Management's Discussion and Analysis

For the three months and year ended December 31, 2015

April 1, 2016

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 and year ended December 31, 2015, as well as information concerning the Company's future outlook based on currently available information. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2015 and 2014, together with the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Further information with respect to the Company can be found on its website at www.sogoil.com and on the SEDAR website at www.sedar.com.

FINANCIAL AND OPERATIONAL SUMMARY

	Three Months Ended December 31			Year Ended December 31		
	2015	2014	% change	**2015**	2014	% change
Financial ($thousands, except per share amounts)						
Oil and natural gas sales	**7,349**	18,790	(61)	**36,496**	82,466	(56)
Funds from operations (1)	**1,268**	4,974	(75)	**7,285**	12,270	(41)
Per share basic & diluted	**0.00**	0.01	(75)	**0.01**	0.03	(67)
Cash flow from operating activities	**(275)**	8,134	(103)	**1,808**	13,396	(87)
Per share basic & diluted	**(0.00)**	0.02	(103)	**0.00**	0.04	(100)
Net loss	**(31,790)**	(117,321)	(73)	**(110,115)**	(129,490)	(15)
Per share basic & diluted	**(0.06)**	(0.22)	(73)	**(0.20)**	(0.34)	(41)
Capital expenditures (excluding acquisitions)	**2,267**	24,456	(91)	**11,742**	101,319	(88)
Bank indebtedness	**42,857**	29,016	48	**42,857**	29,016	48
Net debt	**54,024**	48,399	12	**54,024**	48,399	12
Operating						
Average daily production						
Oil and NGL (bbl per day)	**1,680**	2,694	(38)	**1,897**	2,343	(19)
Natural gas (mcf per day)	**3,085**	7,382	(58)	**3,674**	6,715	(45)
Barrels of oil equivalent (boe per day)	**2,194**	3,925	(44)	**2,509**	3,462	(28)
Average prices						
Oil & NGL, before risk management ($ per bbl)	**42.65**	65.67	(35)	**47.07**	83.56	(44)
Oil & NGL, including risk management ($ per bbl)	**50.46**	70.49	(28)	**54.92**	76.66	(28)
Natural gas ($ per mcf)	**2.66**	3.70	(28)	**2.91**	4.49	(35)
Natural gas, including risk management ($ per mcf)	**2.67**	3.76	(29)	**2.92**	4.32	(32)
Netback ($ per boe)						
Petroleum and natural gas sales	**36.41**	52.04	(30)	**39.85**	65.26	(39)
Royalties	**(5.00)**	(9.19)	(46)	**(4.59)**	(13.80)	(67)
Operating costs	**(17.41)**	(22.83)	(24)	**(21.58)**	(25.73)	(16)
Transportation costs	**(0.75)**	(1.55)	(52)	**(1.05)**	(2.50)	(58)
Operating Netback ($ per boe) (1)	**13.25**	18.47	(28)	**12.63**	23.23	(46)
Common Shares (thousands)						
Common shares outstanding, end of period	**542,319**	542,319	-	**542,319**	542,319	-
Weighted average common shares (basic)	**542,319**	539,483	1	**542,319**	381,240	42
Weighted average common shares (diluted)	**542,319**	539,483	1	**542,319**	381,240	42

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

About Strategic

Strategic is a junior oil and gas company committed to growth 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 base and opportunity inventory. Strategic's primary operating area is at Marlowe, Alberta. The Company also operates oil and gas production and processing facilities at Bistcho, Alberta and Cameron Hills in the Northwest Territories, as well as minor non-core oil properties in southern Alberta and Wyoming, USA.

FOURTH QUARTER SUMMARY

- Production decreased 44% from 3,925 boe/d for the three months ended December 31, 2014 to 2,194 boe/d for the current quarter, primarily due a lack of development drilling and recompletion activities in 2015 as a result of the Company's focus on conserving capital. The shut-in of 700 Boe/d of uneconomic gas-weighted production at Bistcho/Cameron Hills in February 2015 further contributed to the lower production volumes.

