Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2018 and 2017

Strategic Oil & Gas Ltd.

Interim condensed consolidated balance sheets (unaudited)

($000) As at	Note	**September 30, 2018**	December 31, 2017
Assets			
Current Assets:			
Cash and cash equivalents		**$ 3,542**	$ 13,138
Term deposits	4	**4,472**	4,522
Trade and other receivables		**2,930**	4,011
Inventory		**132**	159
		11,076	21,830
Property, plant, and equipment, net	6	**136,818**	155,108
Exploration and evaluation assets	5	**9,316**	9,651
Total Assets		**$ 157,210**	$ 186,589
Liabilities			
Current Liabilities:			
Accounts payable and accrued liabilities		**$ 4,558**	$ 5,553
Accrued interest on convertible debentures		**724**	2,836
Decommissioning liabilities	7	**6,953**	3,190
		12,235	11,579
Convertible debentures	8	**104,182**	94,323
Decommissioning liabilities	7	**50,856**	59,303
Total Liabilities		**167,273**	165,205
Shareholders' Equity			
Share capital	9	**365,520**	365,466
Equity component of convertible debentures	8	**10,681**	10,247
Contributed surplus		**14,162**	13,052
Deficit		**(400,426)**	(367,381)
		(10,063)	21,384
Total Liabilities and Shareholders' Equity		**$ 157,210**	$ 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 September 30		Nine months ended September 30	
($000, except per share amounts)	Note	**2018**	2017	**2018**	2017
Revenue					
Petroleum and natural gas sales	11	**$ 8,605**	$ 8,271	**$ 29,325**	$ 27,471
Royalties		**(1,727)**	(865)	**(5,207)**	(3,114)
Revenue, net of royalties		**6,878**	7,406	**24,118**	24,357
Unrealized gain on risk management contracts	16	**69**	-	**-**	-
Realized loss on risk management contracts	16	**(41)**	-	**(79)**	-
Finance income		**22**	83	**116**	294
		6,928	7,489	**24,155**	24,651
Expenses					
Operating		**3,603**	5,626	**13,586**	14,039
Transportation		**115**	309	**352**	831
General and administrative		**1,746**	1,741	**4,194**	4,346
Finance costs	12	**3,468**	3,133	**10,154**	9,185
Stock-based compensation	10	**209**	457	**1,110**	1,678
Depletion, depreciation and amortization		**3,506**	4,462	**11,580**	13,013
Impairment	6	**19,000**	30,400	**19,000**	30,400
Revaluation on decommissioning liabilities	7	**(1,117)**	(1,791)	**(435)**	(466)
Gain on disposal of property, plant and equipment	6	**(2,047)**	-	**(2,178)**	-
		28,483	44,337	**57,363**	73,026
Operating loss before taxes		**(21,555)**	(36,848)	**(33,208)**	(48,375)
Deferred tax recovery	13	**73**	69	**163**	138
Net loss and comprehensive loss		**$ (21,482)**	$ (36,779)	**$ (33,045)**	$ (48,237)
Net loss per weighted average share					
Basic & Diluted	9 (c)	**$ (0.46)**	$ (0.79)	**$ (0.71)**	$ (1.05)

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	-	434	-	-	434
Stock based compensation	-	-	1,110	-	1,110
Net loss	-	-	-	(33,045)	(33,045)
Balance September 30, 2018	**$ 365,520**	**$ 10,681**	**$ 14,162**	**$ (400,426)**	**$ (10,063)**

($000)	Share Capital	Convertible Debenture Equity Component	Contributed Surplus	Deficit	Total Equity
Balance January 1, 2017	**$ 360,073**	**$ 9,878**	**$ 11,063**	**$ (277,879)**	**$ 103,135**
Shares issued	5,750	-	-	-	5,750
Share issue costs	(411)	-	-	-	(411)
Stock options exercised	49	-	(17)	-	32
Debentures converted	5	-	-	-	5
Stock based compensation	-	-	1,678	-	1,678
Equity component of convertible debentures	-	369	-	-	369
Net loss	-	-	-	(48,237)	(48,237)
Balance September 30, 2017	**$ 365,466**	**$ 10,247**	**$ 12,724**	**$ (326,116)**	**$ 62,321**

See accompanying notes to the financial statements.

Strategic Oil & Gas Ltd.

