Management's Discussion and Analysis
Three and six months ended June 30, 2018

August 15, 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 and six months ended June 30, 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 and six months ended June 30, 2018 and 2017, together with the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

FINANCIAL AND OPERATIONAL SUMMARY

	Three months ended June 30			**Six months ended June 30**		
Financial ($thousands, except per share amounts)	**2018**	2017	% change	**2018**	2017	% change
Oil and natural gas sales	**10,639**	10,312	3	**20,720**	19,200	8
Funds from operations [1]	**47**	2,991	(98)	**1,601**	5,374	(70)
Per share basic [1] [2]	**0.00**	0.06	(100)	**0.03**	0.12	(75)
Cash provided by operating activities	**972**	1,828	(47)	**1,742**	1,879	(7)
Per share basic [2]	**0.02**	0.04	(50)	**0.04**	0.04	-
Net loss	**(6,399)**	(7,020)	(9)	**(11,562)**	(11,460)	1
Per share basic [2]	**(0.14)**	(0.15)	(7)	**(0.25)**	(0.25)	-
Net capital expenditures	**940**	12,784	(93)	**10,101**	30,851	(67)
Working capital (deficiency) (comparative figure is as of December 31, 2017)	**(1,991)**	13,087	-	**(1,991)**	13,087	-
Net debt (comparative figure is as of December 31, 2017) [1]	**112,046**	95,801	17	**112,046**	95,801	17
Operating						
Average daily production						
Crude oil (bbl per day)	**1,660**	1,942	(15)	**1,680**	1,786	(6)
Natural gas (mcf per day)	**2,865**	4,317	(34)	**2,883**	4,096	(30)
Barrels of oil equivalent (boe per day)	**2,138**	2,661	(20)	**2,161**	2,468	(12)
Average prices						
Oil & NGL, before risk management ($ per bbl)	**68.17**	51.69	32	**65.17**	52.68	24
Oil & NGL, including risk management ($ per bbl)	**67.88**	51.69	31	**65.04**	52.68	23
Natural gas ($ per mcf)	**1.30**	3.00	(57)	**1.73**	2.93	(41)
Operating netback ($ per boe) [1]						
Oil and natural gas sales	**54.68**	42.58	28	**52.99**	42.97	23
Royalties	**(10.20)**	(4.61)	121	**(8.90)**	(5.03)	77
Operating expenses	**(25.11)**	(19.05)	32	**(25.53)**	(18.83)	36
Transportation expenses	**(0.57)**	(0.94)	(39)	**(0.61)**	(1.17)	(48)
Operating Netback [1]	**18.80**	17.98	5	**17.95**	17.94	-
Common Shares [2] (thousands)						
Common shares outstanding, end of period	**46,421**	46,388	-	**46,421**	46,388	-
Weighted average common shares (basic & diluted)	**46,405**	46,384	-	**46,401**	45,969	1

(1) Funds from operations, 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:

	Three months ended June 30		Six months ended June 30	
($thousands)	**2018**	2017	**2018**	2017
Cash provided by operating activities	**972**	1,828	**1,742**	1,879
Expenditures on decommissioning liabilities	**199**	458	**2,713**	2,126
Changes in non-cash working capital	**(1,124)**	705	**(2,854)**	1,369
Funds from operations	**47**	2,991	**1,601**	5,374

"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.

"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

In the second quarter, Strategic's new management team was focused on the evaluation of the Company's asset base and formulation of a development capital expenditure plan intended to debottleneck the West Marlowe field to optimize production and reserves on existing and future drill locations. In addition, a detailed technical evaluation of the Muskeg zone was developed to obtain "first principle" technical data associated with the Muskeg reservoir to better quantify the deliverability of the play. In the near term it is Management's intention to identify and evaluate funding alternatives for its capital expenditure plan, and the Company will provide additional information as it becomes available.

With respect to the two well Muskeg drilling program completed in the first quarter of 2018, despite the negative impact of pipeline pressures and surface restrictions, the new wells are producing steadily with 98% runtime for the second quarter. Average rates over the first 60 and 90 days of production are as follows:

	IP60		IP90	
Well	Total (boe/d)	% oil	Total (boe/d)	% oil
1-2	216	84%	182	82%
5-1	173	86%	156	84%

QUARTERLY SUMMARY

- Capital expenditures of $0.9 million were incurred in the quarter relative to guidance of $1.0 million provided on May 23, 2018. Expenditures included minor facilities projects and completion costs related to the two well Muskeg development drilling program initiated in the first quarter of 2018.

- Revenues increased 3% from the second quarter of 2017 to $10.6 million for the period due an increase in realized oil prices, which were partially offset by lower production. The average WTI oil price for the quarter was US $67.88/bbl. Revenues for the six months ended June 30, 2018 increased by 8% to $20.7 million compared to $19.2 million for the comparative period in 2017 due to an increase in realized oil prices.

- Despite higher revenues, funds from operations decreased to $nil for the quarter from $3.0 million for the three months ended June 30, 2017 and $1.6 million for the first quarter of 2018. 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 20% from the second quarter of 2017 to 2,138 boe/d for the second quarter of 2018 due to a slower pace of drilling activity, as only 2 Muskeg wells were drilled in 2018 compared to 5 wells drilled in the first half of 2017. Production volumes in the current period were also affected by elevated pipeline pressures at west Marlowe and a pipeline shutdown at North Marlowe.

