Going forward, Strategic is required to pay \$8.8 million in cash interest payments per year on its outstanding convertible debentures, further straining the Company's financial position.

At March 31, 2018, the Company had \$8.2 million in cash and working capital of \$0.3 million. Cash from operating activities is dependent on future commodity prices and production levels. In order to continue funding future capital programs and decommissioning expenditures over the next 12 months, the Company will need to obtain additional equity or debt financing, or assess other options. The ability to access the required capital to maintain current production levels and cash flows is dependent on a variety of external factors. This material uncertainty may cast significant doubt upon the Company's ability to continue as a going concern.

The consolidated financial statements do not reflect adjustments that would be necessary if the going concern basis was not appropriate. The appropriateness of the going concern basis is dependent upon, among other things, the ability to obtain debt or equity financing, or other sources of funding for future capital programs.

Convertible debentures and working capital

The Company considers its capital structure to include shareholders' equity, working capital and convertible debentures. The objectives of the Company are to maintain financial flexibility to achieve goals of continued growth and access to capital. In order to maintain or adjust the capital structure, Strategic may issue new common shares, issue or repay debt, or adjust exploration and development capital expenditures. The Company monitors its capital structure based on net debt and working capital, as calculated below:

(\$thousands)	March 31, 2018	December 31, 2017
Current assets	17,295	21,830
Current liabilities	(17,031)	(11,579)
Working capital	264	10,251
Convertible debentures ⁽¹⁾	(110,089)	(106,052)
Net debt	(109,825)	(95,801)

⁽¹⁾ Convertible debentures are measured at principal amount outstanding.

Working capital dropped to \$0.3 million at March 31, 2018 from \$10.3 million at December 31, 2017 due to capital expenditures exceeding funds from operations for the first three months of 2018, as well as an increase in the current portion of decommissioning liabilities. Approximately \$4.5 million of the working capital balance is held in term deposits to collateralize outstanding letters of credit. As a result, the available working capital at March 31, 2018 is a deficiency of \$4.2 million.

At current commodity prices and production levels, internally generated cash flow from operations and current cash on hand will not be sufficient to fund operating expenditures, interest payments and decommissioning liabilities over the next twelve months. The Company is evaluating alternatives to fund potential capital spending programs and decommissioning expenditures, including new equity or debt issuances.

The Company has senior secured convertible debentures ("Debentures") outstanding. The Debentures mature on Feb 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 ("PIK option") for the first two years ending February 28, 2018. 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, 2018, \$4.1 million of additional convertible debentures were issued as payment of interest in kind. Of the \$4.1 million, \$3.1 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 11.40%, the estimated rate for debt with similar terms without conversion features.

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

(\$000)	Liability Component	Equity Component	Total
Balance at December 31, 2017	\$ 94,323	\$ 1,0247	\$ 104,570
Additional debentures issued as payment in kind of interest	3,721	335	4,056
Issuance costs	(19)	(1)	(20)
Deferred tax recovery	-	(90)	(90)
Debentures converted	(18)	(2)	(20)
Accretion expense	747	-	747
Balance at March 31, 2018	\$ 98,754	\$ 10,489	\$ 109,243

The liability component of all debentures issued is being accreted to the adjusted principal amount of \$110.1 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	94,827	1.80
August 31, 2016	3,617	3.30
February 28, 2017	3,724	2.70
August 31, 2017	3,864	2.03
February 28, 2018	4,056	1.08

SHARE CAPITAL

	Three months ended March 31	
	2018	2017
Weighted average common shares outstanding (thousands)		
Basic & Diluted	46,396	45,549
	March 31, 2018	December 31, 2017
Outstanding securities (thousands)		
Common shares	46,402	46,391
Stock options	2,953	2,309

For the three months ended March 31, 2018, the Company issued 0.9 million stock options to directors, officers, employees and consultants. Each option entitles the holder to acquire one common share of the Company for a period of five years at a price of \$1.05 per share. Subsequent to the end of the quarter, Strategic issued 1.0 million stock options to the incoming President & Chief Executive Officer of the Company with a strike price of \$1.08 per share and a five year life. A third of the stock options vest on the grant date while the remaining stock options vest over the subsequent two years.

As of May 23, 2018 there were 46,402,199 common shares outstanding and 3,952,816 stock options outstanding. If all of the outstanding Debentures were converted into common shares, an additional 60,817,720 common shares would be issued.

