



## Management's Discussion and Analysis

### Three months ended March 31, 2015

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 months ended March 31, 2015, 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 May 15, 2015. This MD&A should be read in conjunction with the Company's interim condensed consolidated financial statements for the three months ended March 31, 2015 and 2014, together with the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

#### FINANCIAL AND OPERATIONAL SUMMARY

	Three Months Ended March 31		
	2015	2014	% change
<b>Financial (\$thousands, except per share amounts)</b>			
Oil and natural gas sales <sup>(1)</sup>	10,422	21,370	(51)
Funds from operations <sup>(2)</sup>	1,439	984	46
Per share basic & diluted <sup>(2)</sup>	0.00	0.00	-
Cash provided by (used in) operating activities	(3,598)	10,101	(136)
Per share basic & diluted	(0.01)	0.04	(125)
Net income (loss)	(8,610)	(9,664)	11
Per share basic & diluted	(0.02)	(0.04)	50
Capital expenditures (excluding acquisitions)	7,526	38,454	(80)
Bank debt (comparative figure is as of December 31, 2014)	48,425	29,016	67
Net debt (comparative figure is as of December 31, 2014) <sup>(2)</sup>	54,657	48,399	13
<b>Operating</b>			
Average daily sales			
Crude oil (bbl per day)	2,394	2,361	1
Natural gas (mcf per day)	5,237	4,719	11
Barrels of oil equivalent (boe per day)	3,267	3,147	4
Average prices			
Oil & NGL, before risk management (\$ per bbl)	41.98	89.52	(53)
Oil & NGL, including risk management (\$ per bbl)	51.34	77.45	(34)
Natural gas, before risk management (\$ per mcf)	2.93	5.53	(47)
Natural gas, including risk management (\$ per mcf)	2.93	5.53	(47)
Netback (\$ per boe) <sup>(2)</sup>			
Oil and natural gas sales <sup>(1)</sup>	35.45	75.45	(53)
Royalties	(5.08)	(15.84)	68
Operating expenses	(21.38)	(33.92)	37
Transportation expenses <sup>(1)</sup>	(1.39)	(4.08)	66
Operating Netback	7.60	21.61	(65)
<b>Common Shares (thousands)</b>			
Common shares outstanding, end of period	542,319	360,734	50
Weighted average common shares (basic)	542,319	261,785	107
Weighted average common shares (diluted)	542,319	261,785	107

<sup>(1)</sup> In 2015, revenues are presented net of pipeline tariffs on oil sales which occur after title to the product has passed to the customer. Prior period amounts for revenue and transportation have been reclassified to conform to the current period presentation

<sup>(2)</sup> Funds from operations, net debt and operating netback are non-IFRS measurements; see "Non-IFRS Measurements" in this MD&A.