- Subsequent to the reporting date, a minor non-core asset producing 50 boe/d was sold for nominal consideration, decreasing the Company's decommissioning obligations by approximately $2 million.

RESULTS OF OPERATIONS

Production

	Three months ended June 30		Six months ended June 30	
Average daily production volumes	**2018**	2017	**2018**	2017
Oil & NGL (bbl/d)	**1,660**	1,942	**1,680**	1,786
Natural gas (mcf/d)	**2,865**	4,317	**2,883**	4,096
Total (boe/d)	**2,138**	2,661	**2,161**	2,468

Average daily oil & NGL production for the three and six months ended June 30, 2018 decreased by 15% and 6%, respectively from the comparative periods in 2017, due to natural production declines and a smaller drilling program in 2018 relative to the prior year. Natural gas production volumes for the three and six months ended June 30, 2018 decreased 34% and 30%, respectively from the comparative periods in 2017, as the Muskeg wells drilled in the past year have lower gas-oil production ratios than most of the earlier wells drilled at west Marlowe.

Revenue

	Three months ended June 30		Six months ended June 30	
($thousands, except where noted)	**2018**	2017	**2018**	2017
Sales				
Oil & NGL	**10,300**	9,134	**19,816**	17,027
Natural gas	**339**	1,178	**904**	2,173
Oil and natural gas sales	**10,639**	10,312	**20,720**	19,200
Unrealized gain (loss) on risk management contracts	**(69)**	-	**(69)**	-
Realized gain (loss) on risk management contracts	**(44)**	-	**(38)**	-
Finance income	**39**	89	**94**	211
	10,565	10,401	**20,707**	19,411
Average prices				
Oil & NGL, before realized gain (loss) on risk management contracts ($/bbl)	**68.17**	51.69	**65.17**	52.68
Oil & NGL, including realized gain (loss) on risk management contracts ($/bbl)	**67.88**	51.69	**65.04**	52.68
Natural gas ($/mcf)	**1.30**	3.00	**1.73**	2.93
Reference prices				
Oil – WTI ($US/bbl)	**67.88**	48.28	**65.37**	50.10
Edmonton par ($/bbl)	**80.45**	61.92	**76.18**	62.95
Natural gas – AECO Daily Index ($/MMBtu)	**1.18**	2.77	**1.62**	2.73

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 continued through 2018 as a result of reduced inventory levels in North America and continued strong global demand. Strategic's average realized oil price for the second quarter of 2018 increased by 32% from the corresponding period in 2017 due to higher WTI oil prices, partially offset by 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. For the three and six month periods ended June 30, 2018, the Company's average natural gas price decreased by 57% and 41% respectively, from the corresponding periods 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 $10.6 million and $20.7 million for the three and six months ended June 30, 2018 from $10.3 million and $19.2 million for the respective periods in 2017. The increase was due to significant increases in realized oil prices in 2018, which were partially offset by lower production levels and a decline in natural gas prices.

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 June 30, 2018 is as follows:

WTI crude oil contracts

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

Royalties

	Three months ended June 30		Six months ended June 30	
($thousands, except where noted)	**2018**	2017	**2018**	2017
Crown royalties	**1,887**	1,041	**3,302**	2,091
Freehold and overriding royalties	**97**	76	**178**	158
Total royalties	**1,984**	1,117	**3,480**	2,249
Per boe	**10.20**	4.61	**8.90**	5.03
Percentage of oil and natural gas sales	**18.6%**	10.8%	**16.8%**	11.7%

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. Once revenue exceeds the average cost measure, royalty rates for Muskeg wells can range from 5% to 40%, depending on production levels and oil prices.

Royalties increased to $2.0 million and $3.5 million for the three and six months ended June 30, 2018 from $1.1 million and $2.3 million, respectively for the comparative periods in 2017 due to higher commodity prices and production from a high volume Muskeg well coming off the 5% reduced royalty rate. Royalty rates increased to 18.6% and 16.8% for the three and six months ended June 30, 2018 from 10.8% and 11.7%, respectively for the comparative periods in 2017 due to higher commodity prices and fewer wells benefiting from the reduced royalty rate. Royalty expense for the six months ended June 30, 2017 also benefited from oil trucking rebates from the Alberta government, as a portion of the Company's oil production 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 June 30 2018	2017	Six months ended June 30 2018	2017
Operating costs	**4,886**	4,613	**9,982**	8,413
Transportation costs	**111**	228	**237**	522
	4,997	4,841	**10,219**	8,935
Per boe				
Operating	**25.11**	19.05	**25.53**	18.83
Transportation	**0.57**	0.94	**0.61**	1.17
	25.68	19.99	**26.14**	20.00

Operating costs for the three and six months ended June 30, 2018 increased 6% and 19% to $4.9 million and $10.0 million from $4.6 million and $8.4 million, respectively for the comparative periods in 2017. The increase in operating costs in the second quarter was a result of higher insurance, rentals and instrumentation costs. Expenses are higher for the first six months of 2018 due to increased chemicals, well testing, electrical and instrumentation services and snow removal expenditures compared to prior year, as well as spill remediation costs of $0.4 million related to a pipeline spill that occurred in late 2017.