Interim condensed consolidated statements of cash flow (unaudited)

		Three months ended September 30		Nine months ended September 30	
($000)	**Note**	**2018**	2017	**2018**	2017
Operating activities:					
Net loss for the period		**$ (21,482)**	$ (36,779)	**$ (33,045)**	$ (48,237)
Non-cash items:					
Depletion, depreciation, and amortization		**3,506**	4,462	**11,580**	13,013
Stock-based compensation		**209**	457	**1,110**	1,678
Unrealized gain on risk management contracts		**(69)**	-	**-**	-
Impairment	6	**19,000**	30,400	**19,000**	30,400
Revaluation on decommissioning liabilities		**(1,117)**	(1,791)	**(435)**	(466)
Deferred tax recovery	13	**(73)**	(69)	**(163)**	(138)
Gain on disposal of property, plant and equipment		**(2,047)**	-	**(2,178)**	-
Non-cash finance costs	12	**1,264**	2,987	**4,925**	8,793
Expenditures on decommissioning liabilities		**33**	(106)	**(2,680)**	(2,232)
Change in non-cash working capital	14	**1,739**	2,588	**4,593**	1,218
Cash provided by operating activities		**963**	2,149	**2,707**	4,029
Financing activities:					
Issue of common shares		**-**	-	**-**	5,750
Issue of debentures, net of transaction costs		**4,053**	(29)	**4,033**	(47)
Share issuance costs		**-**	-	**-**	(411)
Exercise of stock options		**-**	1	**-**	32
Change in non-cash working capital	14	**-**	(109)	**-**	(93)
Cash provided by (used in) financing activities		**4,053**	(137)	**4,033**	5,231
Investing activities:					
Expenditures – property, plant and equipment		**(2,483)**	(13,962)	**(12,584)**	(44,742)
Expenditures – exploration and evaluation assets		**-**	(29)	**-**	(98)
Redemption of (investment in) term deposits		**-**	220	**50**	126
Proceeds on disposal of property, plant and equipment		**(23)**	-	**103**	-
Changes in non-cash working capital	14	**(1,791)**	2,539	**(3,905)**	5,167
Cash used in investing activities		**(4,297)**	(11,232)	**(16,336)**	(39,547)
Decrease in cash and cash equivalents during the period		**719**	(9,220)	**(9,596)**	(30,287)
Cash and cash equivalents, beginning of the period		**2,823**	29,735	**13,138**	50,802
Cash and cash equivalents, end of the period		**$ 3,542**	$ 20,515	**$ 3,542**	$ 20,515

See accompanying notes to the financial statements.

1. Corporate information

Strategic Oil & Gas Ltd. ("Strategic") is a company registered and domiciled in Alberta. Strategic is a publicly traded company whose shares are listed on the TSX Venture Exchange. Strategic, together with its subsidiaries, (collectively referred to as the "Company"), is engaged in the exploration for and development of petroleum and natural gas reserves in Western Canada. 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 nine months ended September 30, 2018, the Company reported positive cash flow from operating activities of $1.0 million and $2.7 million, net losses of $21.5 million and $33.0 million, and an accumulated deficit of $400.4 million. Sustained low commodity prices, high costs and low production volumes in recent years have put pressure on the Company's cash flows.

At September 30, 2018, the Company had $3.5 million in cash and a working capital deficiency of $1.2 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 casts 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 November 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 September 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 Company intends to adopt IFRS 16 in its financial statements for the period beginning on January 1, 2019, using the modified retrospective transition approach. The Company is currently in the process of reviewing and analyzing contracts that fall into the scope of the new standard. The Company expects adjustments for its office equipment, vehicles and certain field equipment, however the full extent of the impact 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

($000)	**September 30, 2018**	December 31, 2017
Opening balance	**$ 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	**(335)**	(586)
Closing balance	**$ 9,316**	$ 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	12,314	270	12,584
Dispositions	(22,127)	-	(22,127)
Change in decommissioning costs	(1,270)	-	(1,270)
As at September 30, 2018	**$ 517,633**	**$ 1,448**	$ **519,081**

($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	11,239	6	11,245
Dispositions	(22,744)	-	(22,744)
Impairment	19,000	-	19,000
Depreciation and depletion capitalized to inventory	(24)	-	(24)
As at September 30, 2018	**$ 381,088**	**$ 1,175**	**$ 382,263**

($000) **Net carrying value**	**D&P assets**	**Office**	**Total**
As at December 31, 2017	$ 155,099	$ 9	$ 155,108
As at September 30, 2018	**$ 136,545**	**$ 273**	**$ 136,818**

On July 30, 2018, the Company sold certain oil and gas assets in northern British Columbia and southern Alberta for a nominal cash consideration resulting in a gain of $2.1 million related to the disposition of decommissioning liabilities.

