



Management's Discussion and Analysis Three and nine months ended September 30, 2018

November 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 nine months ended September 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 nine months ended September 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

Financial (\$thousands, except per share amounts)	Three months ended September 30			Nine months ended September 30		
	2018	2017	% change	2018	2017	% change
Oil and natural gas sales	8,605	8,271	4	29,325	27,471	7
Funds from (used in) operations ⁽¹⁾	(809)	(333)	143	794	5,043	(84)
Per share basic ⁽¹⁾⁽²⁾	(0.02)	(0.01)	100	0.02	0.11	(82)
Cash provided by operating activities	963	2,149	(55)	2,707	4,029	(33)
Per share basic ⁽²⁾	0.02	0.05	(60)	0.06	0.09	(33)
Net loss	(21,482)	(36,779)	(42)	(33,045)	(48,237)	(31)
Per share basic ⁽²⁾	(0.46)	(0.79)	(42)	(0.71)	(1.05)	(32)
Net capital expenditures	2,506	13,991	(82)	12,481	44,840	(72)
Working capital (deficiency) (comparative figure is as of December 31, 2017)	(1,159)	13,087	-	(1,159)	13,087	-
Net debt (comparative figure is as of December 31, 2017) ⁽¹⁾	115,288	95,801	20	115,288	95,801	20
Operating						
Average daily production						
Crude oil (bbl per day)	1,345	1,806	(26)	1,567	1,793	(13)
Natural gas (mcf per day)	2,364	3,472	(32)	2,709	3,886	(30)
Barrels of oil equivalent (boe per day)	1,739	2,384	(27)	2,019	2,440	(17)
Average prices						
Oil & NGL, before risk management (\$ per bbl)	67.30	46.63	44	65.79	50.62	30
Natural gas (\$ per mcf)	1.26	1.64	(23)	1.59	2.54	(37)
Operating netback (\$ per boe) ⁽¹⁾						
Oil and natural gas sales	53.77	37.70	43	53.22	41.24	29
Royalties	(10.79)	(3.94)	174	(9.45)	(4.67)	102
Operating expenses	(22.53)	(25.65)	(13)	(24.66)	(21.08)	17
Transportation expenses	(0.72)	(1.41)	(49)	(0.64)	(1.25)	(49)
Operating Netback ⁽¹⁾	19.73	6.70	196	18.47	14.24	30
Common Shares ⁽²⁾ (thousands)						
Common shares outstanding, end of period	46,421	46,391	-	46,421	46,391	-
Weighted average common shares (basic & diluted)	46,421	46,391	-	46,407	46,111	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

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 and high costs 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 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 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. See "Potential recapitalization transactions" in this MD&A.

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 (used in) 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 (used in) operations are calculated based on cash flow from operating activities before changes in non-cash working capital and decommissioning expenditures. Funds from (used in) operations as presented is not intended to represent cash flow from operating activities, net earnings, or other measures of financial performance calculated in accordance with IFRS.

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

(\$thousands)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Cash provided by operating activities	963	2,149	2,707	4,029
Expenditures on decommissioning liabilities	(33)	106	2,680	2,232
Changes in non-cash working capital	(1,739)	(2,588)	(4,593)	(1,218)
Funds from (used in) operations	(809)	(333)	794	5,043

“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

On August 29, 2018, the Company announced that a special committee of the board of directors (the “Committee”) has been established to consider potential strategic alternatives available to the Company. The Committee is comprised of substantially all of the independent directors of the Company. In conjunction with the special alternatives process, Strategic received an offer to restructure and provide additional capital to the Company as outlined below.

Potential recapitalization transactions

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.

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 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.

Strategic's new management team is encouraged by the additional investment to be provided by GMT funds and believes the Recapitalization Transactions significantly reduce the Company's leverage and annual interest costs while providing new capital to continue the development of the Muskeg light oil resource.