Operating costs per boe for the three and six months ended June 30, 2018 increased by 32% and 36% from the comparative periods in 2017 due to the combination of increased costs and lower production during the second quarter of 2018.

Transportation costs for the three and six months ended June 30, 2018 decreased to $0.1 million and $0.2 million from $0.2 million and $0.5 million for the comparative period in 2017 due to a reduction in trucked oil volumes in 2018. Oil trucking was required in the first six months of 2017 due to a temporary shutdown of a third party sales pipeline. Unit transportation costs for the three and six months ended June 30, 2018 decreased to $0.57/boe and $0.61/boe from $0.94/boe and $1.17/boe, respectively for the comparative periods in 2017.

Netbacks

($/boe)	Three months ended June 30 2018	2017	Six months ended June 30 2018	2017
Revenue	**54.68**	42.58	**52.99**	42.97
Royalties	**(10.20)**	(4.61)	**(8.90)**	(5.03)
Operating costs	**(25.11)**	(19.05)	**(25.53)**	(18.83)
Transportation costs	**(0.57)**	(0.94)	**(0.61)**	(1.17)
Operating netback	**18.80**	17.98	**17.95**	17.94

Strategic's operating netback increased to $18.80/boe and $17.95/boe for the three and six months ended June 30, 2018 from $17.98/boe and $17.94 boe for the comparative periods in 2017 due to higher oil and gas prices and lower unit transportation costs, partially offset by increases in royalties and operating costs per boe.

Strategic's focus area is Marlowe, which is 100% owned and operated by the Company. The Marlowe assets generated a netback of $21.68/boe and $21.33/boe for the three and six months ended June 30, 2018 compared to $20.70/boe and $21.34/boe, respectively for the comparative periods in 2017 as a result of higher revenues, offset by higher operating costs and royalties. 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. Of the Company's total operating costs in the six months of 2018 of $10.0 million, $1.6 million relates to non-Marlowe assets which produced only 56 boe/d for the period (first six months of 2017 - $1.8 million related to non-Marlowe assets which produced 53 boe/d).

G&A expense

	Three months ended June 30		Six months ended June 30	
($thousands, except per boe amounts)	**2018**	2017	**2018**	2017
Gross general and administrative expense	**1,709**	1,646	**3,083**	3,247
Overhead recoveries	**(65)**	(65)	**(133)**	(135)
Capitalized G&A	**(245)**	(255)	**(502)**	(507)
Net G&A expenses	**1,399**	1,326	**2,448**	2,605
Per boe	**7.19**	5.48	**6.26**	5.83

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 expenses for the second quarter of 2018 were comparable to the second quarter in 2017, as lower salaries and software expenses in 2018 were offset by $0.4 million in severance costs incurred during the quarter. G&A expense for the first six months in 2018 decreased to $2.4 million compared to $2.6 million in the second quarter of 2017 as lower salaries and software charges in the current period were partially offset by severance costs. In addition, the prior period included a charge of $0.1 million related to an uncollectible joint venture receivable. On a units-of-production basis, G&A expenses increased to $7.19/boe and $6.26/boe for the three and six months ended June 30, 2018 compared to $5.48/boe and $5.83/boe, respectively for the same periods in 2017 due to lower production levels.

Finance expense

	Three months ended June 30		Six months ended June 30	
($thousands)	**2018**	2017	**2018**	2017
Interest expense	**11**	15	**22**	36
Interest expense on convertible debentures – paid in kind ("PIK")	**-**	1,928	**1,345**	3,826
Interest expense on convertible debentures – non-PIK	**2,196**	112	**3,006**	212
Accretion of decommissioning liabilities	**370**	305	**747**	611
Accretion on debentures	**819**	684	**1,566**	1,368
Total	**3,396**	3,044	**6,686**	6,053

Finance expense increased to $3.4 million and $6.7 million for the second quarter and first half of 2018 from $3.0 million and $6.1 million for the comparative periods in 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 cost estimates for facility decomissioning increased over the past year.

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 1.9 million stock options in the first six months of 2018 compared to 1.5 million stock options issued in the comparative period in 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. Despite the higher number of options issued, stock-based compensation expense decreased to $0.5 million and $0.9 million for the three and six months ended June 30, 2018 compared to $1.2 million and $1.2 million, respectively for the comparative periods in 2017, due to the fair value of options being lower in 2018 resulting from the lower trading price of the Company's common shares.

Depletion, depreciation & amortization

	Three months ended June 30		Six months ended June 30	
($thousands, except per boe amounts)	**2018**	2017	**2018**	2017
Depreciation, depletion and amortization ("DD&A")	**4,023**	4,590	**8,074**	8,551
Per boe	**20.68**	18.95	**20.65**	19.14

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 decreased to $4.0 million and $8.1 million for the three and six months ended June 30, 2018 from $4.6 million and $8.6 million for the 2017 comparative period as a result of lower production levels. The DD&A rate per boe was higher in 2018 due to the reduction in reserves compared to 2017.