TRANSACTIONS WITH RELATED PARTIES

For the three months ended March 31, 2018, legal fees in the amount of \$0.1 million (March 31, 2017 - \$0.1 million) 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. Accounts payable and accrued liabilities at March 31, 2018 include \$nil (December 31, 2017 - \$nil) due to related parties. Accrued interest on convertible debentures at March 31, 2018 include \$0.6 million (December 31, 2017 - \$3.3 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.

COMMITMENTS

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

Year	Office (\$000)	Gas transportation (\$000)
2018	\$ 339	\$ 313
2019	409	392
2020	38	375
2021	-	332
2022	-	309
2023 and thereafter	-	81
	\$ 786	\$ 1,802

NEW ACCOUNTING PRONOUNCEMENTS

IFRS 15

On January 1, 2018, the Company adopted IFRS 15 "Revenue from Contracts with Customers" IFRS 15 establishes a comprehensive framework for determining whether, how much, and when revenue from contracts with customers is recognized. The Company's revenue relates to the sale of petroleum and natural gas to customers at specified delivery points at benchmark prices.

The Company adopted IFRS 15 using the modified retrospective approach. Under this transitional provision, the cumulative effect of initially applying IFRS 15 is recognized on the date of initial application as an adjustment to retained earnings. No adjustment to retained earnings was required upon adoption of IFRS 15.

IFRS 15 requires additional disclosure relating to the disaggregation of revenue - this additional disclosure is included in Financial Statement Note 11. In addition, as a result of this adoption, The Company has revised the description of its accounting policy for revenue recognition as follows:

Revenue recognition

Revenue associated with the sale of crude oil, natural gas and natural gas liquids is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when or as the Company satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of oil, natural gas, natural gas liquids usually coincides with title passing to the customer and the customer taking physical possession. The Company principally satisfies its performance obligations at a point in time and the amounts of revenue recognized relating to performance obligations satisfied over time are not significant.

IFRS 9

Effective January 1, 2018, the Company retrospectively adopted IFRS 9, as well as consequential amendments to IFRS 7 "Financial Instruments: Disclosures." The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." The adoption of IFRS 9 did not result in any adjustments to the amounts recognized in the Company's interim condensed consolidated financial statements for the quarter ended March 31, 2018.

On January 1, 2018, the Company determined the appropriate classification category and measurement of its financial assets and liabilities under IFRS 9 and compared each to their original classification and measurement under IAS 39. Under IFRS 9, financial instruments are classified as amortized cost, fair value through other

comprehensive income or fair value through profit and loss. No adjustments were made to the carrying amounts of financial instruments as a result of the adoption of IFRS 9.

Financial Instrument	Measurement Category (IAS 39)	Measurement Category (IFRS 9)
Cash and cash equivalents	Fair value through profit or loss	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Convertible debentures – debt component	Other financial liabilities	Amortized cost
Risk management contracts	Fair value through profit or loss	Fair value

The standard also provides a simplified approach to measuring expected credit losses using a lifetime expected loss allowance for all trade receivables and contract assets. The credit loss model groups receivables based on similar credit risk characteristics and days past due in order to estimate bad debts. The adoption of IFRS 9 did not result in a material impact to the Company’s consolidated financial statements due to the high credit quality of its customers.

IFRS 16

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.

CRITICAL ACCOUNTING ESTIMATES

This MD&A is based on Strategic’s interim condensed consolidated financial statements, which have been prepared in accordance with IFRS. A summary of the Company’s significant accounting policies is contained in *Note 3* to the Company’s consolidated financial statements for the year ended December 31, 2017. These accounting policies are subject to estimates and key judgments about future events, many of which are beyond the Company’s control. Actual results may differ from these estimates and the differences may be significant. A discussion of specific estimates employed in the preparation of the Company’s interim condensed consolidated financial statements is included in Strategic’s MD&A for the year ended December 31, 2017.

BUSINESS RISKS

There are numerous risks facing participants in the oil and gas industry. Some of the risks are common to all businesses while others are specific to a sector. While Strategic realizes that these risks cannot be eliminated, it is committed to monitoring and mitigating these risks.

Substantial capital requirements and liquidity

The Company anticipates that it will make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If the Company’s future revenues or reserves decline, the Company’s ability to expend the capital necessary to undertake or complete future drilling programs may be limited. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. Moreover, future activities may require

Strategic to alter its capitalization significantly, and potentially increase the Company's debt levels above industry standards. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects.