## SUMMARY

- Capital expenditures of \$7.5 million for the first quarter of 2015 were directed primarily towards drilling and completion operations for one Muskeg horizontal well at Marlowe as well as completing another well drilled in December 2014. In addition, two pads at North Marlowe were fully equipped for 4 wells in preparation for future drilling on these sites. Strategic elected to stop the winter Muskeg drilling program in January in order to preserve capital in light of depressed commodity prices.
- Average daily production totaled 3,267 boe/d for the three months ended March 31, 2015 compared to 3,925 boe/d for the fourth quarter of 2014 due to the temporary shut-in of 700 boe/d of production at Bistcho and Cameron Hills in February 2015, as well as a lack of drilling activity in the current period. Strategic will evaluate restarting the Bistcho and Cameron Hills fields, including incurring certain maintenance costs in the area, once commodity prices improve. Prior quarter volumes were also higher due to the sale of 260 bbl/d of oil from inventories held at September 30, 2014. Production increased 4 percent from the first quarter of 2014 due to successful Muskeg stack drilling activities during the year, partially offset by the Bistcho/Cameron Hills shut-in.
- Operating costs per boe decreased 37% compared to 2014 levels as the Company made significant changes to its cost structure in 2015, including shutting in non-economic properties and reducing maintenance expenditures and field staff. Transportation costs dropped 66% from the first quarter of 2014 as a result of the construction of the Bistcho sales oil pipeline which transports oil from Marlowe directly to the Rainbow pipeline system. The pipeline became operational on March 29, 2014. Operating costs per boe at Marlowe were reduced by 55% to \$14.75/boe for the first three months ended March 31, 2015 from \$32.53/boe for the three months ended March 31, 2014 as a result of reductions in contract staff, workovers and maintenance expenses. Transportation costs were reduced from \$4.78/boe in the first quarter of 2014 to \$1.26/boe for the current period due to the construction of the sales oil pipeline.
- Funds from operations increased to \$1.4 million in the current quarter from \$1.0 million for the first quarter of 2014, as lower revenues due to lower commodity prices were offset by reduced operating and transportation costs and a realized gain on risk management contracts of \$2.0 million. Cash flow provided by (used in) operating activities decreased to \$(3.6) million from \$10.1 million for the first three months of 2014 as a result of decommissioning expenditures of \$4.2 million related to well abandonments and remediation of a prior year pipeline spill at Marlowe. The prior year figure included a \$10.4 million change in non-cash working capital driven by increasing accounts payable due to capital spending activities during the period.
- The Company's operating netback decreased to \$7.60/boe for the three months ended March 31, 2015 from \$21.61/boe in 2014 as a 53% drop in commodity prices was partially mitigated by lower royalty rates and operating expenses.
- Strategic's net debt at March 31, 2015 was \$54.7 million compared to a maximum borrowing capacity of \$60 million less letters of credit outstanding, or \$55.6 million. The Company had anticipated being in violation of its debt covenants at the end of the quarter, but as a result of operating costs, royalties and capital costs being below budgeted levels Strategic was in compliance with all covenants under its credit facility as at March 31, 2015.

## Going Concern

Strategic's interim condensed consolidated financial statements as at and for the three months ended March 31, 2015 have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. For the quarter ended March 31, 2015, the Company reported a net loss of \$8.6 million. At March 31, 2015, the Company had negative working capital of \$52.8 million and an accumulated deficit of \$209.6 million. The Company's cash flows and compliance with debt covenants are highly dependent on realized oil pricing in 2015. Strategic curtailed its drilling programs in January 2015 due to low oil prices and financial constraints. Sustained low commodity prices will reduce the Company's cash flows, and there is material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

The interim condensed 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, a joint venture or a sale of assets in order to have sufficient funding to meet its obligations that enables the Company to continue as a going concern, including the ability to generate sufficient cash from operations and future profitable operations.

## OUTLOOK

Strategic has continued to expand and delineate the highly prospective Muskeg Stack play at Marlowe. The Company made the decision to curtail drilling activities due to low oil prices and financial constraints, but continues to believe in the potential profitability of this conventional light oil resource even at current commodity prices. Strategic is now focusing on obtaining additional capital to recommence the Muskeg development in a way that provides the greatest benefit to shareholders.

During the first quarter of 2015, the Company succeeded in reducing its cost structure in the field and in the head office through shutting in high cost operations, implementing efficiencies, reducing staff counts and eliminating all non-essential maintenance programs. These decisions have allowed Strategic to persevere through a difficult commodity price environment and positioned the Company for when commodity prices improve.

## 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.

## RESULTS OF OPERATIONS

### Production

Average daily production volumes	Three months ended March 31	
	2015	2014
Oil & NGL (bbl/d)	2,394	2,361
Natural gas (mcf/d)	5,237	4,719
Total (boe/d)	3,267	3,147

Average daily oil & NGL production for the first three months of 2015 increased 1% from the first quarter of 2014. Increased oil production at Marlowe was offset by the shut-in of oil production at Cameron Hills in February 2015 and the sale of 40 bbl/d of NGL production in central Alberta in June 2014.

Natural gas sales volumes increased 11 percent compared to the first quarter of 2014 due to the higher natural gas content of Muskeg horizontal wells relative to the existing Keg River production at Marlowe, partially offset by the shut-in of natural gas volumes at Bistcho and Cameron Hills midway through the quarter.