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. For the three and six months ended June 30, 2018, Strategic recorded a $0.1 million deferred tax liability related to the equity portion of convertible debentures issued during the first quarter (three and six months ended June 30, 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).

Funds from operations and net loss

	Three months ended June 30		Six months ended June 30	
($thousands, except per share amounts)	**2018**	2017	**2018**	2017
Funds from operations	**47**	2,991	**1,601**	5,374
Per share – basic [1]	**0.00**	0.06	**0.03**	0.12
Per share – diluted [1]	**0.00**	0.03	**0.03**	0.06
Cash flow provided by operating activities	**972**	1,828	**1,742**	1,879
Per share – basic [1]	**0.02**	0.04	**0.04**	0.04
Per share – diluted [1]	**0.02**	0.02	**0.04**	0.02
Net loss for the period	**(6,399)**	(7,020)	**(11,562)**	(11,460)
Per share – basic & diluted [1]	**(0.14)**	(0.15)	**(0.25)**	(0.25)

[1] Adjusted for the share consolidation on a twenty to one basis.

Funds from operations decreased to $0.05 million and $1.6 million for the three and six month periods ended June 30, 2018 from $3.0 million and $5.4 million for the same periods in 2017, as higher revenues were more than offset by increases in operating costs and royalties, as well as $2.2 million in cash interest expense on convertible debentures.

Cash flow provided by operating activities decreased to $1.0 million and $1.7 million for the three and six months ended June 30, 2018 from $1.8 million and $1.9 million for the respective 2017 periods due to lower funds from operations.

Net loss decreased to $6.4 million for the three months ended June 30, 2018 from $7.0 million for the same period in 2017 due to lower DD&A charges and revaluation on decommissioning liabilities in the current period. Net loss for the first six months of 2018 is comparable to the first six months of 2017 at $11.5 million.

Capital expenditures

	Three months ended June 30		Six months ended June 30	
($thousands)	**2018**	2017	**2018**	2017
Drilling, completions and equipping	**830**	12,442	**9,431**	28,372
Pipelines and facilities	**110**	301	**670**	2,408
	940	12,743	**10,101**	30,780
Dispositions	**-**	-	**(127)**	-
Total property, plant and equipment	**940**	12,743	**9,974**	30,780
Total exploration and evaluations (“E&E”)	**-**	41	**-**	71
Net capital expenditures	**940**	12,784	**9,974**	30,851

Capital expenditures for the quarter ended June 30, 2018 decreased to $0.9 million compared to $12.8 million for the second quarter of 2017. Current period expenditures included minor facilities projects and completion costs related to the two well Muskeg development drilling program initiated in the first quarter of 2018. The comparative period capital expenditures related to completion work done on the execution of the 2017 five well winter Muskeg horizontal drilling program at Marlowe.

Capital expenditures decreased to $10.0 million for the six months ended June 30, 2018 from $30.9 million for the comparative period in 2017, due to the lower level of drilling activity in 2018. Prior period capital expenditures also included pipeline construction to tie in the 14-35 well drilled in the first quarter of 2016 and several recompletions and equipping projects.

Decommissioning liabilities

Decommissioning liabilities increased to $62.7 million at June 30, 2018 from $62.5 million at December 31, 2017 due to decommissioning expenditures incurred during the period of $2.7 million, partially offset by additional liabilities incurred on new wells drilled and a revaluation of decommissioning liabilities reated to fluctations in discount rates. The current portion of the decommissioning liabilities at June 30, 2018 increased to $7.0 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.

During the second quarter of 2018, the Company recorded a revaluation on decommissioning liabilities of $0.7 million, related to fluctuations in discount rates. This is a non-cash loss that does not affect Strategic’s funds from operations or working capital.

SUMMARY OF QUARTERLY FINANCIAL DATA

The following table summarizes quarterly financial results:

Quarter ended ($thousands, except where noted)	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sept 30, 2017
Petroleum and natural gas sales	**10,639**	10,081	10,396	8,271
Net loss	**(6,399)**	(5,163)	(41,264)	(36,779)
Net loss per share – basic & diluted [(1)]	**(0.14)**	(0.11)	(0.89)	(0.79)
Average daily production (boed)	**2,138**	2,183	2,424	2,384
Average price ($/boe)	**54.68**	51.30	46.61	46.63

Quarter ended ($thousands, except where noted)	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sept 30, 2016
Petroleum and natural gas sales	10,312	8,888	7,721	5,478
Net (loss) income	(7,020)	(4,440)	48,510	(5,985)
Net (loss) income per share – basic [(1)]	(0.15)	(0.10)	1.69	(0.22)
Net (loss) income per share – diluted [(1)]	(0.15)	(0.10)	0.62	(0.22)
Average daily production (boed)	2,661	2,273	1,859	1,577
Average price ($/boe)	42.58	43.44	45.13	44.23

(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 quarters of 2017 as production volumes were over 2,400 boe/d for those periods, and also in the first two quarters of 2018 due to an average realized oil price of $65.17/bbl. Sales were lowest in the third quarter of 2016 due to low production levels and oil prices.

Net income (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 highest 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 approximately $9 million in cash interest payments per year on its outstanding convertible debentures, further straining the Company's financial position.