Strategic has \$110.1 million in Debentures outstanding. The Company has been paying interest in kind but the PIK option was only available until February 28, 2018. Strategic will need to increase production levels and cash flows in order to manage the repayment of the Debentures by the maturity date.

Environmental Concerns

The operation of oil and natural gas wells involves a number of natural hazards that may result in blowouts, environmental damage or other unexpected or dangerous conditions resulting in liability to the Company and possibly liability to fourth parties. The oil and natural gas industry is subject to extensive environmental regulation that provides for restrictions and prohibitions on releases or emissions of various substances produced in association with certain oil and natural gas industry operations, and such regulations may be expanded to include regulation of, among other things, emissions of carbon dioxide. In addition, legislation requires that well and facility sites are abandoned and reclaimed to the satisfaction of provincial authorities. A breach of such legislation may result in fines or the issuance of clean-up orders. The Company carries insurance to mitigate the cost of remediating damage from environmental incidents, but there can be no assurance that the insurance will cover all types of incidents or that remediation costs will not exceed the limit of the insurance carried. In addition, the Company will make reasonable provisions for well abandonment, facility decommissioning and site remediation where appropriate; however there can be no assurance that such provisions will be sufficient to satisfy all such obligations. In addition, decommissioning expenditures that are planned for the first 12 months after the reporting date are classified as current liabilities on the balance sheet and affect the Company's working capital and net debt levels.

Regulation

The Company is operating in a highly regulated industry. The Alberta Energy Regulator ("AER") periodically issues new regulations, which can increase the costs of conducting business in Alberta, change the timing of required abandonment and reclamation expenditures and restrict the ability of companies in the energy industry to transfer assets and licenses to third parties. As the number of regulations applicable to the Company increase, so will the costs of compliance.

In 2017 the government of the Northwest Territories issued revised guidelines with respect to well suspension and abandonment. The guidelines include new deadlines for suspending and subsequently abandoning wells that are no longer productive. The guidelines were effective February 1, 2017 and result in Strategic having to incur suspension and abandonment costs sooner than anticipated for wells drilled in the Northwest Territories.

Other business risks affecting Strategic's operations are substantially unchanged from those presented in the Company's MD&A and annual information form for the year ended December 31, 2017.

FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A constitute forward-looking information under applicable securities legislation. Forward-looking information typically contains statements with words such as "anticipate", "believe", "estimate", "will", "may", "expect", "plan", "schedule", "intend", "propose", or similar words suggesting future outcomes or an outlook. Forward-looking information in this MD&A includes, but is not limited to:

- plans for debottlenecking the Marlowe field;
- future development plans;
- future financing plans and goals;
- the ability of the Company to fund capital programs with existing working capital and cash flow from operating activities;

- the Company continuing as a going concern;
- the impact of adjustments to drilling and completion techniques; and
- general business strategies and objectives.

Such forward-looking information is based on a number of assumptions, including: future commodity prices; royalty rates, taxes and capital, operating, general and administrative and other costs; foreign currency exchange rates and interest rates; general business, economic and market conditions; the ability of the Company to obtain the required capital to finance its exploration, development and other operations and meet its commitments and financial obligations; the ability of Strategic to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its activities; the ability of Strategic to market its oil and natural gas successfully to current and new customers; the ability of Strategic obtain drilling success (including in respect of anticipated production volumes, reserves additions and resource recoveries) and operational improvements, efficiencies and results consistent with expectations; the timely receipt of required governmental and regulatory approvals; and anticipated timelines and budgets being met in respect of drilling programs and other operations (including well completions and tie-ins and the construction, commissioning and start-up of new and expanded facilities).

