Management's Discussion and Analysis

Three and nine months ended September 30, 2014

Strategic Oil & Gas Ltd. ("Strategic" or the "Company") is a publicly-traded oil and gas exploration and production 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, 2014, as well as information concerning the Company's future outlook based on currently available information. The MD&A was approved and authorized for issue by Strategic's board of directors on November 17, 2014. 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, 2014 and 2013, together with the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

FINANCIAL AND OPERATIONAL SUMMARY

	Three Months Ended September 30			**Nine Months Ended September 30**		
	2014	2013	% change	**2014**	2013	% change
Financial ($thousands, except per share amounts)						
Oil and natural gas sales	**19,744**	22,628	(13)	**65,226**	64,285	1
Funds from operations [(1)]	**2,774**	4,853	(43)	**7,300**	17,483	(58)
Per share basic & diluted [(1)]	**0.01**	0.02	(50)	**0.02**	0.09	(78)
Cash provided by (used in) operating activities	**791**	6,409	(88)	**5,267**	16,372	(68)
Per share basic & diluted	**-**	0.03	(100)	**0.02**	0.08	(75)
Net income (loss)	**213**	(6,759)	(104)	**(12,170)**	(12,464)	(2)
Per share basic & diluted	**-**	(0.03)	(100)	**(0.04)**	(0.06)	(39)
Capital expenditures (excluding acquisitions)	**24,871**	24,617	1	**76,864**	89,667	(14)
Net acquisitions (dispositions)	**-**	-	-	**(3,821)**	10,098	(138)
Bank debt	**53,649**	62,057	(14)	**53,649**	62,057	(14)
Net debt [(1)]	**34,555**	81,566	(58)	**34,555**	81,566	(58)
Operating						
Average daily sales						
Crude oil (bbl per day)	**2,023**	2,387	(15)	**2,225**	2,491	(11)
Natural gas (mcf per day)	**7,264**	6,743	8	**6,491**	5,532	17
Barrels of oil equivalent (boe per day)	**3,234**	3,510	(8)	**3,307**	3,413	(3)
Average daily production (boe per day)	**3,480**	3,510	(1)	**3,390**	3,413	(1)
Average prices						
Oil & NGL, before risk management ($ per bbl)	**90.39**	95.70	(6)	**93.41**	87.53	7
Oil & NGL, including risk management ($ per bbl)	**79.35**	84.01	(6)	**81.73**	84.33	(3)
Natural gas, before risk management ($ per mcf)	**4.37**	2.61	67	**4.79**	3.15	52
Natural gas, including risk management ($ per mcf)	**4.34**	2.61	66	**4.53**	3.15	44
Netback ($ per boe) [(1)]						
Oil and natural gas sales	**66.36**	70.07	(5)	**72.26**	68.99	5
Royalties	**(14.76)**	(16.15)	(9)	**(15.64)**	(15.23)	(3)
Production expenses	**(26.49)**	(23.89)	11	**(31.48)**	(25.58)	23
Operating Netback	**25.11**	30.03	(16)	**25.14**	28.18	(11)
Common Shares (thousands)						
Common shares outstanding, end of period	**524,927**	230,599	128	**524,927**	230,599	128
Weighted average common shares (basic)	**362,719**	211,282	72	**328,858**	203,882	61
Weighted average common shares (diluted)	**362,719**	211,282	72	**328,858**	203,882	61

(1) Funds from operations, net debt and operating netback are non-GAAP measurements; see "Non-GAAP Measurements" in this MD&A.

SUMMARY

- Capital expenditures of $24.9 million for the third quarter of 2014 were directed primarily towards the execution of the Company's six well drilling program initiated in June 2014. The program was highly successful, resulting in six horizontal Muskeg oil wells, all of which were on production by early October 2014. The Company was able to reduce drilling times and costs relative to the winter capital program, with drilling, completion, equipping and tie-in costs averaging $3.8 million per well. Strategic intends to drill up to five wells in the fourth quarter to build on the Company's recent success.

- Average daily production totaled 3,480 boe/d for the three months ended September 30, 2014 compared to 3,510 boe/d for the third quarter of 2013. Sales volumes for the current period were 3,234 boe/d compared to production of 3,480 boe/d, as the Company was affected by a temporary shut-down of a third party sales oil pipeline. Strategic immediately implemented measures to mitigate the effect of the pipeline shut-down on crude oil production and sales volumes including the use of rail cars for transportation and shipping volumes to a company-owned storage facility, and as a result the Company did not curtail any production due to this event. Oil inventories increased by 22,600 barrels from the previous quarter's levels, and sales in the current period were reduced by 246 bbl/d. This inventory will be added to sales volumes in the fourth quarter of 2014.

- Funds from operations decreased to $2.8 million ($0.01 per share) in the current quarter from $4.9 million ($0.02 per share) for the third quarter of 2013, due to lower oil sales and an increase in general and administrative expenses. Cash flow provided by operating activities decreased to $0.8 million from $6.4 million for the third quarter of 2013 due to reduced funds from operations and payment of liabilities resulting from the summer drilling program.