At June 30, 2018, the Company had $2.8 million in cash and a working capital deficiency of $2.0 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)	**June 30, 2018**	December 31, 2017
Current assets	**11,179**	21,830
Current liabilities	**(13,170)**	(11,579)
Working capital (deficiency)	**(1,991)**	10,251
Convertible debentures [(1)]	**(110,055)**	(106,052)
Net debt	**(112,046)**	(95,801)

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

Working capital deficiency was $2.0 million at June 30, 2018 compared to working capital of $10.3 million at December 31, 2017 due to capital expenditures exceeding funds from operations for the first six 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 June 30, 2018 is a deficiency of $6.5 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**	**$**	**10,247**	**$**	**104,570**
Additional debentures issued as payment in kind of interest		3,721		335		4,056
Issuance costs		(19)		(1)		(20)
Deferred tax recovery		-		(90)		(90)
Debentures converted		(49)		(5)		(54)
Accretion expense		1,566		-		1,566
Balance at June 30, 2018	$	**99,542**	**$**	**10,486**	**$**	**110,028**

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 outstanding and the related conversion prices:

Issue Date	Principal Amount ($000)	Conversion Price ($/share)
February 29, 2016	94,799	1.80
August 31, 2016	3,616	3.30
February 28, 2017	3,723	2.70
August 31, 2017	3,862	2.03
February 28, 2018	4,055	1.08

SHARE CAPITAL

	Three months ended June 30		Six months ended June 30	
	2018	2017	**2018**	2017
Weighted average common shares outstanding (thousands)				
Basic & Diluted	**46,405**	46,384	**46,401**	45,969

	June 30, 2018	December 31, 2017
Outstanding securities (thousands)		
Common shares	**46,421**	46,391
Stock options	**3,934**	2,309

On February 21, 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. On May 22, 2018, 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 August 15, 2018 there were 46,420,960 common shares outstanding and 4,192,916 stock options outstanding. If all of the outstanding Debentures were converted into common shares, an additional 60,797,850 common shares would be issued.

TRANSACTIONS WITH RELATED PARTIES

For the three and six month periods ended June 30, 2018, legal fees in the amount of $0.1 million and $0.1 million (June 30, 2017 - $0.1 million and $0.1 million), respectively were incurred with a legal firm of which a director is a partner, and these amounts are included as general and administrative expenses or share issue costs. Accounts payable and accrued liabilities at June 30, 2018 include $0.1 million (December 31, 2017 - $nil) due to related parties. Accrued interest on convertible debentures at June 30, 2018 include $1.9 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.

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	$ 226	$ 218
2019	409	397
2020	38	380
2021	-	336
2022	-	313
2023 and thereafter	-	82
	$ 673	$ 1,726

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 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 June 30, 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.

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 in the process of reviewing and analyzing contracts that fall into the scope of the new standard. The extent of the impact of the adoption of the standard has not yet been determined.

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 and six months ended June 30, 2018 and 2017

Strategic Oil & Gas Ltd.

Interim condensed consolidated balance sheets (unaudited)

($000) As at	Note	**June 30, 2018**	December 31, 2017
Assets			
Current Assets:			
Cash and cash equivalents		**$ 2,823**	$ 13,138
Term deposits	4	**4,472**	4,522
Trade and other receivables		**3,744**	4,011
Inventory		**140**	159
		11,179	21,830
Property, plant, and equipment, net	6	**158,888**	155,108
Exploration and evaluation assets	5	**9,425**	9,651
Total Assets		**$ 179,492**	$ 186,589
Liabilities			
Current Liabilities:			
Accounts payable and accrued liabilities		**$ 3,204**	$ 5,553
Accrued interest on convertible debentures		**2,944**	2,836
Decommissioning liabilities	7	**6,953**	3,190
Risk management contracts	16	**69**	-
		13,170	11,579
Convertible debentures	8	**99,542**	94,323
Decommissioning liabilities	7	**55,764**	59,303
Total Liabilities		**168,476**	165,205
Shareholders' Equity			
Share capital	9	**365,520**	365,466
Equity component of convertible debentures	8	**10,486**	10,247
Contributed surplus		**13,953**	13,052
Deficit		**(378,943)**	(367,381)
		11,016	21,384
Total Liabilities and Shareholders' Equity		**$ 179,492**	$ 186,589

See accompanying notes to the financial statements

Strategic Oil & Gas Ltd.