Although Strategic believes that the expectations reflected in such forward-looking information is reasonable, undue reliance should not be placed on them as the Company can give no assurance that such assumptions will prove to be correct. Forward-looking information is based on expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by Strategic and described in the forward-looking information. The material risks and uncertainties include, but are not limited to: fluctuations in commodity prices, foreign currency exchange rates and interest rates; estimates and projections relating to future revenue, future production, reserve additions, resource recoveries, royalty rates, taxes and costs and expenses; operational risks in exploring for, developing and producing, oil and natural gas; the ability to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost; potential disruptions, delays or unexpected technical or other difficulties in designing, developing, expanding or operating new, expanded or existing facilities; processing and pipeline infrastructure outages, disruptions and constraints; risks and uncertainties involving the geology of oil and gas deposits; uncertainty of reserves and resources estimates; general business, economic and market conditions; changes in, or in the interpretation of, laws, regulations or policies (including environmental laws); the ability to obtain required governmental or regulatory approvals in a timely manner, and to enter into and maintain leases and licenses; the effects of weather and other factors including wildlife and environmental restrictions which affect field operations and access; the timing and cost of future abandonment and reclamation obligations and potential liabilities for environmental damage and contamination; uncertainties regarding aboriginal claims and in maintaining relationships with local populations and other stakeholders; the outcome of existing and potential lawsuits, regulatory actions, audits and assessments; and other risks and uncertainties described elsewhere in Strategic's other filings with Canadian securities authorities.

Further information with respect to the Company can be found on its website at www.sogoil.com and on the SEDAR website: www.sedar.com.



Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2018 and 2017

Strategic Oil & Gas Ltd.

Interim condensed consolidated balance sheets (unaudited)

(\$000) As at	Note	March 31, 2018	December 31, 2017
Assets			
Current Assets:			
Cash and cash equivalents		\$ 8,165	\$ 13,138
Term deposits	4	4,472	4,522
Trade and other receivables		4,492	4,011
Inventory		166	159
		17,295	21,830
Property, plant, and equipment, net	7	160,406	155,108
Exploration and evaluation assets	6	9,532	9,651
Total Assets		\$ 187,233	\$ 186,589
Liabilities			
Current Liabilities:			
Accounts payable and accrued liabilities		\$ 10,420	\$ 5,553
Accrued interest on convertible debentures		748	2,836
Decommissioning liabilities	8	5,863	3,190
		17,031	11,579
Convertible debentures	9	98,754	94,323
Decommissioning liabilities	8	54,547	59,303
Total Liabilities		170,332	165,205
Shareholders' Equity			
Share capital	10	365,486	365,466
Equity component of convertible debentures	9	10,489	10,247
Contributed surplus		13,470	13,052
Deficit		(372,544)	(367,381)
		16,901	21,384
Total Liabilities and Shareholders' Equity		\$ 187,233	\$ 186,589

See accompanying notes to the Interim Condensed Consolidated Financial Statements

Strategic Oil & Gas Ltd.

Interim condensed consolidated statements of net loss and comprehensive loss (unaudited)

(\$000, except per share amounts)	Note	Three months ended March 31	
		2018	2017
Revenue			
Petroleum and natural gas sales	12	\$ 10,081	\$ 8,888
Royalties		(1,496)	(1,132)
Revenue, net of royalties		8,585	7,756
Net realized gain on risk management contracts	17	6	-
Finance income		55	122
		8,646	7,878
Expenses			
Operating		5,096	3,800
Transportation		126	294
General and administrative		1,049	1,279
Finance costs	13	3,290	3,009
Stock-based compensation	11	418	43
Depletion, depreciation and amortization		4,051	3,961
Gain on disposal of property, plant and equipment	5	(131)	-
		13,899	12,386
Operating loss before taxes		(5,253)	(4,508)
Deferred tax recovery	14	90	68
Net loss and comprehensive loss		\$ (5,163)	\$ (4,440)
Net loss per weighted average share			
Basic & Diluted	10 (c)	\$ (0.11)	\$ (0.10)

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

Strategic Oil & Gas Ltd.

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

(\$000)	Share Capital	Convertible Debenture Equity Component	Contributed Surplus	Deficit	Total Equity
Balance January 1, 2018	\$ 365,466	\$ 10,247	\$ 13,052	\$ (367,381)	\$ 21,384
Debentures converted	20	-	-	-	20
Equity component of convertible debentures	-	242	-	-	242
Stock based compensation	-	-	418	-	418
Net loss	-	-	-	(5,163)	(5,163)
Balance March 31, 2018	\$ 365,486	\$ 10,489	\$ 13,470	\$ (372,544)	\$ 16,901

(\$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 based compensation	-	-	43	-	43
Equity component of convertible debentures	-	183	-	-	183
Net loss	-	-	-	(4,440)	(4,440)
Balance March 31, 2017	\$ 365,412	\$ 10,061	\$ 11,106	\$ (282,319)	\$ 104,260

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

Strategic Oil & Gas Ltd.