- Funds from operations decreased to $1.3 million from $5.0 million for the comparable quarter in 2014, due to lower production levels and lower realized oil prices, partially offset by reduced royalties, lower general and administrative expenses and a 57% reduction in operating costs. The operating netback decreased to $13.25/boe from $18.47/boe for the fourth quarter of 2014 due to a 35% reduction in realized oil prices, partially offset by lower royalties and operating costs.

- The Company's focus on cost reduction resulted in decreases in unit operating and transportation expenses of 24% and 52%, respectively from 2014 levels. Operating costs at Marlowe, the Company's primary operating area, dropped to $13.71/boe for the current quarter from $15.10/boe for the three months ended December 31, 2014 despite lower production levels.

- Capital expenditures of $2.3 million for the current quarter included road construction and initial drilling costs for the Company's four well winter 2016 drilling program, as well as certain recompletion projects. The first horizontal Muskeg well in the program was spudded on December 30, 2015.

ANNUAL SUMMARY

- Production decreased by 28% from 3,462 boed in 2014 to an average of 2,509 boed in 2015 due to a lack of development drilling activity and the shut-in of volumes at Bistcho/Cameron Hills during the year.

- Funds from operations decreased 41% from $12.3 million in 2014 to $7.3 million in 2015 as lower revenues due to lower oil prices and production levels were partially offset by reduced royalties, lower transportation costs, a 39% decrease in operating costs and a realized gain on risk management contracts.

- Capital expenditures decreased 88% to $11.7 million for the twelve months ended December 31, 2015 from $101.3 million for 2014 as the Company responded to the decline in oil prices by reducing spending in all areas and conserving capital. Approximately 97% of 2015 capital spending was directed to the Company's light oil asset at Marlowe. Drilling, completions and equipping expenditures decreased 85% to $10.6 million for the current year from $68.5 million for 2014 as the number of wells drilled decreased from 14 in 2014 to 1 in the current year. Pipeline and facility expenditures decreased 98% from $29.9 million in 2014 to $0.7 million for the current year as the construction of the major sales oil pipeline and the 9-17 facility expansion were completed in 2014.

- Despite limited capital spending during the year, proved and probable oil and gas reserves declined by only 9% or 1.2 MMboe from the previous year to 12.7 MMboe at December 31, 2015, as determined by the Company’s independent reserve evaluators McDaniel and Associates Consultants Ltd. (“McDaniel”). The decrease is primarily due to production during the year of 0.9 MMboe and economic factors of 0.5 MMboe related to non-core assets.

- The net loss for 2015 was $110.1 million, primarily as a result of an impairment charge of $87.7 million for the current year driven by the significant decline in oil prices in 2015.

ADVISORIES

Basis of Presentation

This discussion and analysis of Strategic’s oil and natural gas production, reserves 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 our 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:

	Three months ended December 31		Year ended December 31	
($thousands)	**2015**	2014	**2015**	2014
Cash generated by operating activities	**(275)**	8,134	**1,808**	13,396
Expenditures on decommissioning liabilities	**292**	(2)	**4,716**	1,745
Change in long-term receivable	**(800)**	-	**(800)**	-
Change in non-cash working capital	**2,051**	(3,158)	**1,561**	(2,871)
Funds from operations	**1,268**	4,974	**7,285**	12,270

“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, operating and transportation 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)	**December 31, 2015**	December 31, 2014
Current assets	**9,347**	14,899
Current liabilities	**(63,371)**	(59,838)
Working capital deficiency	**(54,024)**	(44,939)
Add back: risk management contract liability (asset)	**-**	(3,460)
Net debt	**(54,024)**	(48,399)
Bank debt	**42,857**	29,016
Adjusted net working capital (deficiency)	**(11,167)**	(19,383)