- The Company's operating netback decreased to $25.11/boe for three months ended September 30, 2014 as compared to $30.03/boe for the previous year, primarily as a result of lower commodity prices and a lower oil weighting in the sales mix in the current period due to the third party pipeline shutdown.

- Strategic closed the first tranche of a private placement on September 30, 2014, issuing 163.9 million common shares for net proceeds of $65.7 million and reducing quarter-end net debt to $34.6 million. The second tranche of the private placement was closed on October 7, 2014, and the Company issued an additional 17.4 million common shares for net proceeds of $7.2 million.

ADVISORIES

Basis of presentation

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

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

Non-GAAP measurements

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

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

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

	Three months ended September 30		Nine months ended September 30	
($thousands)	**2014**	2013	**2014**	2013
Cash provided by operating activities	**791**	6,409	**5,267**	16,372
Expenditures on decommissioning liabilities	**446**	14	**1,747**	659
Changes in non-cash working capital	**1,537**	(1,570)	**286**	452
Funds from operations	**2,774**	4,853	**7,300**	17,483

"Operating Netback" is used to evaluate operating performance of crude oil and natural gas assets. The term netback is calculated as oil and gas sales revenue excluding realized and unrealized gains and losses on risk management contracts, less royalties, and production costs. There is no IFRS measurement that would be directly comparable to operating netbacks.

"Adjusted net working capital (deficiency)" and "net debt" are used to assess capital requirements and leverage, as well as evaluate funds available on the Company's credit facility. Adjusted net working capital (deficiency) is calculated as current assets less current liabilities, excluding bank debt, deferred price premium on flow through shares and any assets or liabilities related to risk management contracts. Net debt is calculated as bank debt plus adjusted net working capital deficiency, or less adjusted net working capital. A reconciliation of adjusted net working capital and net debt to working capital deficiency is as follows:

($thousands)	**September 30, 2014**	December 31, 2013
Current assets	**56,414**	9,685
Current liabilities	**(95,623)**	(101,127)
Working capital deficiency	**(39,209)**	(91,442)
Add back: deferred price premium on flow-through shares	**270**	1,619
risk management contract liability	**4,384**	7,276
Net debt	**(34,555)**	(82,547)
Bank debt	**53,649**	63,775
Adjusted net working capital (deficiency)	**19,094**	(18,772)

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 relies on its extensive subsurface and reservoir experience to develop its asset base and grow production and cash flows while managing risk. 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.

OUTLOOK

Strategic has continued to build on the success experienced with the Company's summer drilling program, keeping one rig active at Marlowe and drilling up to five additional wells prior to the end of the year, including one Sulphur Point horizontal well. The Company made enhancements in its well design that have proven successful in reducing drilling and completion costs while boosting production rates.

Production continued to increase during the course of the fourth quarter as new wells were brought on stream, and average sales volumes were approximately 4,100 boe/d for October 2014. Strategic is encouraged by its recent success in the Muskeg program and is maintaining its 2014 exit production guidance at 4,600 boe/d.

Strategic's Board of Directors has approved a capital expenditure budget of $52 million for the first half of 2015, focused on continued development and extension of the Muskeg fairway in northern Alberta. Key highlights of the Company's capital program and guidance for the first half of 2015 are as follows:

- Drill up to 14 wells in the first six months of 2015. Strategic plans to starts a second rig in December 2014 and continue drilling with two rigs during the first quarter of 2015. The drilling program consists of 10 horizontal Muskeg wells and up to 4 vertical wells;
- First half average production of 5,000 boe/d;
- First half exit production target of 5,400 boe/d.

RESULTS OF OPERATIONS

Production

	Three months ended September 30		Nine months ended September 30	
Average daily sales volumes	**2014**	2013	**2014**	2013
Oil & NGL (bbl/d)	**2,023**	2,387	**2,225**	2,491
Natural gas (mcf/d)	**7,264**	6,743	**6,491**	5,532
Total (boe/d)	**3,234**	3,510	**3,307**	3,413

Average daily oil & NGL sales volumes for the three months ended September 30, 2014 decreased 15 percent from the third quarter of as the Company was affected by a temporary shut-down of a third party sales oil pipeline. Production continued despite the shut-down, increasing oil inventories at quarter-end by 22,600 barrels from the previous quarter's levels, but reducing sales in the current period by 246 bbl/d. In addition, the Company sold 90 boe/d of non-operated oil and natural gas production in June 2014. Average daily oil sales for the first nine months of 2014 decreased 11% from 2013 due to the pipeline shut-in, property dispositions and reduced drilling activity in the first half of 2014, partially offset by strong results from the summer Muskeg drilling program.

Natural gas sales volumes increased 8 percent for the current quarter and 17 percent on a year-to-date basis due to the higher natural gas content of Muskeg horizontal wells relative to the existing Keg River production at Marlowe.