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

		Three months ended June 30		Six months ended June 30	
($000, except per share amounts)	Note	**2018**	2017	**2018**	2017
Revenue					
Petroleum and natural gas sales	11	**$ 10,639**	$ 10,312	**$ 20,720**	$ 19,200
Royalties		**(1,984)**	(1,117)	**(3,480)**	(2,249)
Revenue, net of royalties		**8,655**	9,195	**17,240**	16,951
Unrealized loss on risk management contracts	16	**(69)**	-	**(69)**	-
Realized loss on risk management contracts	16	**(44)**	-	**(38)**	-
Finance income		**39**	89	**94**	211
		8,581	9,284	**17,227**	17,162
Expenses					
Operating		**4,886**	4,613	**9,982**	8,413
Transportation		**111**	228	**237**	522
General and administrative		**1,399**	1,326	**2,448**	2,605
Finance costs	12	**3,396**	3,044	**6,686**	6,053
Stock-based compensation	10	**483**	1,178	**901**	1,221
Depletion, depreciation and amortization		**4,023**	4,590	**8,074**	8,551
Revaluation on decommissioning liabilities	7	**682**	1,325	**682**	1,325
Gain on disposal of property, plant and equipment		**-**	-	**(131)**	-
		14,980	16,304	**28,879**	28,690
Operating loss before taxes		**(6,399)**	(7,020)	**(11,652)**	(11,528)
Deferred tax recovery	13	**-**	-	**90**	68
Net loss and comprehensive loss		**$ (6,399)**	$ (7,020)	**$ (11,562)**	$ (11,460)
Net loss per weighted average share					
Basic & Diluted	9 (c)	**$ (0.14)**	$ (0.15)	**$ (0.25)**	$ (0.25)

See accompanying notes to the 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	54	-	-	-	54
Equity component of convertible debentures	-	239	-	-	239
Stock based compensation	-	-	901	-	901
Net loss	-	-	-	(11,562)	(11,562)
Balance June 30, 2018	**$ 365,520**	**$ 10,486**	**$ 13,953**	**$ (378,943)**	**$ 11,016**

($000)	Share Capital	Convertible Debenture Equity Component	Contributed Surplus	Deficit	Total Equity
Balance January 1, 2017	**$ 360,073**	**$ 9,878**	**$ 11,063**	**$ (277,879)**	**$ 103,135**
Shares issued	5,750	-	-	-	5,750
Share issue costs	(411)	-	-	-	(411)
Stock options exercised	47	-	(18)	-	29
Stock based compensation	-	-	1,221	-	1,221
Equity component of convertible debentures	-	183	-	-	183
Net loss	-	-	-	(11,460)	(11,460)
Balance June 30, 2017	**$ 365,459**	**$ 10,061**	**$ 12,266**	**$ (289,339)**	**$ 98,447**

See accompanying notes to the financial statements.

Strategic Oil & Gas Ltd.

Interim condensed consolidated statements of cash flow (unaudited)

		Three months ended June 30		Six months ended June 30	
($000)	**Note**	**2018**	2017	**2018**	2017
Operating activities:					
Net loss for the period		**$ (6,399)**	$ (7,020)	**$ (11,562)**	$ (11,460)
Non-cash items:					
Depletion, depreciation, and amortization		**4,023**	4,590	**8,074**	8,551
Stock-based compensation		**483**	1,178	**901**	1,221
Unrealized loss on risk management contracts		**69**	-	**69**	-
Revaluation on decommissioning liabilities		**682**	1,325	**682**	1,325
Deferred tax recovery	13	**-**	-	**(90)**	(68)
Gain on disposal of property, plant and equipment		**-**	-	**(131)**	-
Non-cash finance costs	12	**1,189**	2,918	**3,658**	5,805
Expenditures on decommissioning liabilities		**(199)**	(458)	**(2,713)**	(2,126)
Change in non-cash working capital	14	**1,124**	(705)	**2,854**	(1,369)
Cash provided by operating activities		**972**	1,828	**1,742**	1,879
Financing activities:					
Issue of common shares, net of share issuance costs		**-**	-	**-**	5,339
Issue of debentures, net of transaction costs		**-**	-	**(20)**	(19)
Exercise of stock options		**-**	29	**-**	29
Change in non-cash working capital	14	**-**	110	**-**	17
Cash provided by (used in) financing activities		**-**	139	**(20)**	5,366
Investing activities:					
Expenditures – property, plant and equipment		**(940)**	(12,743)	**(10,101)**	(30,780)
Expenditures – exploration and evaluation assets		**-**	(41)	**-**	(71)
Redemption of (investment in) term deposits		**-**	780	**50**	(94)
Proceeds on disposal of property, plant and equipment		**-**	-	**127**	-
Changes in non-cash working capital	14	**(5,374)**	(2,595)	**(2,113)**	2,633
Cash used in investing activities		**(6,314)**	(14,599)	**(12,037)**	(28,312)
Decrease in cash and cash equivalents during the period		**(5,342)**	(12,632)	**(10,315)**	(21,067)
Cash and cash equivalents, beginning of the period		**8,165**	42,367	**13,138**	50,802
Cash and cash equivalents, end of the period		**$ 2,823**	$ 29,735	**$ 2,823**	$ 29,735

See accompanying notes to the financial statements.

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

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 (the “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 three and six months ended June 30, 2018, the Company reported positive cash flow from operating activities of $1.0 million and $1.7 million, a net loss of $6.4 million and $11.6 million, and an accumulated deficit of $378.9 million. Sustained low commodity prices in recent years have put pressure on the Company’s cash flows.

At June 30, 2018, the Company had $2.8 million in cash and a working capital deficiency of $2.0 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 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 financial statements were authorized for issue by the Board of Directors on August 15, 2018.

c) Basis of measurement
These financial statements are prepared using the same accounting policies and methods of computation as disclosed in the Company's annual consolidated financial statements for the year ended December 31, 2017 other than the new significant accounting policies listed below. 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.