QUARTERLY SUMMARY

- Capital expenditures of \$2.5 million were incurred in the quarter, including a plant turnaround at the 9-17 processing facility, minor pipeline upgrades and compression testing for the debottleneck project.
- Revenues increased 4% from the third quarter of 2017 to \$8.6 million for the period due to an increase in realized oil prices, which were partially offset by lower production. The average WTI oil price for the quarter was US \$69.50/bbl. Revenues for the nine months ended September 30, 2018 increased by 7% to \$29.3 million compared to \$27.5 million for the comparative period in 2017 due to an increase in realized oil prices.
- Despite higher revenues, funds used in operations increased to \$0.8 million for the quarter from \$0.3 million for the three months ended September 30, 2017. The increase was despite a substantial decrease in operating costs, and was related to cash interest paid on convertible debentures and higher royalty rates in 2018. Interest on the debentures was paid in kind in 2017.
- Average production decreased 27% from the third quarter of 2017 to 1,739 boe/d for the third 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.

RESULTS OF OPERATIONS

Production

Average daily production volumes	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Oil & NGL (bbl/d)	1,345	1,806	1,567	1,793
Natural gas (mcf/d)	2,364	3,472	2,709	3,886
Total (boe/d)	1,739	2,384	2,019	2,440

Average daily oil & NGL production for the three and nine months ended September 30, 2018 decreased by 26% and 13%, 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 nine months ended September 30, 2018 decreased 32% 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

(\$thousands, except where noted)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Sales				
Oil & NGL	8,331	7,747	28,147	24,774
Natural gas	274	524	1,178	2,697
Oil and natural gas sales	8,605	8,271	29,325	27,471
Unrealized gain (loss) on risk management contracts	69	-	-	-
Realized gain (loss) on risk management contracts	(41)	-	(79)	-
Finance income	22	83	116	294
	8,654	8,354	29,362	27,765
Average prices				
Oil & NGL, before realized gain (loss) on risk management contracts (\$/bbl)	67.29	46.63	65.78	50.62
Natural gas (\$/mcf)	1.26	1.64	1.59	2.54
Reference prices				
Oil – WTI (\$US/bbl)	69.50	48.21	66.75	49.47
Edmonton par (\$/bbl)	79.82	56.78	77.38	60.88
Natural gas – AECO Daily Index (\$/MMBtu)	1.18	1.45	1.48	2.30

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. However, the quality differentials began to widen in towards the end of the quarter which depressed the prices received for Strategic’s production. Strategic’s average realized oil price for the third quarter of 2018 increased by 44% 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. Strategic’s 2018 oil price was also negatively affected by a physical delivery contract for 500 bbl/d of oil production with a purchaser, at a fixed WTI price of US\$62.00/bbl, less typical deductions. These fixed-price physical delivery contracts are included in Oil & NGL sales.

Substantially all of the Company’s natural gas is sold at AECO pricing, adjusted for fuel charges. For the three and nine month periods ended September 30, 2018, the Company’s average natural gas price decreased by 23% and 37% 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 \$8.6 million and \$29.3 million for the three and nine months ended September 30, 2018 from \$8.3 million and \$27.5 million for the respective periods in 2017. The increase was due to higher realized oil prices in 2018, 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. At September 30, 2018, Strategic had no risk management contracts outstanding.

Royalties

(\$thousands, except where noted)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Crown royalties	1,631	803	4,932	2,893
Freehold and overriding royalties	96	62	275	221
Total royalties	1,727	865	5,207	3,114
Per boe	10.79	3.94	9.45	4.67
Percentage of oil and natural gas sales	20.1%	10.5%	17.8%	11.3%

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 \$1.7 million and \$5.2 million for the three and nine months ended September 30, 2018 from \$0.9 million and \$3.1 million, respectively for the comparative periods in 2017 due to higher oil prices and production from certain high volume Muskeg wells coming off the 5% reduced royalty rate. Royalty expense for the three and nine months ended September 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. Royalty rates increased to 20.1% and 17.8% for the three and nine months ended September 30, 2018 from 10.5% and 11.3%, respectively for the comparative periods in 2017.