## Revenue

(\$thousands, except where noted)	Three months ended March 31	
	2015	2014
Sales		
Oil & NGL <sup>(1)</sup>	9,043	19,021
Natural gas	1,379	2,349
Oil and natural gas sales	10,422	21,370
Unrealized gain (loss) on risk management contracts	(1,643)	(3,259)
Realized gain (loss) on risk management contracts	2,017	(2,564)
Other revenue	-	3
	10,796	15,550
Average prices <sup>(2)</sup>		
Oil & NGL, before realized gain (loss) on risk management contracts (\$/bbl)	41.98	89.52
Oil & NGL, including realized gain (loss) on risk management contracts (\$/bbl)	51.34	77.45
Natural gas, before realized gain (loss) on risk management contracts (\$/mcf)	2.93	5.53
Natural gas, including realized gain (loss) on risk management contracts (\$/mcf)	2.93	5.53
Price per boe before realized gain (loss) on risk Management contracts (\$/boe)	35.45	75.45
Reference prices		
Oil – WTI (\$US/bbl)	48.63	98.70
Natural gas – AECO Daily Index (\$/MMBtu)	2.74	5.72

<sup>(1)</sup> In 2015, revenues are presented net of pipeline tariffs on oil sales which occur after title to the product has passed to the customer. Prior period amounts for revenue and transportation have been reclassified to conform to the current period presentation.

<sup>(2)</sup> 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 first quarter of 2015 decreased by 53 percent from the corresponding period in 2014 due to lower WTI oil prices. Substantially all of the Company’s natural gas is sold at the AECO Daily Index price, adjusted for fuel charges. Strategic’s average natural gas prices for the first quarter of 2015 decreased by 47 percent from the corresponding period in 2014 due to primarily to lower AECO Daily Index prices, partially offset by a higher heat content for Muskeg natural gas production at Marlowe relative to the Company’s other gas production.

The Company’s oil and natural gas revenues decreased to \$10.4 million for the three months ended March 31, 2015 from \$21.4 million for the first quarter of 2014 primarily due to a 51 percent decrease in WTI oil prices, partially offset by higher natural gas sales in 2015.

## 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 gains on oil and natural gas contracts of \$2.0 million or \$6.86/boe for the first quarter of 2015 (three months ended March 31, 2014 – realized losses of \$2.6 million). A summary of Strategic's commodity price risk management contracts as at March 31, 2015 is as follows:

### Financial WTI crude oil contracts

Term	Contract Type	Volume (bbl/d)	Fixed Price (\$/bbl)	Index
01-Jan-2015    30-Jun-2015	Swap	750	CAD\$90.15	WTI – NYMEX
01-Jul-2015    31-Dec-2015	Option <sup>(1)</sup>	250	CAD\$90.00	WTI - NYMEX

<sup>(1)</sup> Counterparty has an option to convert into a swap at the fixed price indicated. The 250 bbl/d option expires monthly during the contract term.

Subsequent to the reporting period, the Company entered into a fixed price swap for 500 bbl/d for July to December 2015 at a price of US\$61.65/bbl at WTI.

### Financial AECO gas contracts

Term	Contract Type	Volume (GJ/d)	Fixed Price (\$/GJ)	Index
01-Apr-2015    31-Oct-2015	Swap	300	2.70	AECO

Unrealized gains and losses on risk management contracts are related to previously unrealized gains becoming realized in the current period, as well as fluctuations in the forward price curves for oil and natural gas. Strategic recorded unrealized losses on risk management contracts of \$1.6 million for the three months ended March 31, 2015 (for three months ended March 31, 2014 - \$3.3 million). 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

(\$thousands, except where noted)	Three months ended March 31	
	2015	2014
Crown royalties	1,401	4,230
Freehold and overriding royalties	94	258
Total royalties	1,495	4,488
Per boe	5.08	15.84
Percentage of oil and natural gas sales	14.3%	21.0%

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. Royalty rates in western Canada vary based on volume produced by individual wells, market oil prices 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 3,100 metres in total depth.

Royalties decreased to \$1.5 million for the three months ended March 31, 2015 from \$4.5 million for the first quarter of 2014 due primarily to reduced oil revenues. Royalties as a percentage of revenues decreased from 21.0 percent for the three months ended March 31, 2014 to 14.3 percent for the current quarter as a result of the significant reduction in oil prices from period to period, which affects the royalty rate on producing oil wells.