PERFORMANCE OVERVIEW, STRATEGY AND OUTLOOK

2015 has been a challenging year in the oil and gas industry, with WTI crude oil prices down over 47% from 2014 levels. In response to the fall in commodity prices, the Company implemented the following initiatives:

- Curtailed its Muskeg drilling program, drilling only one well in 2015. Actual capital expenditures for the first half of 2015 measured $8.1 million compared to an original budget of $52 million;

- Shut in 700 boe/d of uneconomic production at Bistcho/Cameron Hills, eliminated all non-essential maintenance programs and implemented cost efficiencies at its core Marlowe field;

- Reduced its office and field staff by approximately 35% in January 2015. Staff reductions were primarily related to the shut in of uneconomic operations, realignment of the management team structure and the reduction in budgeted capital spending in 2015 following restrictions in capital funding.

Although these decisions were difficult and negatively impacted corporate production volumes, they were deemed necessary in order to preserve capital and limit the effect of declining revenues on the Company's funds from operations. As a result of these initiatives, operating and G&A expenses were reduced by 39% and 10% respectively from 2014 levels. Funds from operations decreased from $12.3 million in 2014 to $7.3 million for the current year. Strategic continued to generate a competitive netback at Marlowe of $18.06/boe, a decrease of 44% from $32.07/boe in 2014.

The Company has assembled a concentrated base of land and infrastructure at Marlowe and achieved substantial success in delineating the Muskeg resource. In 2015, Strategic's focus was on improving runtime on its horizontal Muskeg wells in order to refine and validate internal type curves, and on mapping the Muskeg resource across its land base.

In December 2015, the Company's board of directors approved a capital budget of $11 million for the first half of 2016, directed towards a 4 well winter drilling program. The capital program was focused on preserving undeveloped lands, increasing reserves and further delineating the Muskeg play at Marlowe. The drilling results yielded a 1,060 boe/d production test at a horizontal well and a core taken from a vertical well which identified 12.6 metres of net oil pay in the Muskeg zone. These positive results have extended the commercial limits and confirmed the significant productivity of the Muskeg play.

The Company now believes it has delineated a significant portion of the 100% owned Muskeg resource at Marlowe and is committed to creating long-term value for shareholders through a disciplined spending approach on scalable drilling programs on its asset base. Strategic has successfully reduced drilling days and completion costs per well while increasing well performance and run time. The next stage of development for the Company will be a sizable production drilling program at West Marlowe. Although the Muskeg wells are economic at current strip pricing, development will continue once commodity prices show further signs of improvement.

In order to provide financial flexibility through the current low commodity price environment the Company closed an offering of convertible debentures (the "Debentures") on February 29, 2016 for gross proceeds of $94.9 million, or approximately $92.6 million after transaction costs. The Debentures have a 5-year term, bear interest at 8% payable semi-annually (subject to, at the Company's option, being paid-in-kind in equivalent principal amount of Debentures for the first two years) and are convertible into common shares of Strategic at a price of $0.09 per share. Proceeds from the offering were used to repay existing credit facilities, the bridge loan from the Company's major shareholder and fund the winter capital program. Strategic has approximately $25 million of cash which will fund ongoing working capital requirements and for general corporate purposes.

Reserves

In accordance with National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities ("NI 51-101"), the Company's oil, natural gas and natural gas liquids ("NGL") reserves were evaluated by an independent engineering firm, McDaniel and Associates Consultants Ltd. ("McDaniel") as at December 31, 2015. Gross reserves included in this release are Strategic's working interest reserves before royalty burdens. Complete NI 51-101 reserves disclosure will be included in Strategic's annual NI 51-101 filings which will be filed prior to April 15, 2016.

Strategic's reserves at December 31, 2015 are summarized below.