Interim condensed consolidated statements of cash flow (unaudited)

(\$000)	Note	Three months ended March 31	
		2018	2017
Operating activities:			
Net loss for the period		\$ (5,163)	\$ (4,440)
Non-cash items:			
Depletion, depreciation, and amortization		4,051	3,961
Stock-based compensation		418	43
Deferred tax recovery	14	(90)	(68)
Gain on disposal of property, plant and equipment		(131)	-
Non-cash finance costs	13	2,469	2,887
Expenditures on decommissioning liabilities		(2,515)	(1,668)
Change in non-cash working capital	15	1,730	(665)
Cash provided by operating activities		769	50
Financing activities:			
Issue of common shares, net of share issuance costs		-	5,339
Issue of debentures, net of transaction costs		(19)	(19)
Change in non-cash working capital	15	-	(93)
Cash provided by (used in) financing activities		(19)	5,227
Investing activities:			
Expenditures – property, plant and equipment		(9,161)	(18,037)
Expenditures – exploration and evaluation assets		-	(30)
Redemption of (investment in) term deposits		49	(874)
Proceeds on disposal of property, plant and equipment		127	-
Changes in non-cash working capital	15	3,262	5,229
Cash used in investing activities		(5,723)	(13,712)
Decrease in cash and cash equivalents during the period		(4,973)	(8,435)
Cash and cash equivalents, beginning of the period		13,138	50,802
Cash and cash equivalents, end of the period		\$ 8,165	\$ 42,367

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 month periods ending March 31, 2018 and 2017

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. On February 28, 2018, the Company’s subsidiary Strategic Oil & Gas Inc. sold its entire working interest 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) Going concern

These interim condensed consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. For the quarter ended March 31, 2018, the Company reported positive cash flow from operating activities of \$0.8 million, a net loss of \$5.2 million and an accumulated deficit of \$372.5 million. Sustained low commodity prices in recent years have put pressure on the Company’s cash flows.

At March 31, 2018, the Company had \$8.2 million in cash and a positive working capital of \$0.3 million. Cash from operating activities is dependent on future commodity prices and production levels. In order to continue funding future capital programs, the Company will need to obtain additional equity or debt financing, or assess other options. The ability to access the required capital to maintain current production levels and cash flows is dependent on a variety of external factors. This material uncertainty may cast significant doubt upon the Company’s ability to continue as a going concern.

The consolidated financial statements do not reflect adjustments that would be necessary if the going concern basis was not appropriate. The appropriateness of the going concern basis is dependent upon, among other things, the ability to obtain debt or equity financing, or other sources of funding for future capital programs.

b) 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, 2017. The share issuance costs have been reclassified and netted against the issue of common shares on the interim condensed consolidated statement of cash flows.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on May 23, 2018.

Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)

As at and for the three month periods ending March 31, 2018 and 2017

c) Basis of measurement

These interim condensed consolidated 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, 2017. There have been no changes in the application or use of estimates or judgments since December 31, 2017.

d) 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.

Forward commodity sales contracts

The Company has accounted for its forward pledged delivery sales contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items, in accordance with its expected purchase, sale or usage requirements. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair values on the interim condensed consolidated balance sheet. Realized gains or losses from commodity physical delivery sales contracts are recognized in petroleum and natural gas sales as the contracts are settled.

Convertible debentures

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

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) Revenues recognition – IFRS 15

On January 1, 2018, the Company adopted IFRS 15 "Revenue from Contracts with Customers" IFRS 15 establishes a comprehensive framework for determining whether, how much, and when revenue from contracts with customers is recognized. The Company's revenue relates to the sale of petroleum and natural gas to customers at specified delivery points at benchmark prices.

Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)

As at and for the three month periods ending March 31, 2018 and 2017

The Company adopted IFRS 15 using the modified retrospective approach. Under this transitional provision, the cumulative effect of initially applying IFRS 15 is recognized on the date of initial application as an adjustment to retained earnings. No adjustment to retained earnings was required upon adoption of IFRS 15.