### Operating and transportation costs

(\$thousands, except per boe amounts)	Three months ended March 31	
	2015	2014
Operating costs	6,286	9,607
Transportation costs	408	1,154
	<b>6,694</b>	10,761
Per boe		
Operating	<b>21.38</b>	33.92
Transportation	<b>1.39</b>	4.08
	<b>22.77</b>	38.00

Operating costs decreased to \$6.3 million or \$21.38/boe for the three months ended March 31, 2015 from \$9.6 million or \$33.92/boe for the first quarter of 2014 as the Company made significant changes to its cost structure in 2015, including shutting in non-economic properties and reducing maintenance expenditures and field staff. Operating costs per boe at Marlowe were reduced by 55% to \$14.75/boe for the current quarter from \$32.53/boe for the comparative period in 2014 due to reduced contract operating, chemicals, road maintenance and workover expenses as well as a 28% increase in production levels.

Unit transportation costs decreased from \$4.08/boe for the three months ended March 31, 2014 to \$1.39/boe in the first quarter of 2015 due to the completion of the Bistcho pipeline project on March 29, 2014, which connected the Company's oil production at Marlowe to the Rainbow pipeline system over a total distance of 115 kilometres and eliminated oil trucking costs in the area.

### Netbacks

(\$/boe)	Three months ended March 31	
	2015	2014
Revenue <sup>(1)</sup>	35.45	75.45
Royalties	(5.08)	(15.84)
Operating costs	(21.38)	(33.92)
Transportation costs <sup>(1)</sup>	(1.39)	(4.08)
Operating netback	<b>7.60</b>	21.61

(1) In 2015, revenues are presented net of pipeline tariffs on oil sales which occur after title to the product has passed to the customer. Prior period amounts for revenue and transportation have been reclassified to conform to the current period presentation.

Strategic's operating netback decreased to \$7.60/boe for the first quarter of 2015 from \$21.61/boe for the comparative period in 2014, due primarily to the significant drop in commodity prices, partially offset by lower royalty rates and reductions in operating and transportation costs.

Strategic's 100 percent owned and operated focus area is Marlowe, which generated a netback of \$14.68/boe despite low commodity prices in the first quarter. Netbacks were negative at Bistcho and Cameron Hills for the first quarter of 2015 due to low commodity prices and additional operating costs incurred for the shut down of facilities and wells. The breakdown of Strategic's operating netback for the three months ended March 31, 2015 is as follows:

<b>Operating netback (\$/boe)</b>	Marlowe	Other	Total
Revenue	36.52	28.33	<b>35.45</b>
Royalties	(5.83)	(0.13)	<b>(5.08)</b>
Operating costs	(14.75)	(65.43)	<b>(21.38)</b>
Transportation costs	(1.26)	(2.27)	<b>(1.39)</b>
Operating netback	14.68	(39.50)	<b>7.60</b>

"Other" areas include Bistcho and Cameron Hills, where production was shut down in February 2015, and additional operating costs were incurred to perform the shut-in operations. Going forward the Company anticipates approximately \$0.4 million in fixed operating costs per quarter for these assets while shut in.

### General and administrative expense

<b>(\$thousands, except per boe amounts)</b>	Three months ended March 31	
	2015	2014
General and administrative expense	<b>2,232</b>	1,690
Per boe	<b>7.59</b>	5.97

General and administrative ("G&A") expense increased to \$2.2 million (\$7.59/boe) for the first three months of 2015 from \$1.7 million (\$5.97/boe) in 2014. The increase in 2015 G&A expenses is primarily due to \$0.5 million in severance charges related to the staff reductions announced in January 2015 and lower capitalized G&A. G&A expenses per boe excluding severance were \$5.77/boe for the current quarter.

### Finance expense

<b>(\$thousands, except per boe amounts)</b>	Three months ended March 31	
	2015	2014
Interest expense	<b>579</b>	886
Accretion expense	<b>262</b>	275
Total	<b>841</b>	1,161
Per boe	<b>2.86</b>	4.10

Interest expense decreased to \$0.6 million for the three months ended March 31, 2015 from \$0.9 million for comparative period in 2014 due to lower 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. The decrease in accretion expense was due to lower discount rates and was partially offset by higher decommissioning liability due to wells drilled in 2014.