Revenue

($thousands, except where noted)	Three months ended September 30 2014	2013	Nine months ended September 30 2014	2013
Sales				
Oil & NGL	**16,826**	21,010	**56,736**	59,521
Natural gas	**2,918**	1,618	**8,490**	4,764
Oil and natural gas sales	**19,744**	22,628	**65,226**	64,285
Unrealized gain (loss) on risk management contracts	**6,758**	(3,330)	**4,162**	(7,032)
Realized gain (loss) on risk management contracts	**(2,072)**	(2,567)	**(7,554)**	(2,174)
Other revenue	**-**	2	**-**	94
	24,430	16,733	**61,834**	55,173
Average prices [1]				
Oil & NGL, before realized gain (loss) on risk management contracts ($/bbl)	**90.39**	95.70	**93.41**	87.53
Oil & NGL, including realized gain (loss) on risk management contracts ($/bbl)	**79.35**	84.01	**81.73**	84.33
Natural gas, before realized gain (loss) on risk management contracts ($/mcf)	**4.37**	2.61	**4.79**	3.15
Natural gas, including realized gain (loss) on risk management contracts ($/mcf)	**4.34**	2.61	**4.53**	3.15
Reference prices				
Oil – WTI ($US/bbl)	**97.17**	105.82	**99.61**	98.14
Natural gas – AECO Daily Index ($/MMBtu)	**4.00**	2.42	**4.78**	3.04

(1) Average prices do not include unrealized losses on risk management contracts or other revenue.

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. Strategic's average oil price for the three months ended September 30, 2014 decreased 6 percent due to lower WTI oil prices. The average oil price increased to $93.41/bbl for the first nine months of 2014 from $87.53/bbl in 2013 due to higher WTI oil prices and a lower CDN/US exchange rate compared to the prior period. Strategic's average natural gas prices for the third quarter and first nine months of 2014 increased 67 percent and 52 percent, respectively from the corresponding periods in 2013 due to primarily to higher AECO Daily Index prices, as well as a higher heat content for natural gas at Marlowe relative to gas production at Bistcho/Cameron Hills. Substantially all of the Company's natural gas production is sold at the AECO Daily Index price, adjusted for fuel charges.

The Corporation's oil and natural gas revenues decreased to $19.7 million for the three months ended September 30, 2014 from $22.6 million for the second quarter of 2013 primarily due to a 15 percent decrease in oil sales volumes as a result of the pipeline outage and lower oil prices. Oil and natural gas revenues totaled $65.2 million for the first nine months of 2014, a 1 percent increase from $64.3 million for the 2013 period as higher commodity prices were offset by lower oil sales volumes.

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 60 percent of expected production levels, depending on current commodity prices, price volatility and the size and nature of the Company's capital spending programs.

Strategic's risk management program resulted in realized losses on oil and natural gas contracts of $2.1 million or $6.96/boe for the current quarter and $7.6 million or $8.37/boe for the first nine months of 2014 (three and nine months ended September 30, 2013 – losses of $2.6 million and $2.2 million, respectively). A summary of Strategic's commodity price risk management contracts as at September 30, 2014 is as follows:

Financial WTI crude oil contracts

Term		**Contract Type**	**Volume (bbl/d)**	**Fixed Price ($/bbl)**	**Index**
01-Oct-2014	31-Dec-2014	Swap	1,500	CAD$92.00	WTI - NYMEX
01-Jan-2015	30-Jun-2015	Swap	750	CAD$90.15	WTI – NYMEX
01-Jan-2015	31-Dec-2015	Option [1]	600	CAD$90.00	WTI – NYMEX
01-Jul-2015	31-Dec-2015	Option [1]	250	CAD$90.00	WTI - NYMEX

[1] Counterparty has an option to convert into a swap at the fixed price indicated. The 600 bbl/d option expires on the last business day before the term begins, while the 250 bbl/d option expires monthly during the contract term.

The Company has also entered into a contract to fix the WTI – Edmonton light differential at CAD$9.25/bbl on 1,000 bbl/d for October to December 2014.

Financial AECO gas contracts

Term		**Contract Type**	**Volume (GJ/d)**	**Fixed Price ($/GJ)**	**Index**
01-Oct-2014	31-Dec-2014	Swap	1,500	3.50	AECO Daily
01-Oct-2014	31-Dec-2014	Swap	300	3.75	AECO Daily
01-Oct-2014	31-Oct-2014	Swap	500	4.41	AECO Daily

Unrealized gains and losses on risk management contracts are related to previously unrealized losses becoming realized in the current period, as well as fluctuations in the forward price curves for oil and natural gas. Strategic recorded unrealized gains on risk management contracts of $6.8 million and $4.2 million for the three and nine months ended September 30, 2014 (loss for three and nine months ended September 30, 2013 - $3.3 million and $7.0 million, respectively). Strategic employs risk management contracts in order to mitigate commodity price volatility and protect cash flows. Although Strategic believes its risk management program provides an effective hedge against WTI and AECO price volatility, the Company does not follow hedge accounting for these contracts. As a result, the contracts are marked to market at each reporting date, with the change in market value included in net income (loss) for the period.