IFRS 15 requires additional disclosure relating to the disaggregation of revenue - this additional disclosure is included in Financial Statement Note 12. In addition, as a result of this adoption, The Company has revised the description of its accounting policy for revenue recognition as follows:

Revenue recognition

Revenue associated with the sale of crude oil, natural gas and natural gas liquids is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when or as the Company satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of oil, natural gas, natural gas liquids usually coincides with title passing to the customer and the customer taking physical possession. The Company principally satisfies its performance obligations at a point in time and the amounts of revenue recognized relating to performance obligations satisfied over time are not significant.

c) Financial instruments – IFRS 9

Effective January 1, 2018, the Company retrospectively adopted IFRS 9, as well as consequential amendments to IFRS 7 “Financial Instruments: Disclosures.” The standard supersedes earlier versions of IFRS 9 and completes the IASB’s project to replace IAS 39 “Financial Instruments: Recognition and Measurement.” The adoption of IFRS 9 did not result in any adjustments to the amounts recognized in the Company’s interim condensed consolidated financial statements for the quarter ended March 31, 2018.

On January 1, 2018, the Company determined the appropriate classification category and measurement of its financial assets and liabilities under IFRS 9 and compared each to their original classification and measurement under IAS 39. Under IFRS 9, financial instruments are classified as amortized cost, fair value through other comprehensive income or fair value through profit and loss. No adjustments were made to the carrying amounts of financial instruments as a result of the adoption of IFRS 9.

Financial Instrument	Measurement Category (IAS 39)	Measurement Category (IFRS 9)
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
Convertible debentures – debt component	Other financial liabilities	Amortized cost
Risk management contracts	Fair value through profit or loss	Fair value

The standard also provides a simplified approach to measuring expected credit losses using a lifetime expected loss allowance for all trade receivables and contract assets. The credit loss model groups receivables based on similar credit risk characteristics and days past due in order to estimate bad debts. The adoption of IFRS 9 did not result in a material impact to the Company’s consolidated financial statements due to the high credit quality of its customers.

Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)

As at and for the three month periods ending March 31, 2018 and 2017

d) Future accounting policy changes

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.

4. Term deposits

The Company has term deposits with a chartered bank for \$4.5 million (December 31, 2017 - \$4.5 million), all of which are pledged as collateral for outstanding letters of credit.

5. Asset disposition

On February 28, 2018, the Company sold its entire working interest in the Western United States for a total cash consideration of \$0.1 million.

(\$000)	March 31, 2018
Property, plant and equipment net book value	\$ 18
Decommissioning obligations on assets sold	(22)
Gain on disposition of assets	131
Purchase price paid in cash	\$ 127

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

(\$000)	March 31, 2018	December 31, 2017
Opening balance	\$ 9,651	\$ 14,438
E&E expenditures	-	106
E&E transfer to Property, plant and equipment	-	(1,407)
E&E impairment	-	(2,900)
Amortization for the period	(119)	(586)
Closing balance	\$ 9,532	\$ 9,651

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

(\$000)	D&P assets	Office	Total
Carrying value before accumulated depletion, depreciation and impairment			
As at December 31, 2017	\$ 528,716	\$ 1,178	\$ 529,894
Additions	9,161	-	9,161
Dispositions	(3,745)	-	(3,745)
Change in decommissioning costs	77	-	77
As at March 31, 2018	\$ 534,209	\$ 1,178	\$ 535,387

Strategic Oil & Gas Ltd.

Notes to the interim condensed consolidated financial statements (unaudited)

As at and for the three month periods ending March 31, 2018 and 2017

(\$000)			
Accumulated depletion, depreciation and impairment	D&P assets	Office	Total
As at December 31, 2017	\$ 373,617	\$ 1,169	\$ 374,786
Depreciation and depletion	3,928	4	3,932
Dispositions	(3,727)	-	(3,727)
Depreciation and depletion capitalized to inventory	(10)	-	(10)
As at March 31, 2018	\$ 373,808	\$ 1,173	\$ 374,981

(\$000)			
Net carrying value	D&P assets	Office	Total
As at December 31, 2017	\$ 155,099	\$ 9	\$ 155,108
As at March 31, 2018	\$ 160,401	\$ 5	\$ 160,406

Following the disposition of the US assets, 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 month period ended March 31, 2018, \$0.3 million 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 (\$0.3 million for the three month period ended March 31, 2017).

Future capital costs of \$149.3 million (March 31, 2017 - \$156.9 million) have been included in the depletable balance as at March 31, 2018. Major components costs – such as facilities and pipelines, which are depreciated separately, are \$59.3 million (March 31, 2017 - \$57.5 million) with a net carrying value of \$45.2 million (March 31, 2017 - \$46.8 million).