### 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.

The Company incurred \$0.2 million in stock based compensation expense for both the first quarter of 2015 and 2014. There have been no new issuances of stock options in the current three month period.

#### Depletion, depreciation and amortization

(\$thousands, except per boe amounts)	Three months ended March 31	
	2015	2014
Depreciation, depletion and amortization ("DD&A")	7,993	8,554
Per boe	27.18	30.20

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 \$8.0 million for the three months ending March 31, 2015 from \$8.6 million for the 2014 period as a result of a reduction in property, plant and equipment balances stemming from impairment charges recorded in the fourth quarter of 2014.

#### Deferred taxes

Strategic recorded deferred tax recoveries of \$nil for the three months ended March 31, 2015 compared to \$1.3 million in the first quarter of 2014. As the Company issues flow-through shares, any related price premiums received are recorded on the balance sheet. As eligible flow-through expenditures are incurred by the Company, the price premium is reduced and a deferred tax recovery is recorded. Strategic issued \$9.5 million in flow-through shares in the second half of 2014, and fulfilled all its flow-through commitments prior to December 31, 2014.

#### Funds from operations and net loss

(\$thousands, except per share amounts)	Three months ended March 31	
	2015	2014
Funds from operations	1,439	984
Per share – basic & diluted	0.00	0.00
Cash flow (used in) provided by operating activities	(3,598)	10,101
Net loss	(8,610)	(9,664)
Per share – basic & diluted	(0.02)	(0.04)

Funds from operations increased from \$1.0 million for the three months ended March 31, 2014 to \$1.4 million for the current quarter primarily due to lower royalties and operating costs and realized gains on risk management contracts, which were partially offset by reduced oil revenues and an increase in G&A expenses due to severance costs. Cash flow used in operating activities totaled \$3.6 million for the current period as compared to cash flow provided by operating activities of \$10.1 million for the first quarter of 2014, due to increase in payments for abandonment costs in the current period. The prior year figure included a \$10.4 million change in non-cash working capital driven by increasing accounts payable due to capital spending activities during the period.

Net loss for the three months ended March 31, 2015 decreased to \$8.6 million (\$0.02 per basic and diluted common share) compared to a loss of \$9.7 million (\$0.04 per basic and diluted common share) for the first quarter of 2014, due to higher funds from operations and a lower unrealized loss on risk management contracts.

## Capital expenditures

(\$thousands)	Three months ended March 31	
	2015	2014
Drilling, completions and equipping	7,123	21,533
Pipelines and facilities	322	14,801
Other	-	-
Total property, plant and equipment	7,445	36,334
Total exploration and evaluations	81	2,120
Total capital expenditures	7,526	38,454

Drilling, completions and equipping expenditures totaled \$7.1 million for the first quarter of 2015 compared to \$21.5 million for the comparative period for 2014. Current period expenditures were directed towards drilling, completion and equipping operations for one Muskeg horizontal well at Marlowe, as well as completions and equipping costs for wells drilled in late 2014. Two drilling pads in North Marlowe were equipped for 4 wells per pad in preparation for future drilling at these sites.

Pipeline and facilities expenditures decreased to \$0.3 million for the current period from \$14.8 million for 2014, as prior year capital spending included the construction of the Bistcho sales oil pipeline. The 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.

## Decommissioning Liabilities

Decommissioning liabilities increased to \$56.9 million at March 31, 2015 from \$54.9 million at December 31, 2014 due to a lower discount rate, partially offset by \$4.2 million in decommissioning expenditures during the quarter. Approximately \$2.9 million of expenditures relate to a prior year pipeline spill at Marlowe. As this spill was claimed under the Company's insurance coverage, a receivable of \$3.7 million has been recorded representing the estimated cost of remediation work completed to date in 2015 and ongoing monitoring costs, of which \$2.9 million is included in current assets. The Company estimates that an additional \$5.0 million in remediation costs will be incurred to fully restore the affected area to its original condition. These costs will be incurred in future years and a corresponding receivable will be recorded as claims are submitted to and approved by the Company's insurer.