For the three and nine month periods ended September 30, 2018, $0.3 million and $0.8 million, respectively of general and administrative expenses related to technical office staff that are directly involved in the Company's capital spending programs were capitalized to PPE ($0.2 million and $0.7 million for the comparative periods in 2017).

Future capital costs of $149.3 million (September 30, 2017 - $143.4 million) have been included in the depletable balance as at September 30, 2018. Major components costs – such as facilities and pipelines, which are depreciated separately, are $60.3 million (September 30, 2017 - $59.2 million) with a net carrying value of $44.5 million (September 30, 2017 - $46.9 million).

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

The December 31, 2017 reserve volumes and values were evaluated by the Company's independent reserve evaluators. At September 30, 2018 the decline in the Company's market capitalization compared to December 2017 is an indicator of potential impairment.

The recoverable values of the Company's CGUs were estimated as the fair value less cost to sell based on the net present value of after tax cash flows (discounted at 9.68%) from crude oil and natural gas proved plus probable reserves originally estimated by the Company's third-party reserve evaluators, internally updated for production and drilling activities since December 31, 2017.

In determining impairment, the Company considered various estimates, including future pricing, timing of capital expenditures, and impact of changes in cost structures. Forecast benchmark prices and exchange rates were as follows:

	Natural Gas	**Crude Oil**	
	AECO Gas Price (Cdn$/mcf)	Edmonton Par Price (Cdn$/bbl)	West Texas Intermediate (US$/bbl)
2018	2.00	75.90	70.00
2019	2.15	82.80	70.00
2020	2.45	83.50	70.00
2021	2.90	82.70	70.20
2022	3.10	82.80	71.60
2023	3.25	84.60	73.10
2024	3.35	86.30	74.50
2025	3.40	88.10	76.00
2026	3.45	89.90	77.50
2027	3.50	91.90	79.10
Thereafter	+2.0%/yr	+2.0%/yr	+2.0%/yr

It was determined that the carrying value of the Steen/Marlowe CGU exceeded the recoverable value of $132.4 million and a $19.0 million impairment was recognized (three and nine months ended September 30, 2017 - $30.4 million). The impairment recorded reflects the Company's best estimates based on currently available information. At December 31, 2018, in conjunction with the December reserve report from the independent reserve evaluators, the Company will review the aforementioned estimates to determine any future potential impairment or reversal.

7. Decommissioning liabilities

Total future decommissioning liabilities are estimated based on the Company's net working interest in all wells and facilities, the estimated costs to abandon and reclaim the wells, pipelines and facilities and the estimated timing of the costs to be incurred in future periods. These costs are expected to be incurred over a range up to 34 years, depending on the estimated reserve life. The undiscounted amount of the estimated costs at September 30, 2018 were $106.8 million (December 31, 2017 - $101.5 million). The estimated costs have been discounted at a risk free rate from 2.19% to 2.42% (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:

($000)		**Nine months ended September 30, 2018**		Year ended December 31, 2017
Balance beginning of the period	**$**	**62,493**	$	52,651
Liabilities incurred during the period		**250**		925
Disposition of decommissioning liabilities		**(2,167)**		-
Expenditures on decommissioning liabilities		**(2,680)**		(2,333)
Revaluation on decommissioning liabilities		**(435)**		7,190
Change in estimated future cash flows		**2,319**		170
Change in discount rate		**(3,129)**		2,598
Accretion		**1,158**		1,292
Balance end of the period	**$**	**57,809**	$	62,493
Current		**6,953**		3,190
Long term	**$**	**50,856**	$	59,303

The revaluation on decommissioning liabilities related to CGUs that had been previously impaired to a recoverable value of $nil and was recorded as a revaluation on decommissioning liabilities through the interim condensed consolidated statements of net loss and comprehensive loss.

8. Convertible Debentures

The Company has senior secured convertible debentures ("Debentures") outstanding. The Debentures mature on February 28, 2021 and bear an annual interest rate of 8.0%, payable semi-annually in arrears. For the first two years of interest payments, up to February 28, 2018, the Company had the option to pay the interest in an equivalent principal amount of debentures. 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 11.4%, which is the estimated rate for debt with similar terms without conversion features.