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.

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 adoption of IFRS 9 did not result in any adjustments to the amounts recognized in the Company's financial statements for the quarter ended June 30, 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.

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 in the process of reviewing and analyzing contracts that fall into the scope of the new standard. The extent of the impact of the adoption of the standard has not yet been determined.

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. Exploration and evaluation (“E&E”) assets

($000)	**June 30, 2018**	December 31, 2017
Opening balance	**$ 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	**(226)**	(586)
Closing balance	**$ 9,425**	$ 9,651

6. Property, plant, and equipment (“PPE”)

($000) **Carrying value before accumulated depletion, depreciation and impairment**	**D&P assets**	**Office**	**Total**
As at December 31, 2017	$ 528,716	$ 1,178	$ 529,894
Additions	10,098	3	10,101
Dispositions	(3,745)	-	(3,745)
Change in decommissioning costs	1,530	-	1,530
As at June 30, 2018	**$ 536,599**	**$ 1,181**	**$ 537,780**

($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	7,843	5	7,848
Dispositions	(3,727)	-	(3,727)
Depreciation and depletion capitalized to inventory	(15)	-	(15)
As at June 30, 2018	**$ 377,718**	**$ 1,174**	**$ 378,892**

($000) Net carrying value	D&P assets	Office	Total
As at December 31, 2017	$ 155,099	$ 9	$ 155,108
As at June 30, 2018	**$ 158,881**	**$ 7**	**$ 158,888**

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. 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 and six month periods ended June 30, 2018, $0.2 million and $0.5 million, respectively of general and administrative expenses related to technical office staff that are directly involved in the Company's capital spending programs were capitalized to PPE ($0.3million and $0.5 million for the comparative periods in 2017).

Future capital costs of $149.3 million (June 30, 2017 - $149.3 million) have been included in the depletable balance as at June 30, 2018. Major components costs – such as facilities and pipelines, which are depreciated separately, are $59.3 million (June 30, 2017 - $57.5 million) with a net carrying value of $44.3 million (June 30, 2017 - $46.1 million).

7. Decommissioning liabilities

Total future decommissioning liabilities are estimated based on the Company's net working interest in all wells and facilities, the estimated costs to abandon and reclaim the wells, pipelines and facilities and the estimated timing of the costs to be incurred in future periods. These costs are expected to be incurred over a range up to 34 years, depending on the estimated reserve life. The undiscounted amount of the estimated costs at June 30, 2018 were $108.3 million (December 31, 2017 - $101.5 million). The estimated costs have been discounted at a risk free rate from 1.77% to 2.16% (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:

($000)	Six months ended June 30, 2018	Year ended December 31, 2017
Balance beginning of the period	**$ 62,493**	$ 52,651
Liabilities incurred during the period	**221**	925
Disposition of decommissioning liabilities	**(22)**	-
Expenditures on decommissioning liabilities	**(2,713)**	(2,333)
Revaluation on decommissioning liabilities	**682**	7,190
Change in estimated future cash flows	**1,027**	170
Change in discount rate	**282**	2,598
Accretion	**747**	1,292
Balance end of the period	**$ 62,717**	$ 62,493
Current	**6,953**	3,190
Long term	**$ 55,764**	$ 59,303

8. Convertible Debentures

The Company has senior secured convertible debentures ("Debentures") outstanding. The Debentures mature on February 28, 2021 and bear an annual interest rate of 8.0%, payable semi-annually in arrears, with an option for the Company to pay the interest in an equivalent principal amount of debentures for the first two years. The Debentures are convertible into common shares at various conversion prices, subject to adjustment in certain events. The Debentures can be called prior to the maturity date by the Company if either a) the 90-day weighted average trading price of Strategic common shares is over four times the conversion price, or b) anytime in the fifth year of the term. The convertible debentures have been classified as a financial liability, net of issue costs and net of the equity component.

On February 28, 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 13)	-	(90)	(90)
Debentures converted	(49)	(5)	(54)
Accretion expense	1,566	-	1,566
Balance at June 30, 2018	$ **99,542**	$ **10,486**	$ **110,028**

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	94,799	1.80
August 31, 2016	3,616	3.30
February 28, 2017	3,723	2.70
August 31, 2017	3,862	2.03
February 28, 2018	4,055	1.08

9. Share capital

a) Authorized

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

b) Issued and outstanding

($000)	Number of shares (000)	Six months ended June 30, 2018
Balance at December 31, 2017	46,391	$ 365,466
Debentures converted	30	54
Balance at June 30, 2018	46,421	$ 365,520

c) Weighted average shares

	Three months ended June 30		Six months ended June 30	
(000)	**2018**	2017	**2018**	2017
Weighted average shares (basic & diluted)	**46,405**	46,384	**46,401**	45,969

For the three and six months ended June 30, 2018, outstanding stock options and convertible debentures were excluded from the dilution calculations as they were anti-dilutive.