Royalties

	Three months ended September 30		Nine months ended September 30	
($thousands, except where noted)	**2014**	2013	**2014**	2013
Crown royalties	**4,208**	5,145	**13,443**	13,595
Freehold and overriding royalties	**184**	73	**671**	596
Total royalties	**4,392**	5,218	**14,114**	14,191
Per boe	**14.76**	16.15	**15.64**	15.23
Percentage of oil and natural gas sales	**22.2%**	23.1%	**21.6%**	22.1%

Royalty expense consists of royalties paid to provincial governments (including the effect of the Crown royalty initiative program), freehold land owners and overriding royalty owners. Royalty expense also includes the impact of gas cost allowance, which is the reduction of natural gas royalties payable to the Government of Alberta to recognize capital and operating expenditures incurred in the gathering and processing of its royalty share of production. Crown royalties on oil production are paid in product, which is taken in kind and marketed separately by the provincial government. Generally royalty rates in western Canada vary based on volume produced by individual wells, prices received and the area the production is derived from. Revenues from newly drilled wells benefit from a crown royalty reduction to five percent for the first year of production, up to a maximum of 500,000 Mcf of natural gas or 50,000 bbls of crude oil for a well up to 2,500 metres of total depth. The time frame and maximum production amounts are increased by six months and 100,000 Mcf or 10,000 bbls for each additional 500 metres of total depth. Strategic's wells are typically from 2,500 to 3,000 metres in total depth.

Royalties decreased to $4.4 million for the three months ended September 30, 2014 from $5.2 million for the third quarter of 2013 due primarily to reduced oil revenues. Royalties as a percentage of revenues decreased from 23.1 percent for the three months ended September 30, 2013 to 22.2 percent for the current period as a resulf of a higher percentage of natural gas in the Company's sales mix. Royalties for the first nine months of 2014 were 21.6 percent of revenues as compared to 22.1 percent of revenues in 2013. At current oil and gas prices, crown royalty rates on natural gas are 5 to 10 percent, compared to rates of 5 to 40 percent for Marlowe oil, depending on well productivity and vintage.

Production expenses

	Three months ended September 30		Nine months ended September 30	
($thousands, except per boe amounts)	**2014**	2013	**2014**	2013
Production expenses	**7,881**	7,714	**28,421**	23,837
Per boe	**26.49**	23.89	**31.48**	25.58

Production expenses increased to $7.9 million ($26.49/boe) in the current quarter from $7.7 million ($23.89/boe) for the comparative period in 2013 due to an increase in contract labor and regulatory compliance costs.

Production costs for the nine months ended September 30, 2014 increased to $28.4 million ($31.48/boe) from $23.8 million ($25.58/boe) in 2013 due to a full period of production costs for Bistcho/Cameron Hills, which were acquired on February 28, 2013, as well as increased instrumentation, workover and contract operating charges, partially offset by lower chemical costs.

Netbacks

	Three months ended September 30		Nine months ended September 30	
($/boe)	**2014**	2013	**2014**	2013
Revenue	**66.36**	70.07	**72.26**	68.99
Royalties	**(14.76)**	(16.15)	**(15.64)**	(15.23)
Production expenses	**(26.49)**	(23.89)	**(31.48)**	(25.58)
Operating netback	**25.11**	30.03	**25.14**	28.18

Strategic's operating netback decreased to $25.11/boe for the third quarter of 2014 from $30.03/boe for the comparative period in 2013, due primarily to lower oil prices and a higher proportion of natural gas in the Company's sales mix in the current period (62.6 percent vs 68.0 percent for the third quarter of 2013). The operating netback for the nine months ended September 30, 2014 decreased 11 percent from 2013 as higher commodity prices were more than offset by increased unit production costs due to reduced sales volumes and a full period of operating costs for the Bistcho/Cameron Hills assets, which incur higher operating costs than the Marlowe operating area.

Strategic's 100 percent owned and operated focus area is Marlowe, which continues to generate a competitive netback. The Company expects the operating netback at Marlowe to continue to improve as production from newly drilled wells is brought onstream, benefiting from the lower royalty rate and adding volumes to offset fixed costs at processing facilities in the area. The breakdown of Strategic's operating netback for the three months ended September 30, 2014 is as follows:

Operating netback ($/boe)	Marlowe	Other	Total
Revenue	73.21	45.90	**66.36**
Royalties	(18.97)	(2.21)	**(14.76)**
Production expenses	(21.33)	(41.90)	**(26.49)**
Operating netback	32.91	1.79	**25.11**

General and administrative expense

	Three months ended September 30		Nine months ended September 30	
($thousands, except per boe amounts)	**2014**	2013	**2014**	2013
General and administrative expense	**1,564**	1,248	**5,159**	4,651
Per boe	**5.26**	3.86	**5.72**	4.99

General and administrative ("G&A") expense increased to $1.6 million ($5.26/boe) and $5.2 million ($5.72/boe), respectively, for the three and nine months of 2014 from $1.2 million ($3.86/boe) and $4.7 million ($4.99/boe), respectively, in 2013. The increase in 2014 G&A expenses is primarily due to $0.4 million ($0.44/boe) in severance charges related to the office staff reductions announced in April 2014 and lower capitalized G&A.