On September 21, 2018, the Company issued $4.1 million private placement of unsecured convertible notes ("New Notes") with an annual interest rate of 8.0%, payable semi-annually in arrears and maturing on the same date as the existing Debentures. The New Notes are convertible into common shares at a conversion price of $0.165 per common share and were issued to entities controlled or jointly controlled by directors of the Company. The carrying amount of the financial liability of these new notes was determined by discounting the stream of future payments of interest and principal, using a rate of 11.4%, which is 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
New Notes issued	3,811	270	4,081
Issuance costs	(46)	(3)	(49)
Deferred tax recovery (Note 13)	-	(163)	(163)
Debentures converted	(49)	(5)	(54)
Accretion expense	2,422	-	2,422
Balance at September 30, 2018	$ 104,182	$ 10,681	$ 114,863

The liability component of all debentures issued is being accreted to the adjusted principal amount of $114.1 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	94,792	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
September 21, 2018	4,081	0.165
	114,129	

9. Share capital

a) Authorized

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

b) Issued and outstanding

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

c) Weighted average shares

	Three months ended September 30		Nine months ended September 30	
(000)	**2018**	2017	**2018**	2017
Weighted average shares (basic & diluted)	**46,421**	46,391	**46,407**	46,111

For the three and nine months ended September 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	2,238,000	1.03
Forfeited	(831,400)	2.69
Expired	(39,250)	24.14
Balance at September 30, 2018	**3,676,166**	$ 1.96

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

Outstanding Options			Exercisable Options	
Number of Options	**Weighted Average Exercise Price**	**Weighted Average Life Years**	**Number of Options**	**Weighted Average Exercise Price**
2,048,500	$ 1.03	4.57	682,845	$ 1.03
1,440,416	2.44	2.82	1,139,754	2.38
185,250	8.39	0.93	185,250	8.39
1,000	8.80	0.84	1,000	8.80
1,000	19.40	0.06	1,000	19.40
3,676,166	$ 1.96	3.70	2,009,849	$ 2.49

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:

	Nine months ended September 30	
Assumptions	**2018**	2017
Risk free interest rate (%)	**1.45**	1.01
Expected life (years)	**3.31**	3.41
Expected volatility (%)	**111.34**	100.29
Forfeiture rate (%)	**16.23**	7.91
Weighted average fair value of options granted	**0.77**	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 September 30		Nine months ended September 30	
($000)	**2018**	2017	**2018**	2017
Petroleum	**$ 8,331**	$ 7,747	**$ 28,146**	$ 24,774
Natural gas	**274**	524	**1,179**	2,697
Petroleum and natural gas sales	**$ 8,605**	$ 8,271	**$ 29,325**	$ 27,471

At September 30, 2018, receivables from contracts with customers, which are included in trade and other receivables, were $1.8 million (September 30, 2017 - $2.1 million).

12. Finance costs

	Three months ended September 30		Nine months ended September 30	
($000)	**2018**	2017	**2018**	2017
Interest	**$ 11**	$ 10	**$ 34**	$ 45
Interest expense on convertible debentures – paid in kind ("PIK")	**-**	1,917	**1,345**	5,743
Interest expense on convertible debentures – non-PIK	**2,193**	135	**5,195**	347
Accretion of decommissioning liabilities	**408**	351	**1,158**	963
Accretion on debentures	**856**	719	**2,422**	2,087
Total finance costs	**$ 3,468**	$ 3,132	**$10,154**	$ 9,185

13. Deferred taxes

For the three and nine months ended September 30, 2018, the Company recorded a deferred tax liability of $0.1 million and $0.2 million (three and nine months ended September 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 and $0.2 million (three and nine months ended September 30, 2017 - $0.1 million) of previously unrecognized deferred tax assets and a corresponding deferred tax recovery.