8. Decommissioning liabilities

Total future decommissioning liabilities are estimated based on the Company's net working interest in all wells and facilities, the estimated costs to abandon and reclaim the wells, pipelines and facilities and the estimated timing of the costs to be incurred in future periods. These costs are expected to be incurred over a range up to 34 years, depending on the estimated reserve life. The undiscounted amount of the estimated costs at March 31, 2018 were \$108.7 million (December 31, 2017 - \$101.5 million). The estimated costs have been discounted at a risk free rate from 1.80% to 2.25% (December 31, 2017 – 1.66% to 2.20%) and an inflation rate of 2% (December 31, 2017 – 2%) was applied.

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

(\$000)	Three months ended March 31, 2018	Year ended December 31, 2017
Balance beginning of the period	\$ 62,493	\$ 52,651
Liabilities incurred during the period	221	925
Disposition of decommissioning liabilities	(22)	-
Expenditures on existing liabilities	(2,515)	(2,333)
Revaluation on decommissioning liabilities	-	7,190
Change in estimated future cash flows	637	170
Change in discount rate	(781)	2,598
Accretion	377	1,292
Balance end of the period	\$ 60,410	\$ 62,493
Current	5,863	3,190
Long term	\$ 54,547	\$ 59,303

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9. 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, 2018, \$4.1 million of debentures were issued as payment of interest in kind. Of the \$4.1 million, \$3.1 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 11.40% the estimated rate for debt with similar terms without conversion features.

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

(\$000)	Liability Component	Equity Component	Total
Balance at December 31, 2017	\$ 94,323	\$ 10,247	\$ 104,570
Additional debentures issued as payment in kind of interest	3,721	335	4,056
Issuance costs	(19)	(1)	(20)
Deferred tax recovery (Note 14)	-	(90)	(90)
Debentures converted	(18)	(2)	(20)
Accretion expense	747	-	747
Balance at March 31, 2018	\$ 98,754	\$ 10,489	\$ 109,243

The liability component of all debentures issued is being accreted to the adjusted principal amount of \$110.1 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	94,827	1.80
August 31, 2016	3,617	3.30
February 28, 2017	3,724	2.70
August 31, 2017	3,864	2.03
February 28, 2018	4,056	1.08

10. Share capital

a) Authorized

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

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b) Issued and outstanding

(\$000)	Number of shares (000)	Three months ended	
		March 31, 2018	
Balance at December 31, 2017	46,391	\$	365,466
Debentures converted	11		20
Balance at March 31, 2018	46,402	\$	365,486

c) Weighted average shares

(000)	Three months ended March 31	
	2018	2017
Weighted average shares (basic & diluted)	46,396	45,549

For the three months ended March 31, 2018, outstanding stock options and convertible debentures were excluded from the calculations as they were anti-dilutive.

11. Stock-based compensation

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

	Number of options	Weighted average Exercise Price	
Balance at December 31, 2017	2,308,816	\$	3.50
Granted	928,000		1.05
Cancelled/Forfeited	(268,500)		3.05
Expired	(15,500)		25.84
Balance at March 31, 2018	2,952,816	\$	2.65

On May 23, 2018, the Company issued 1.0 million stock options to the Chief Executive Officer of the Company. A third of the options issued vest immediately while the remaining options vest over the subsequent two years. Each option entitles the holder to acquire one common share of the Company for a period of five years at a price of \$1.08 per share.

The following table sets out the outstanding and exercisable options as at March 31, 2018:

	Outstanding Options			Exercisable Options	
	Number of Options	Weighted Average Exercise Price	Weighted Average Life Years	Number of Options	Weighted Average Exercise Price
	928,000	\$ 1.05	4.90	309,345	\$ 1.05
	1,764,066	2.44	3.40	1,000,739	2.27
	232,750	8.39	1.43	232,750	8.39
	2,750	9.71	1.07	2,750	9.71
	1,500	19.13	0.55	1,500	19.13
	500	21.20	0.35	500	21.20
	19,500	22.74	0.15	19,500	22.74
	3,750	24.80	0.03	3,750	24.80
	2,952,816	\$ 2.65	3.68	1,570,834	\$ 3.28

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

Assumptions	Three months ended March 31	
	2018	
Risk free interest rate (%)	1.23	
Expected life (years)	3.36	
Expected volatility (%)	106.97	
Forfeiture rate (%)	12.86	
Weighted average fair value of options granted	0.80	

There were no stock options issued in the three months ended March 31, 2017.