Finance expense

	Three months ended September 30		Nine months ended September 30	
($thousands, except per boe amounts)	**2014**	2013	**2014**	2013
Interest expense	**1,061**	1,021	**2,677**	1,966
Accretion expense	**363**	222	**920**	619
Total	**1,424**	1,243	**3,597**	2,585
Per boe	**4.79**	3.85	**3.98**	2.77

Interest expense increased to $1.1 million and $2.7 million for the three and nine months ended September 30, 2014 from $1.0 million and $2.0 million for 2013 due to higher average bank debt levels in the current period.

Accretion expense is a reflection of an increase in Strategic's discounted decommissioning liability due to the passage of time. Accretion expense and the decommissioning liability have increased from the prior year due to Strategic's expanding asset base as a result of acquisitions and drilling activity 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.

For the third quarter of 2014 the Company incurred $0.5 million in stock based compensation expense, an increase from $0.4 million for the corresponding period in 2013, as 6.4 million stock options were issued during the current three month period. A portion of all options granted generally vest immediately, therefore the fair value of the vested options is expensed on the grant date.

Depletion, depreciation and amortization

($thousands, except per boe amounts)	Three months ended September 30		Nine months ended September 30	
	2014	2013	**2014**	2013
Depreciation, depletion and amortization ("DD&A")	**8,555**	7,631	**25,671**	21,072
Per boe	**28.75**	23.63	**28.44**	22.62

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 increased to $8.6 million and $25.7 million for the three and nine months ending September 30, 2014 from $7.6 million and $21.1 million, respectively for the 2013 periods due to higher DD&A rates. Average DD&A expense per boe in 2014 increased by 22 percent for the current quarter from 2013 as a result of significant capital expenditures in the current year on infrastructure projects such as the Bistcho oil sales pipeline. These projects, while critical to improving profitability and executing the Company's growth strategy, do not increase reserves and therefore will increase the DD&A rate per boe at current production levels.

Deferred taxes

Strategic recorded deferred tax recoveries of $0.1 million and $1.4 million, respectively for the three and nine months ended September 30, 2014. The Company issued $2.6 million of flow-through common shares in September 2014, with a related price premium of $0.1 million recorded on the balance sheet on issue date. The Company had issued $17.0 million of flow-through common shares in October 2013, with a related price premium of $2.3 million recorded on the balance sheet on the issue date. As eligible flow-through expenditures are incurred by the Company, the price premium is reduced and a deferred tax recovery is recorded. The Company issued an additional $6.9 million in flow-through shares on October 15, 2014, resulting in total commitments of $10.8 million as of that date. Strategic intends to fulfill these commitments prior to December 31, 2015.

Funds from operations and net loss

($thousands, except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2014	2013	**2014**	2013
Funds from operations	**2,774**	4,853	**7,300**	17,483
Per share – basic & diluted	**0.01**	0.02	**0.02**	0.09
Cash flow provided by operating activities	**791**	6,409	**5,267**	16,372
Net income (loss)	**213**	(6,759)	**(12,170)**	(12,464)
Per share – basic & diluted	**0.00**	(0.03)	**(0.04)**	(0.06)

Funds from operations decreased from $4.9 million for the three months ended September 30, 2013 to $2.8 million for the current quarter due to lower oil revenues and an increase in G&A expenses. Cash flow provided by operating activities totaled $0.8 million for the current period as compared to cash flow provided by operating activities of $6.4 million for the third quarter of 2013, due to lower funds from operations and an increase in payments for production and capital costs in the quarter.

For the nine months ended September 30, 2014, funds from operations decreased $10.2 million or 58 percent and cash flow provided by operating activities decreased 68 percent from the first nine months of 2013, primarily related to $7.5 million in realized losses on risk management contracts and higher production costs.

Net income for the three months ended September 30, 2014 increased to $0.2 million ($0.00 per basic and diluted common share) compared to a loss of $6.8 million ($0.03 per basic and diluted common share) for the third quarter of 2013, due primarily to an unrealized gain on risk management contracts of $6.8 million. Net loss decreased to $12.2 million ($0.04 per basic and diluted common share) for the first nine months of 2014 from

$12.5 million ($0.06 per basic and diluted common share) for 2013, as unrealized gains on risk management contracts and gains on property dispositions were offset by lower funds from operations.

Capital expenditures

	Three months ended September 30		Nine months ended September 30	
($thousands)	**2014**	2013	**2014**	2013
Drilling and completions	**18,823**	10,893	**42,321**	46,035
Equipping and facilities	**5,910**	13,354	**31,969**	36,504
Other	**-**	2	**-**	248
	24,733	24,249	**74,290**	82,787
Acquisitions, net of dispositions	**-**	-	**(3,821)**	10,098
Total property, plant and equipment	**24,733**	24,249	**70,469**	92,885
Total exploration and evaluations	**138**	368	**2,574**	6,879
Total capital expenditures	**24,871**	24,617	**73,043**	99,764

Capital expenditures totaled $24.9 million for the third quarter of 2014 compared to $24.6 million for the three months ended September 30, 2013. Drilling and completions in the current three month period related to the Company's six well Muskeg horizontal summer drilling program at Marlowe initiated in June 2014, with the sixth well completed in October. The Company has significantly decreased well costs with the summer drilling program, drilling six wells at an average cost per well of $3.8 million.