14. Supplemental cash flow information

($000)	Three months ended September 30 2018	Three months ended September 30 2017	Nine months ended September 30 2018	Nine months ended September 30 2017
Interest paid	**$ 2,204**	$ 145	**$ 5,229**	$ 392
Changes in non-cash working capital				
Trade and other receivables	**814**	670	**1,081**	92
Inventory	**8**	53	**27**	(64)
Accumulated depletion in inventory	**(7)**	(45)	**(24)**	14
Accounts payable and accrued liabilities	**1,353**	4,427	**(995)**	6,340
Accrued interest on convertible debentures	**(2,220)**	-	**(2,112)**	-
Interest paid in kind	**-**	-	**(1,345)**	-
Withholding tax on debenture interest	**-**	(87)	**-**	(90)
Debentures issued as paid in kind interest (Note 8)	**-**	-	**4,056**	-
	$ (52)	$ 5,018	**$ 688**	$ 6,292
Operating	**1,739**	2,588	**4,593**	1,218
Financing	**-**	(109)	**-**	(93)
Investing	**(1,791)**	2,539	**(3,905)**	5,167
	$ (52)	$ 5,018	**$ 688**	$ 6,292

15. Transactions with related parties

For the three and nine month periods ended September 30, 2018, legal fees in the amount of $0.1 million and $0.1 million (September 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 receivables at September 30, 2018 include $0.1 million (December 31, 2017 - $nil) due from 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, 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.

The Company recorded unrealized gains on commodity price risk contracts of $0.1 million and $nil for the three and nine months ended September 30, 2018, and realized losses of $0.1 million for those periods. There were no risk management contracts outstanding at September 30, 2018 or at any time in 2017.

Interest rate risk

The Company is exposed to interest rate risk as changes in interest rates may affect future cash flows. The Company's cash balance and primary debt facility has a floating interest rate that will fluctuate based on prevailing market conditions. Cash flows are sensitive to changes in interest rates on this instrument. As at September 30, 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 September 30, 2018 and December 31, 2017, the Company had no contracts in place to mitigate foreign exchange risk. As at September 30, 2018 the Company held $0.1 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 September 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 76% of the trade receivables at September 30, 2018 (December 31, 2017 – 84%) and 94% of revenues (September 30, 2017 – 79%).

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

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	$	114	$	99
2019		409		397
2020		38		380
2021		-		336
2022		-		313
2023 and thereafter		-		82
	$	561	$	1,607

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 full remediation cost in these financial statements, the ultimate outcome of these matters is uncertain.

19. Subsequent event

On November 5, 2018, Strategic announced that the Company's controlling shareholders (the "GMT Funds") signed a letter of intent to: (i) provide a loan to the Company of up to $30 million and (ii) to settle their existing convertible debentures of the Company by way of a shares for debt settlement agreement (collectively, "the Recapitalization Transactions"). In addition, certain other holders of convertible debentures have also agreed to settle their existing convertible debentures on the same terms as the GMT Funds. Strategic has entered into shares for debt settlement agreements with holders of 96% of the existing convertible debentures. This agreement is subject to the approval of the TSX Venture Exchange.

The loan by the GMT funds and certain other investors into Strategic is expected to take the form of: (i) a first tranche of $15 million in 1.5 year first lien secured notes bearing interest at 12% per annum and payable quarterly; and (ii) a second $15 million tranche of notes on the same terms as the first tranche (the second tranche being callable by the Company on the occurrence of certain events).

In consideration of the Investment, Strategic will issue to the GMT Funds $5 million of common share purchase warrants ("Bonus Warrants") for each tranche of the Investment, at a strike price equal to the 20 day volume weighted average trading price of the Common Shares as of the closing date of the Recapitalization Transactions for a period of 5 years. Strategic will also pay a financing origination fee to the GMT Funds in the amount of 2% of the total funds made available to Strategic. The parties have also agreed to a $3 million break fee if the Recapitalization Transactions are not completed as a result of Strategic sourcing an alternative financing structure prior to closing.

Pursuant to the shares for debt settlement agreements, Strategic has agreed to settle approximately $111 million of the $116 million of outstanding debentures (including current interest and notes issued in satisfaction of interest on a payment in kind basis) in exchange for approximately 1,443,452,300 common shares of the Company at a deemed price of $0.0773 per share. Assuming the conversion of all of the Company's outstanding convertible debentures, it is expected that current shareholders would own approximately 3% of the outstanding common shares of the Company and former debenture holders would own approximately 97% of the post-closing issued and outstanding common shares of Strategic.

It is a condition of the Recapitalization Transactions that the remaining holders of convertible debentures are offered the opportunity to convert their debentures to common shares at the same conversion price and that a minimum of 98% of the principal amounts of the debentures are so converted.