Operating and transportation costs

(\$thousands, except per boe amounts)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Operating costs	3,603	5,626	13,586	14,039
Transportation costs	115	309	352	831
	3,718	5,935	13,938	14,870
Per boe				
Operating	22.53	25.65	24.66	21.08
Transportation	0.72	1.41	0.64	1.25
	23.25	27.06	25.30	22.33

Operating costs for the three and nine months ended September 30, 2018 decreased 36% and 3% to \$3.6 million and \$13.6 million from \$5.6 million and \$14.0 million, respectively for the comparative periods in 2017. The decrease in operating costs in the third quarter was primarily a result of lower plant turnaround expenses (\$0.2

million), workovers (\$0.2 million) and lease rentals (\$0.1 million). In addition, 2017 costs were affected by \$1.2 million in remediation expenses related to a pipeline spill. The decrease in year-to-date operating costs was also due to lower spill remediation expenses in 2018.

Third quarter 2018 per unit costs decreased 13% relative to third quarter 2017 due to a \$2.0 million reduction in spend which was partially offset by lower production volumes for the period. The increase of 17% in per unit costs for the first nine months of 2018 was primarily due to lower production volumes compared to the first nine months of 2017.

Transportation costs for the three and nine months ended September 30, 2018 decreased to \$0.1 million and \$0.4 million from \$0.3 million and \$0.8 million for the comparative period in 2017 due to a reduction in trucked oil volumes in 2018. Oil trucking was required in the first nine months of 2017 due to a temporary shutdown of a third party sales pipeline. Unit transportation costs for the three and nine months ended September 30, 2018 decreased to \$0.72/boe and \$0.64/boe from \$1.41/boe and \$1.25/boe, respectively for the comparative periods in 2017.

Netbacks

(\$/boe)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Revenue	53.77	37.70	53.22	41.24
Royalties	(10.79)	(3.94)	(9.45)	(4.67)
Operating costs	(22.53)	(25.65)	(24.66)	(21.08)
Transportation costs	(0.72)	(1.41)	(0.64)	(1.25)
Operating netback	19.73	6.70	18.47	14.24

Strategic's operating netback increased to \$19.73/boe and \$18.47/boe for the three and nine months ended September 30, 2018 from \$6.70/boe and \$14.24 boe for the comparative periods in 2017 due to higher oil and gas prices, lower operating costs per boe and lower unit transportation costs, partially offset by a significant increase in oil crown royalty rates.

Strategic's focus area is Marlowe, which is 100% owned and operated by the Company. The Marlowe assets generated a netback of \$23.52/boe and \$21.97/boe for the three and nine months ended September 30, 2018 compared to \$9.53/boe and \$17.45/boe, respectively for the comparative periods in 2017 as a result of higher revenues and lower operating costs offset by higher 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 nine months of 2018 of \$13.6 million, \$2.2 million relates to non-Marlowe assets which produced only 46 boe/d for the period (first nine months of 2017 - \$2.5 million related to non-Marlowe assets which produced 55 boe/d).

G&A expense

(\$thousands, except per boe amounts)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Gross general and administrative expense	2,155	2,034	5,238	5,279
Overhead recoveries	(63)	(64)	(197)	(198)
Capitalized G&A	(346)	(229)	(847)	(735)
Net G&A expenses	1,746	1,741	4,194	4,346
Per boe	10.91	7.94	7.61	6.52

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 both the third quarter of 2018 and 2017 were unusually high, as the current period was affected by legal and advisory fees related to the strategic alternatives process (\$0.3 million), severance costs (\$0.1 million) and consulting fees (\$0.1 million) while the 2017 quarter

included \$0.6 million in severance costs. G&A expense for the first nine months in 2018 decreased slightly to \$4.2 million compared to \$4.3 million in the comparable period of 2017 as lower salaries and software charges in the current period were partially offset by higher consulting costs and legal and advisory fees. On a units-of-production basis, G&A expenses increased to \$10.91/boe and \$7.61/boe for the three and nine months ended September 30, 2018 compared to \$7.94/boe and \$6.52/boe, respectively for the same periods in 2017 due to lower production levels.