Equipping and facilities expenditures of $5.9 million were focused on equipping new wells drilled and installation of oil pumping equipment related to the Bistcho sales oil pipeline project. The Bistcho sales pipeline was tied into the Marlowe operating area in the first quarter of 2014 and is capable of transporting up to 3,500 bbl/d of oil from Marlowe directly to the Rainbow pipeline system, reducing transportation costs to the Company.

Total capital expenditures for the nine months ended September 30, 2014 decreased to $73.0 million from $99.8 million in 2013, primarily due to reduced expenditures on exploration and evaluations, acquisitions and facilities. The Company's focus in 2014 has been development of the Marlowe area through Muskeg horizontal drilling and construction of the Bistcho sales oil pipeline.

SUMMARY OF QUARTERLY FINANCIAL DATA

The following table summarizes quarterly financial results:

Quarter ended ($thousands, except where noted)	**Sept 30, 2014**	Jun 30, 2014	Mar 31, 2014	Dec 31, 2013
Oil and natural gas sales	**19,744**	23,723	21,759	15,660
Net income (loss)	**213**	(2,703)	(9,664)	(9,852)
Net loss per share – basic	**0.00**	(0.01)	(0.04)	(0.04)
Net loss per share – diluted	**0.00**	(0.01)	(0.04)	(0.04)
Average daily production (boed)	**3,234**	3,538	3,147	2,847
Average price ($/boe)	**66.36**	73.68	76.82	59.80

Quarter ended ($thousands, except where noted)	Sept 30, 2013	Jun 30, 2013	Mar 31,2013	Dec 31, 2012
Oil and natural gas sales	22,628	23,770	17,887	15,863
Net income (loss)	(6,759)	(2,338)	(3,371)	(5,917)
Net income (loss) per share – basic	(0.03)	(0.01)	(0.02)	(0.03)
Net income (loss) per share – diluted	(0.03)	(0.01)	(0.02)	(0.03)
Average daily production (boed)	3,510	3,924	2,797	2,282
Average price ($/boe)	62.12	67.53	71.05	75.57

Oil and natural gas sales are a function of average daily production levels, the oil/gas production mix and commodity prices, and increased significantly with higher production levels in 2013 and the second quarter of 2014, and higher prices in the first two quarters of 2014. The fourth quarter of 2013 is an exception as production volumes were impacted by facility downtime and extremely cold weather in December. In the third quarter of 2014 sales were reduced due to a third party operated pipeline shut-down in September. Net income (loss) varies with sales and fund from operations, as well as non-cash expenses incurred such as unrealized losses and gains on risk management contracts, DD&A and impairment. Net losses are highest in the fourth quarter of 2013 and first quarter of 2014 due to lower funds from operations and higher DD&A expenses relative to the other quarters presented. The net loss in the second quarter of 2014 was positively impacted by a gain on disposal of property of $2.0 million. The Company realized net income of $0.2 million for the three months ended September 30, 2014 due to a realized gain on risk management contracts of $6.8 million. Maintaining positive net income on a consistent basis will depend on the Company's ability to increase production and reserves and reduce unit production costs and DD&A.

LIQUIDITY AND CAPITAL RESOURCES

The Company considers its capital structure to include shareholders' equity and working capital, including bank debt. 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 or repay debt, or adjust exploration and development capital expenditures.

The Company monitors its capital structure based on net debt and adjusted working capital (deficiency), as calculated below:

($thousands)	**September 30, 2014**	December 31, 2013
Current assets	**56,414**	9,685
Accounts payable and accruals	**(26,180)**	(28,457)
Current decommissioning liabilities	**(210)**	-
Promissory note	**(10,930)**	-
Adjusted working capital (deficiency)	**19,094**	(18,772)
Bank indebtedness	**(53,649)**	(63,775)
Net debt	**(34,555)**	(82,547)

The Company has an $80 million operating demand loan facility (the "Facility") with a Canadian chartered bank. Amounts outstanding under the Facility are repayable on demand, and bear interest at a rate of 0.5% to 2.5% over the bank's prime lending rate for prime loans, or at bankers' acceptance rates plus a stamping fee ranging from 1.75% to 3.75%, depending on Strategic's debt to cash flow ratio. The Facility is secured by a general security agreement including fixed and floating charges on all property, plant and equipment. The Facility contains a financial covenant that requires the Company to maintain an adjusted working capital ratio of not less than 1:1, but for the purpose of the calculation the unused portion of the revolving operating line is included in current assets and, the current portion of debt and risk management liabilities are both excluded from current liabilities. In addition to $53.6 million drawn on the Facility at September 30, 2014, the Company has $4.1 million letters of credit outstanding with third parties which reduce the amount of funds available under the Facility. The Facility has a renewal date of December 1, 2014. At September 30, 2014, the Company was in compliance with all financial covenants.

In order to provide bridge financing to enable continuation of the summer drilling program Strategic closed a US$10 million short-term loan with various entities controlled by a director of the Company. The promissory note bears interest at 1% per month and was repaid on October 10, 2014 using proceeds from an equity financing closed on September 30, 2014.