12. Revenue

The Company derives its revenue from contracts with customers primarily through the transfer of commodities at a point in time representing the following major product types:

(\$000)	Three months ended	Three months ended
	March 31, 2018	March 31, 2017
Petroleum	\$ 9,516	7,893
Natural gas	565	995
Petroleum and natural gas sales	\$ 10,081	8,888

At March 31, 2018, receivables from contracts with customers, which are included in trade and other receivables, were \$3.2 million (March 31, 2017 - \$2.6 million).

13. Finance costs

(\$000)	Three months ended March 31	
	2018	2017
Interest	\$ 11	\$ 20
Interest expense on convertible debentures – paid in kind (“PIK”)	1,345	1,898
Interest expense on convertible debentures – non-PIK	810	102
Accretion of decommissioning liabilities	377	306
Accretion on debentures	747	683
Total finance costs	\$ 3,290	\$ 3,009

14. Deferred taxes

For the three months ended March 31, 2018, the Company recorded a deferred tax liability of \$0.1 million (three months ended March 31, 2017 - \$0.1 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 (March 31, 2017 - \$0.1 million) of previously unrecognized deferred tax assets and a corresponding deferred tax recovery.

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15. Supplemental cash flow information

(\$000)	Three months ended March 31	
	2018	2017
Interest paid	\$ 196	\$ 122
Changes in non-cash working capital		
Trade and other receivables	(481)	(582)
Inventory	(7)	2
Accumulated depletion in inventory	(10)	1
Accounts payable and accrued liabilities	4,867	5,163
Accrued interest on convertible debentures	(2,088)	(1,939)
Interest paid in kind	(1,345)	(1,898)
Debentures issued as paid in kind interest (Note 9)	4,056	3,724
	\$ 4,992	\$ 4,471
Operating	1,730	(665)
Financing	-	(93)
Investing	3,262	5,229
	\$ 4,992	\$ 4,471

16. Transactions with related parties

For the three months ended March 31, 2018, legal fees in the amount of \$0.1 million (March 31, 2017 - \$0.1 million) 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. Accounts payable and accrued liabilities at March 31, 2018 include \$nil (December 31, 2017 - \$nil) due to related parties. Accrued interest on convertible debentures at March 31, 2018 include \$0.6 million (December 31, 2017 - \$3.0 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.

17. 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, share-based payment transactions, convertible debentures and derivative financial instruments. 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.

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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 by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar. The Company may, in certain circumstances, enter into forward oil or natural gas sales contracts to mitigate commodity price risk.

At March 31, 2018, the following risk management contracts were outstanding with a mark-to-market asset value of \$nil (March 31, 2017 - \$nil):

Financial WTI crude oil contracts

Term	Contract Type	Volume (bbl/d)	Fixed Price (\$/bbl)	Index	
01-Mar-2018	31-Aug-2018	Swap	100	USD\$64.20	WTI - NYMEX

The Company does not apply hedge accounting to these risk management contracts and they are recorded as fair value with changes in fair value included in the condensed consolidated statement of loss.

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 March 31, 2018, 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

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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 March 31, 2018 and December 31, 2017, the Company had no contracts in place to mitigate foreign exchange risk. As at March 31, 2018, the Company held \$0.2 million (December 31, 2017 - \$0.1 million) in US 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 March 31, 2018, 100% (December 31, 2017 – 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 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 83% of the trade receivables at March 31, 2018 (December 31, 2017 – 84%) and 92% of revenues (March 31, 2017 – 86%).

The total accounts receivable 90 days past due amounted to \$0.2 million at March 31, 2018 (December 31, 2017 - \$0.1 million). The allowance for doubtful accounts at March 31, 2018 was \$0.1 million (December 31, 2017 - \$0.1 million).

d) Physical sale contracts

Term	Contract Type	Volume (bbl/d)	Fixed Price (\$/bbl)	Index	
01-Feb-2018	30-Sept-2018	Swap	500	USD\$62.00	WTI - NYMEX

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18. Capital management

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

19. 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
2018	\$ 339	\$ 313
2019	409	392
2020	38	375
2021	-	332
2022	-	309
2023 and thereafter	-	81
	\$ 786	\$ 1,802

- 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.