Finance expense

(\$thousands)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Interest expense	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	136	5,195	347
Accretion of decommissioning liabilities	408	351	1,158	963
Accretion on debentures	856	719	2,422	2,087
Total	3,468	3,133	10,154	9,185

Finance expense increased to \$3.5 million and \$10.2 million for the third quarter and first nine months of 2018 from \$3.1 million and \$9.2 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 decommissioning 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 2.2 million stock options in the first nine 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 \$0.2 million and \$1.1 million for the three and nine months ended September 30, 2018 compared to \$0.5 million and \$1.7 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

(\$thousands, except per boe amounts)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Depreciation, depletion and amortization (“DD&A”)	3,506	4,462	11,580	13,013
Per boe	21.91	20.34	21.01	19.53

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 \$3.5 million and \$11.6 million for the three and nine months ended September 30, 2018 from \$4.5 million and \$13.0 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.

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 and well performance from certain wells drilled in 2018 were indicators of potential impairment.

The recoverable values of the Company's CGUs were estimated as the fair value less cost to sell based on the net present value of 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. 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.

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 nine months ended September 30, 2018, Strategic recorded deferred tax liabilities of \$0.1 million and \$0.2 million respectively, related to the equity portion of convertible debentures issued during the period (three and nine months ended September 30, 2017 - \$0.1 million). As a result, the Company recognized an offsetting amount of previously unrecognized deferred tax assets and deferred tax recoveries of \$0.1 million and \$0.2 million for the third quarter and first nine months of 2018 (2017 - \$0.1 million).

Funds from operations and net loss

(\$thousands, except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Funds from (used in) operations	(809)	(333)	794	5,043
Per share – basic ⁽¹⁾	(0.02)	(0.01)	0.02	0.11
Per share – diluted ⁽¹⁾	(0.02)	(0.01)	0.02	0.05
Cash flow provided by operating activities	963	2,149	2,707	4,029
Per share – basic ⁽¹⁾	0.02	0.05	0.06	0.09
Per share – diluted ⁽¹⁾	0.02	0.02	0.06	0.04
Net loss for the period	(21,482)	(36,779)	(33,045)	(48,237)
Per share – basic & diluted ⁽¹⁾	(0.46)	(0.79)	(0.71)	(1.05)

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

Funds used in operations increased to \$0.7 million for the three months ended September 30, 2018 from \$0.3 million for the third quarter in 2017 as higher revenues and lower operating costs were offset by cash expense on convertible debentures and increased royalties. Funds from operations decreased to \$0.8 million for the nine months ended September 31, 2018 from \$5.0 million in the comparative period in 2017 as higher revenues and lower operating costs were more than offset by increased royalties as well as \$5.2 million in cash interest expense on convertible debentures.

Cash flow provided by operating activities decreased to \$1.0 million and \$2.7 million for the three and nine months ended September 30, 2018 from \$2.1 million and \$4.0 million for the respective 2017 periods due to higher funds used in operations.

Net loss decreased to \$21.5 million and \$33.0 million for the three and nine months ended September 30, 2018 from \$36.8 million and \$48.2 million for the comparable periods in 2017 due to lower DD&A and impairment charges and a gain on disposal of assets in the current quarter.

Capital expenditures

(\$thousands)	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Drilling, completions and equipping	358	11,989	9,789	40,361
Pipelines and facilities	1,857	1,973	2,527	4,381
Software	268	-	268	-
	2,483	13,962	12,584	44,742
Dispositions	23	-	(103)	-
Total property, plant and equipment	2,506	13,962	12,481	44,742
Total exploration and evaluations ("E&E")	-	29	-	98
Net capital expenditures	2,506	13,991	12,481	44,840

Capital expenditures for the quarter ended September 30, 2018 decreased to \$2.5 million compared to \$14.0 million for the third quarter of 2017. Current period expenditures included plant turnaround at the 9-17 processing facility, pipeline integrity inspections and testing for the debottleneck project. The comparative period capital expenditures included drilling 2 wells, completing 3 wells and a scheduled plant turnaround at Marlowe.