To mitigate foreign exchange risk related to the promissory note, the Company entered into a contract to sell $9.5 million USD for $10.32 million CAD fixing the USD/CAD exchange rate at 1.0865 on August 29, 2014 and purchasing $9.5 million USD for $10.34 million CAD fixing the USD/CAD exchange rate at 1.0884 on the repayment date.

Bank debt outstanding decreased from $63.8 million at December 31, 2013 to $53.6 million at September 30, 2014 due to receipt of funds for an equity financing on September 29, 2014 which were initially used to repay bank debt. Net debt decreased to $34.6 million at September 30, 2014 from $82.5 million at December 31, 2013. A reconciliation of changes in net debt is as follows:

Net debt	$ millions
Net debt, December 31, 2013	82.5
Funds from operations	(7.3)
Share issuances, net of costs	(113.0)
Flow-through share issuances	(2.6)
Capital expenditures	76.8
Current portion of decommissioning liabilities	0.2
Expenditures on decommissioning obligations	1.8
Proceeds on disposal of property, plant and equipment	(3.8)
Net debt, September 30, 2014	**34.6**

Going forward the Company intends to use funds from operations and equity or other financings to fund capital expenditure programs and acquisitions.

SHARE CAPITAL

	Three months ended September 30		Three months ended September 30	
	2014	2013	**2014**	2013
Weighted average common shares outstanding (thousands)				
Basic	**362,719**	211,282	**328,858**	203,882
Diluted	**362,719**	211,282	**328,858**	203,882

	September 30, 2014	December 31, 2013
Outstanding securities (thousands)		
Common shares	**524,927**	260,601
Stock options	**15,687**	13,235

On March 31, 2014, the Company issued 100.0 million common shares via a private placement at a price of $0.50 per common share for gross proceeds of $50.0 million (net proceeds of $49.3 million after transaction costs). Of the $50.0 million gross proceeds, $40.0 million (80.0 million common shares) were acquired by entities controlled by a director of the Company and another $0.29 million (0.6 million common shares) were acquired by directors and officers of the Company. Proceeds from the private placement were primarily used to repay accounts payable and accrued liabilities incurred in executing the first quarter 2014 capital program.

On September 30, 2014, the Company issued 163.9 million common shares comprised of 158.1 million common shares and 5.8 million common shares issued on a flow-through basis pursuant to the Income Tax Act (Canada), for gross proceeds of $65.8 million ($65.7 million after transaction costs). 132.5 million common shares were acquired by entities controlled by directors of the Company and another 5.7 million common shares were acquired by directors and officers of the Company. An additional 17.4 million common shares were issued on October 15, 2014 for gross proceeds of $7.6 million (net proceeds of $7.2 million). Proceeds from the financing were initially used to repay bank debt, as well as provide funding for the Company's drilling program for the fourth quarter of 2014 and a portion of estimated capital spending for 2015.

The private placement was closed based on a wire transfer confirmation. However, the wire transfer was late resulting in subscriptions receivable of $46.0 million as at the reporting date. Subsequent to the reporting date, the amounts due from subscriptions receivable were received on October 7, 2014 in full.

In the first nine months of 2014, 6,520,000 stock options were granted at an average price of $0.44 per common share, and 400,000 stock options were exercised for common shares of the Company, for total proceeds of $0.14 million.

As of November 17, 2014 there were 542,618,328 common shares outstanding and 15,741,668 stock options outstanding.

TRANSACTIONS WITH RELATED PARTIES

For the nine months ended September 30, 2014 legal fees in the amount of $0.27 million (September 30, 2013 - $0.30 million) were incurred with a legal firm of which a director is a partner, and these amounts included as general and administrative expenses or share issue costs. Software charges of $0.15 million (September 30, 2013 - $0.15 million) were charged to a company controlled by an officer. Trade and other receivables at September 30, 2014 include $46.3 million (December 31, 2013 - $nil) receivable from related parties, including subscriptions receivable of $46.0 million. Accounts payable and accrued liabilities at September 30, 2014 include $0.07 million (December 31, 2013 - $0.31 million) due to related parties. The above transactions were conducted in the normal course of operations and were recorded at exchange amounts which were agreed upon between the Company and the related parties.

In the first quarter of 2014 the Company disposed of a working interest in a non-producing property to a company controlled by a director for consideration of $0.3 million, which was the deemed fair value of the property at the sale date. As the property had a $nil carrying value, a $0.3 million gain on disposition of property, plant and equipment was recorded in the period.

COMMITMENTS

The Company has lease agreements for office space resulting in the following commitments at September 30, 2014:

Year ended September 30	**($thousands)**
2014	**84**
2015	**311**
2016	**10**
Total	**405**

CHANGES IN ACCOUNTING POLICIES

As of January 1, 2014, the Company adopted several new IFRS interpretations and amendments in accordance with the transitional provisions of each standard.