10. Stock-based compensation

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

	Number of options	Weighted average Exercise Price
Balance at December 31, 2017	**2,308,816**	$ 3.50
Granted	1,928,000	1.07
Forfeited	(272,750)	3.15
Expired	(30,000)	24.64
Balance at June 30, 2018	**3,934,066**	$ 2.17

The following table sets out the outstanding and exercisable options as at June 30, 2018:

Outstanding Options			Exercisable Options	
Number of Options	Weighted Average Exercise Price	Weighted Average Life Years	Number of Options	Weighted Average Exercise Price
1,928,000	$ 1.07	4.77	642,679	$ 1.07
1,764,066	2.44	3.15	1,382,405	2.38
229,500	8.39	1.18	229,500	8.39
2,250	9.69	0.88	2,250	9.69
1,000	19.40	0.31	1,000	19.40
500	21.20	0.10	500	21.20
8,750	22.60	0.02	8,750	22.60
3,934,066	$ 2.17	3.82	2,267,084	$ 2.71

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:

	Six months ended June 30	
Assumptions	**2018**	2017
Risk free interest rate (%)	**1.41**	1.01
Expected life (years)	**3.32**	3.41
Expected volatility (%)	**110.59**	100.29
Forfeiture rate (%)	**11.18**	9.56
Weighted average fair value of options granted	**0.80**	1.74

11. 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:

	Three months ended June 30		Six months ended June 30	
($000)	**2018**	2017	**2018**	2017
Petroleum	**$ 10,300**	$ 9,134	**$ 19,816**	$ 17,027
Natural gas	**339**	1,178	**904**	2,173
Petroleum and natural gas sales	**$ 10,639**	$ 10,312	**$ 20,720**	$ 19,200

At June 30, 2018, receivables from contracts with customers, which are included in trade and other receivables, were $2.7 million (June 30, 2017 - $3.1 million).

12. Finance costs

	Three months ended June 30		Six months ended June 30	
($000)	**2018**	2017	**2018**	2017
Interest	**$ 11**	$ 15	**$ 22**	$ 36
Interest expense on convertible debentures – paid in kind (“PIK”)	**-**	1,928	**1,345**	3,826
Interest expense on convertible debentures – non-PIK	**2,196**	111	**3,006**	212
Accretion of decommissioning liabilities	**370**	306	**747**	611
Accretion on debentures	**819**	684	**1,566**	1,368
Total finance costs	**$ 3,396**	$ 3,044	**$ 6,686**	$ 6,053

13. Deferred taxes

For the six months ended June 30, 2018, the Company recorded a deferred tax liability of $0.1 million (six months ended June 30, 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 (June 30, 2017 - $0.1 million) of previously unrecognized deferred tax assets and a corresponding deferred tax recovery.

14. Supplemental cash flow information

	Three months ended June 30		Six months ended June 30	
($000)	**2018**	2017	**2018**	2017
Interest paid	**$ 11**	15	**$ 22**	$ 35
Changes in non-cash working capital				
Trade and other receivables	**748**	4	**267**	(578)
Inventory	**26**	(119)	**19**	(117)
Accumulated depletion in inventory	**(3)**	58	**(15)**	59
Accounts payable and accrued liabilities	**(7,217)**	(3,243)	**(2,349)**	1,920
Accrued interest on convertible debentures	**2,196**	-	**108**	-
Interest paid in kind	**-**	-	**(1,345)**	-
Withholding tax on debenture interest	**-**	110	**-**	(3)
Debentures issued as paid in kind interest (Note 8)	**-**	-	**4,056**	-
	$ (4,250)	3,190	**$ 741**	$ 1,281
Operating	**1,124**	(705)	**2,854**	(1,369)
Financing	**-**	110	**-**	17
Investing	**(5,374)**	(2,595)	**(2,113)**	2,633
	$ (4,250)	(3,190)	**$ 741**	$ 1,281

15. Transactions with related parties

For the three and six month periods ended June 30, 2018, legal fees in the amount of $0.1 million and $0.1 million (June 30, 2017 - $0.1 million and $0.1 million), respectively were incurred with a legal firm of which a director is a partner, and these amounts are included as general and administrative expenses or share issue costs. Accounts payable and accrued liabilities at June 30, 2018 include $0.1 million (December 31, 2017 - $nil) due to related parties. Accrued interest on convertible debentures at June 30, 2018 include $1.9 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.

16. 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.

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 June 30, 2018, the following risk management contracts were outstanding with a mark-to-market liability value of $0.1 million (June 30, 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 June 30, 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 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 June 30, 2018 and December 31, 2017, the Company had no contracts in place to mitigate foreign exchange risk. As at June 30, 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 June 30, 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 89% of the trade receivables at June 30, 2018 (December 31, 2017 – 84%) and 93% of revenues (June 30, 2017 – 74%).

The total accounts receivable 90 days past due amounted to $0.3 million at June 30, 2018 (December 31, 2017 - $0.1 million). The allowance for doubtful accounts at June 30, 2018 was $0.2 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

17. 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.

18. 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	$	226	$	218
2019		409		397
2020		38		380
2021		-		336
2022		-		313
2023 and thereafter		-		82
	$	673	$	1,726

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.

19. Subsequent event

Subsequent to the period ended June 30, 2018, the Company disposed of certain assets and associated decommissioning liabilities at a nominal amount and anticipates recognizing a gain on disposition of approximately $2 million prior to closing adjustments.