Capital expenditures decreased to \$12.5 million for the nine months ended September 30, 2018 from \$44.8 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.

On July 30, 2018, the Company sold certain oil and gas assets in northern British Columbia and southern Alberta for a nominal cash consideration. The carrying value of the disposed assets was minimal, but decommissioning liabilities were reduced by \$2.1 million and therefore a \$2.0 million gain on sale was recorded in the current quarter.

Decommissioning liabilities

Decommissioning liabilities decreased to \$57.8 million at September 30, 2018 from \$62.5 million at December 31, 2017 due to decommissioning expenditures incurred during the period of \$2.7 million, disposition of liabilities due to sale of assets and rising discount rates. The current portion of the decommissioning liabilities at September 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 third quarter of 2018, the Company recorded a revaluation on decommissioning liabilities of \$1.1 million (three months ended September 30, 2017 - \$1.8 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)	Sept 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017
Petroleum and natural gas sales	8,605	10,639	10,081	10,396
Net loss	(21,482)	(6,399)	(5,163)	(41,264)
Net loss per share – basic & diluted ⁽¹⁾	(0.46)	(0.14)	(0.11)	(0.89)
Average daily production (boed)	1,739	2,138	2,183	2,424
Average price (\$/boe)	53.77	54.68	51.30	46.61

Quarter ended (\$thousands, except where noted)	Sept 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016
Petroleum and natural gas sales	8,271	10,312	8,888	7,721
Net (loss) income	(36,779)	(7,020)	(4,440)	48,510
Net (loss) income per share – basic ⁽¹⁾	(0.79)	(0.15)	(0.10)	1.69
Net (loss) income per share – diluted ⁽¹⁾	(0.79)	(0.15)	(0.10)	0.62
Average daily production (boed)	2,384	2,661	2,273	1,859
Average price (\$/boe)	37.70	42.58	43.44	45.13

⁽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 \$65.79/bbl. Sales were lowest in the fourth 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

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)	September 30, 2018	December 31, 2017
Current assets	11,076	21,830
Current liabilities	(12,235)	(11,579)
Working capital (deficiency)	(1,159)	10,251
Convertible debentures ⁽¹⁾	(114,129)	(106,052)
Net debt	(115,288)	(95,801)

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

Working capital deficiency was \$1.2 million at September 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 nine months of 2018. 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 September 30, 2018 is a deficiency of \$5.7 million.

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 11.4%, 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”) that bear an annual interest rate of 8.0%, payable semi-annually in arrears and mature 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%, 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
Additional 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
Total	114,129	

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 Recapitalization Transactions discussed in this MD&A would provide funds to cover the Company's current working capital deficiency and continue development capital spending on the Marlowe core asset. In addition, these transactions would result in the convertible debentures plus accrued interest being converted into common shares of the Company, assuming all holders agree to convert their debentures.

SHARE CAPITAL

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Weighted average common shares outstanding (thousands)				
Basic & Diluted	46,421	46,391	46,407	46,111
	September 30, 2018		December 31, 2017	
Outstanding securities (thousands)				
Common shares	46,421			46,391
Stock options	3,676			2,309

In 2018 the Company issued a total of 2.2 million stock options to officers, directors, employees and consultants. A third of the stock options vest on the grant date while the remaining stock options vest over the subsequent two years.

As of November 15, 2018 there were 46,420,960 common shares and 3,445,166 stock options outstanding. If all convertible debentures were converted into common shares pursuant to the Recapitalization Transactions described in this MD&A, an additional 1,500,944,373 shares would be issued.

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.

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

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 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.

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 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.

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 \$114.1 million in 8% Debentures outstanding, with interest due and payable semi-annually. Strategic will need to increase production levels and cash flows in order to manage the payment of interest and the repayment of the Debentures by the maturity date if the proposed Recapitalization Transactions are not completed.

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:

- potential Recapitalization Transactions and their impact on development, leverage and interest costs;
- 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.