IAS 32 *Offsetting Financial Assets and Financial Liabilities - Financial Instruments Presentation*. The amended standard requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. The scope includes risk management contracts and foreign exchange contracts. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014 and require retrospective application. As the Company is not netting any significant amounts related to financial instruments and does not have any significant offsetting arrangements, the amendment does not have an impact on the financial statements.

IAS 36 Impairment of Assets - *Amendments to IAS 36*. The amended standard requires entities to disclose the recoverable amount of an impaired Cash Generating Unit (CGU). The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014 and require retrospective application. This standard did not have an impact on the Company's financial position or performance.

IFRIC 21 Levies - *Interpretation of IAS 37 Provisions, contingent liabilities and assets*: IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event. The interpretation clarifies that the obligation that gives rise to the liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Company reviewed payments considered to be levies and concluded that the application of the standard did not have a significant impact on the Company.

The Company has joint agreements consisting of working interests in oil and gas wells with one or more partners. The agreements are not within the scope of IFRS 11, since they do not require unanimous consent of the parties to the agreement, and therefore do not constitute joint agreements or joint ventures. The Company's proportionate share of revenues, expenses, assets and liabilities are included in its accounts.

The Company continues to assess the impact of adopting the pronouncements from the IASB as described below:

IFRS 9 *Financial Instruments*: IFRS 9 (July 2014) replaces earlier versions of IFRS 9 that had not yet been adopted by the Company and supersedes IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes a principle-based approach for classification and measurement of financial instruments, a single 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

IFRS 15 *Revenue from Contracts with Customers*: IFRS 15 specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 Revenue, IAS 11 Construction Contracts, and a number of revenue-related interpretations. IFRS 15 will be effective for annual periods beginning on or after January 1, 2017. Application of the standard is mandatory and early adoption is permitted.

CRITICAL ACCOUNTING ESTIMATES

This MD&A is based on Strategic's 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, 2013. 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 consolidated financial statements is included in Strategic's MD&A for the year ended December 31, 2013.

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. Strategic's credit facility is in the form of a demand loan, which must be renewed periodically and may be reduced at the option of the lender. 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.

Based on expected cash flows and planned capital expenditures in the second half of the year management has determined that the Company will need to pursue additional financing in order to complete capital activities and to fund liabilities as they come due. The Company is in the process of evaluating various financing arrangements. In the event that adequate funds from these arrangements are not available, the Company may be required to scale back or eliminate certain projects.

Oil and natural gas prices and marketing

The Company's revenues are dependent upon prevailing prices for oil and natural gas. Oil and natural gas prices can be extremely volatile and are affected by the actions of domestic and international markets, foreign governments, international cartels and the Canadian federal and provincial governments. In addition, the marketability of the production depends upon the availability and capacity of gathering systems and pipelines, the effect of federal and provincial regulation (including tax and royalty regimes) on such production and general economic conditions. All of these factors are beyond the control of the Company. Any decline in oil or natural gas prices could have a material adverse effect on the Company's operations, financial condition, proved reserves and the level of expenditures for the development of its oil and natural gas reserves.

The Company may manage the risk associated with changes in commodity prices and foreign exchange rates by, from time to time, entering into crude oil or natural gas price hedges and forward foreign exchange contracts. To the extent that the Company engages in risk management activities related to commodity prices and foreign exchange rates, it will be subject to credit risks associated with counterparties with which it contracts. The Company may be required to make cash payments to its counterparties in respect of these contracts, and therefore net income and cash flows will be affected by fluctuations in the value of these forward contracts, and the effect could be significant. In addition, a ceiling price on a risk management contract would restrict the Company from obtaining the full benefit of any commodity price appreciation.

Other business risks affecting Strategic's operations are substantially unchanged from those presented in the Company's MD&A for the year ended December 31, 2013.

FORWARD-LOOKING STATEMENTS

This report includes certain information, with management's assessment of Strategic's future plans and operations, and contains forward-looking statements which may include some or all of the following: (i) forecasted capital expenditures and plans; (ii) exploration, drilling and development plans, (iii) prospects and drilling inventory and locations; (iv) anticipated production rates; (v) expected royalty rate; (vi) anticipated production and service costs; (vii) the Company's financial strength; (viii) incremental development opportunities; (ix) reserve life index; (x) total shareholder return; (xi) growth prospects; (xii) asset disposition plans; (xiii) sources of funding, which are provided to allow investors to better understand Strategic's business. By their nature, forward-looking statements are subject to numerous risks and uncertainties; some of which are beyond Strategic's control, including the impact of general economic conditions, industry conditions, operations risks, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, changes in environmental tax and royalty legislation, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources, and other risks and uncertainties described under the heading 'Risk Factors' and elsewhere in the Company's Annual Information Form for the year ended December 31, 2013 and other documents filed with Canadian provincial securities authorities and are available to the public at www.sedar.com. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. The principal assumptions Strategic has made includes security of land interests; drilling cost stability; royalty rate stability; oil and gas prices to remain in their current range; finance and debt markets continuing to be receptive to financing the Company and industry standard rates of geologic and operational success. Strategic's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements or if any of them do so, what benefits that Strategic will derive there from. Strategic disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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.