Gross Reserves [1]	**Light and Medium Crude Oil (Mbbl)**	**Heavy Oil (Mbbl)**	**Natural Gas (MMcf)**	**Natural Gas Liquids (Mbbl)**	**Oil Equivalent (Mboe)**
Proved Producing	2,563	-	5,607	-	3,497
Proved Non-Producing	375	-	1,007	-	543
Proved Undeveloped	1,823	-	4,009	-	2,491
Total Proved	**4,760**	**-**	**10,623**	**-**	**6,531**
Total Probable	**4,363**	**-**	**11,099**	**-**	**6,213**
Total Proved and Probable	**9,123**	**-**	**21,722**	**-**	**12,744**

(1) *Gross revenues are the Company's total working interest before the deduction of any royalties and without including any royalty interests of the Company. The December 31, 2015 reserves report has been prepared in accordance with the definitions, procedures and standards contained in the Canadian Oil and Gas Evaluation Handbook and NI 51-101 – Standards of Disclosure for Oil and Gas Activities.*

Approximately 95% of the Company's proved reserves and 96% of total reserves are located in the Marlowe core area. Proved and probable producing reserves represent 37% of total proved and probable reserves, as compared to 40% at December 31, 2014.

Proved and probable third party reserve bookings for Muskeg Stack wells are below the Company's type curve generated from internal reservoir engineering estimates. This is typical at the early stages of an emerging resource play. The Company anticipates the difference between these estimates will narrow in future years as additional wells are drilled and more extensive production data becomes available.

McDaniel estimates the future development costs ("FDC") required to convert undeveloped and non-producing reserves to producing reserves at $121.6 million. This includes 38 Muskeg Stack and 1 Keg River proven and probable undeveloped locations at Marlowe, of which 19 Muskeg Stack and 1 Keg River are booked as proven undeveloped locations. The reserve report anticipates these wells to be drilled over the next 4 years. The total booked locations represent less than 10% of the potential Muskeg Stack inventory identified on Company's land holdings in the Marlowe area.

A reconciliation of the Company's reserves at December 31, 2015 to the previous year-end is as follows.

Thousand Barrels of Oil Equivalent (Mboe)	**Proved**	**Probable**	**Proved and Probable**
Opening Balance December 31, 2014	7,201	6,724	13,925
Discoveries and Extensions	-	1,392	1,392
Technical Revisions	396	(1,506)	(1,110)
Economic Factors	(150)	(398)	(548)
Production	(916)	-	(916)
Closing Balance December 31, 2015	**6,531**	**6,213**	**12,744**

Strategic's light and medium oil, natural gas and NGL reserves were evaluated by McDaniel using McDaniel's product price forecasts effective January 1, 2016 prior to provision for financial risk management contracts, income taxes, interest, debt service charges and general and administrative expenses. The following table summarizes the net present value from recognized reserves at December 31, 2015, assuming various discount rates, and incorporating future development costs and abandonment liabilities. The discounted future net revenues estimated by McDaniel are estimates. Actual future production and cash flows from the Company's assets will differ from these estimates and the differences may be significant.

Summary of Before Tax Net Present Value of Future Net Revenue (Forecast Pricing) [(1)] [(2)]

			Discounted at	
($ thousands)	**Undiscounted**	**5%**	**10%**	**15%**
Proved Producing	31,871	24,148	19,369	16,300
Proved Non-Producing	9,499	7,820	6,534	5,540
Proved Undeveloped	34,040	22,523	14,699	9,282
Total Proved	**75,410**	**54,491**	**40,601**	**31,123**
Total Probable	**174,017**	**103,890**	**66,851**	**45,559**
Total Proved and Probable	**249,427**	**158,381**	**107,452**	**76,683**

(1) Based on McDaniel's January 1, 2016 escalated price forecast.

(2) Tables may not add due to rounding. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material. The recovery and reserve estimates of Strategic's crude oil, natural gas liquids and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquids reserves may be greater than or less than the estimates provided herein.