## SUMMARY OF QUARTERLY FINANCIAL DATA

The following table summarizes quarterly financial results:

Quarter ended (\$thousands, except where noted)	Mar 31, 2015	Dec 31, 2014	Sept 30, 2014	Jun 30, 2014
Oil and natural gas sales	10,422	18,790	19,394	23,373
Net income (loss)	(8,610)	(117,321)	213	(2,717)
Net loss per share – basic	(0.02)	(0.22)	0.00	(0.01)
Net loss per share – diluted	(0.02)	(0.22)	0.00	(0.01)
Average daily production (boed)	3,267	3,925	3,234	3,538
Average price (\$/boe)	35.45	52.04	65.18	72.61

Quarter ended (\$thousands, except where noted)	Mar 31, 2014	Dec 31, 2013	Sept 30, 2013	Jun 30, 2013
Oil and natural gas sales	21,370	15,377	22,353	23,459
Net income (loss)	(9,664)	(9,852)	(6,759)	(2,338)
Net income (loss) per share – basic	(0.04)	(0.04)	(0.03)	(0.01)
Net income (loss) per share – diluted	(0.04)	(0.04)	(0.03)	(0.01)
Average daily production (boed)	3,147	2,847	3,510	3,924
Average price (\$/boe)	73.82	58.72	69.22	65.70

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 the second quarter of 2013 and 2014. Oil and natural gas sales are lowest in the first quarter of 2015 due to low commodity prices. Sales were also low in the fourth quarter of 2013 as production volumes were impacted by facility downtime and extremely cold weather in December.

Net income (loss) varies with sales and funds from operations, as well as non-cash expenses incurred such as unrealized losses and gains on risk management contracts, DD&A and impairment. Net loss is highest in the fourth quarter of 2014 due to an impairment charge of \$114.0 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:

<b>(\$thousands)</b>	<b>March 31, 2015</b>	December 31, 2014
Current assets (excluding risk management contracts)	<b>10,640</b>	11,439
Accounts payable and accruals	<b>(16,872)</b>	(26,815)
Current decommissioning liabilities	-	(4,007)
Adjusted working capital (deficiency)	<b>(6,232)</b>	(19,383)
Bank indebtedness	<b>(48,425)</b>	(29,016)
Net debt	<b>(54,657)</b>	(48,399)

At March 31, 2015 the Company had a \$60 million credit facility (the "Facility") with a Canadian chartered bank, comprised of a \$40 million revolving operating loan, with the balance being a non-revolving facility that is reduced at a rate of \$0.5 million per month starting April 1, 2015. 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. Amounts due under the non-revolving facility bear interest at a rate of 2.00% above the interest rates on the operating loan. The Facility is secured by a general security agreement including a floating charge 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 Facility is included in current assets and, the current portion of debt and risk management liabilities are both excluded from current liabilities. In addition to \$48.4 million drawn on the Facility at March 31, 2015, the Company has \$4.4 million letters of credit outstanding with third parties which reduce the amount of funds available under the Facility. The Facility is currently being renewed by the lenders, and the Company expects the next review date to be July 1, 2015.

Bank debt outstanding increased from \$29.0 million at December 31, 2014 to \$48.4 million at March 31, 2015 due to use of the credit facility to pay invoices related to the winter capital program in the first quarter. Net debt

increased to \$54.7 million at March 31, 2015 from \$48.4 million at December 31, 2014 as capital and decommissioning expenditures exceeded funds from operations for the period.

The Company had anticipated being in violation of the working capital covenant of its credit facility as at March 31, 2015 as a result of capital expenditures related to the Muskeg drilling program and reduced cash flows due to low commodity prices for the first quarter of 2015. However, as a result of operating and capital costs being well under the Company's forecast, Strategic was in compliance with all covenants under the Facility as of the reporting date.

The Company has a working capital deficiency at March 31, 2015 and December 31, 2014 as capital spending has exceeded cash flows from operations for both periods. In addition, invoices related to capital spending and operating costs are typically paid on 60 to 90 day terms, whereas receivables related to oil and gas production are collected after 25 days, per normal industry terms.

Continued compliance with the Facility covenants will depend on the Company's ability to limit capital expenditures and generate positive cash flows. Future capital expenditure programs will be dependent on obtaining additional financing, a joint venture or a sale of assets.

## SHARE CAPITAL

	Three months ended March 31	
	2015	2014
Weighted average common shares outstanding (thousands)		
Basic	542,319	261,785
Diluted	542,319	261,785
	<b>March 31, 2015</b>	December 31, 2014
Outstanding securities (thousands)		
Common shares	542,319	542,319
Stock options	14,855	15,313

There were no new issuances of shares or stock options for the quarter ended March 31, 2015.

As of May 15, 2015 there were 542,618,328 common shares outstanding and 11,660,000 stock options outstanding. Approximately 3.1 million options were cancelled subsequent to the reporting date pursuant to the employee terminations announced on February 19, 2015.

## TRANSACTIONS WITH RELATED PARTIES

For the three months ended March 31, 2015, legal fees in the amount of \$0.02 million (March 31, 2014 - \$0.11 million) were incurred with a legal firm of which a director is a partner, and these amounts are included as general and administrative expenses. Software charges of \$0.05 million (March 31, 2014 - \$0.05 million) were charged to a company controlled by an officer. Trade and other receivables at March 31, 2015 include \$0.01 million (December 31, 2014 - \$nil) receivable from related parties. Accounts payable and accrued liabilities at March 31, 2015 include \$0.03 million (December 31, 2014 - \$0.09 million) due to related parties. The above transactions were conducted in the normal course of operations and were recorded at exchange amounts which were agreed upon between the Company and the related parties.

## COMMITMENTS

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

Year	Office (\$000)	Gas transportation (\$000)
2015	\$ 226	\$ 453
2016	7	425
2017	-	401
2018	-	147
	\$ 233	\$ 1,426

## 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-IFRS 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:

(\$thousands)	Three months ended March 31	
	2015	2014
Cash provided by operating activities	(3,598)	10,101
Expenditures on decommissioning liabilities	4,177	1,281
Changes in non-cash working capital	860	(10,398)
Funds from operations	1,439	984

“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)	March 31, 2015	December 31, 2014
Current assets	12,457	14,899
Current liabilities	(65,297)	(59,838)
Working capital deficiency	(52,840)	(44,939)
Add back: risk management contract liability (asset)	(1,817)	(3,460)
Net debt	(54,657)	(48,399)
Bank debt	48,425	29,016
Adjusted net working capital (deficiency)	(6,232)	(19,383)

### FUTURE ACCOUNTING PRONOUNCEMENTS

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers,” which replaces IAS 18 “Revenue,” IAS 11 “Construction Contracts,” and related interpretations. The standard is required to be adopted either

retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017, with earlier adoption permitted. The Company is currently evaluation the impact of this standard on its financial statements.

In July 2014, the IASB completed the final elements of IFRS 9 “Financial instruments.” The standard supersedes earlier versions of IFRS 9 and completes the IASB’s project to replace IAS 39 “Financial Instruments: Recognition and Measurement.” IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, 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. The Company is currently evaluating the impact of this standard on its financial statements.

### **CRITICAL ACCOUNTING ESTIMATES**

This MD&A is based on Strategic’s interim condensed consolidated financial statements, which have been prepared in accordance with IFRS. A summary of the Company’s significant accounting policies is contained in *Note 3* to the Company’s consolidated financial statements for the year ended December 31, 2014. 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, 2014.

### **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 credit facility is also being reduced at a rate of \$0.5 million per month starting on April 1, 2015. 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 over the next 12 months 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. Petroleum prices have fallen precipitously over the last 6 months due to global oversupply, caused primarily by growth in North American

oil production and lack of a voluntary production curtailment by the Organization of Petroleum Exporting Countries ("OPEC"). 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 undertaken 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, 2014.

#### **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, 2014 and other documents filed with Canadian provincial securities authorities and are available to the public at [www.sedar.com](http://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](http://www.sogoil.com) and on the SEDAR website: [www.sedar.com](http://www.sedar.com).