Strategic incurred capital expenditures of $11.7 million in 2015. The following table summarizes Strategic's finding and development ("F&D") costs including changes in FDC. The Company benefited from a significant reduction in field service costs, and as a result FDC costs per well were reduced by 15% from 2014 levels. F&D costs are presented including and excluding reserves losses due to economic factors of 150 Mboe (proved) and 548 Mboe (proved & probable). Approximately 88% of the reserves losses are due to economic factors on a proved basis while 71% on a proved & probable basis relate to the Company's non-core assets outside of Marlowe.

2015 F&D costs

($ thousands, except as noted)	**Proved**	**Proved & Probable**	**Proved Excluding Economic Factors**	**Proved & Probable Excluding Economic Factors**
F&D Costs, Including FDC				
Exploration and Development Expenditures	11,742	11,742	11,742	11,742
Total Change in FDC	(12,696)	(10,702)	(12,696)	(10,702)
Total F&D Capital, Including Change in FDC	(954)	1,040	(954)	1,040
Reserve Additions, Including Revisions - Mboe	246	(265)	396	282
F&D Costs- $/boe	**(3.87)**	**(3.92)**	**(2.41)**	**3.69**

RESULTS OF OPERATIONS

Production

	Three months ended December 31		Year ended December 31	
	2015	2014	**2015**	2014
Oil & NGL – bbl/d	**1,680**	2,694	**1,897**	2,343
Natural gas – mcf/d	**3,085**	7,382	**3,674**	6,715
Total daily production (boed)	**2,194**	3,925	**2,509**	3,462

Oil & NGL production in 2015 decreased 19% on an annual basis and 38% compared to the fourth quarter of 2014 as a result of the shut-in of 180 bbl/d of oil production at Cameron Hills in February 2015, the sale of 40 bbl/d of NGL production in central Alberta in June 2014 and a lack of drilling activity in the current year to replace production declines at Marlowe. Natural gas production for the three and twelve months ended December 31, 2015 decreased by 58% and 45%, respectively from 2014 levels due to the shut-in of 3 MMcf/d of natural gas volumes at Bistcho and Cameron Hills in February 2015, a lack of drilling activity at Marlowe and slightly higher shrinkage losses at the Marlowe gas processing facility.

Production volumes for the fourth quarter of 2015 increased by 4% from the third quarter of 2015 due to successful workover activities on certain Muskeg oil wells.

Revenue

	Three months ended December 31		Year ended December 31	
($thousands, except where noted)	**2015**	2014	**2015**	2014
Sales				
Oil & NGL	**6,593**	16,275	**32,591**	71,461
Natural gas	**756**	2,515	**3,905**	11,005
Oil and natural gas sales	**7,349**	18,790	**36,496**	82,466
Unrealized gain (loss) on risk management contracts	**(989)**	8,055	**(3,460)**	12,217
Realized gain (loss) on risk management contracts	**1,209**	1,232	**5,439**	(6,322)
	7,569	28,077	**38,475**	88,361
Reference prices				
WTI Oil (US$/bbl)	**42.18**	73.15	**48.80**	93.00
Edmonton par ($/bbl)	**52.94**	75.70	**57.21**	94.57
AECO daily index ($/MMBTU)	**2.45**	3.70	**2.70**	4.48
Average prices [(1)]				
Oil & NGL, before realized gain (loss) on risk management contracts ($/bbl)	**42.65**	65.67	**47.07**	83.56
Oil & NGL, including realized gain (loss) on risk management contracts ($/bbl)	**50.46**	70.32	**54.92**	76.66
Natural gas, before realized gain (loss) on risk management contracts ($/mcf)	**2.66**	3.70	**2.91**	4.49
Natural gas, including realized gain (loss) on risk management contracts ($/mcf)	**2.67**	3.76	**2.92**	4.32
Price per boe before realized gain (loss) on risk management contracts ($/boe)	**36.41**	52.04	**39.85**	65.26

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

Oil and natural gas sales for the year ending December 31, 2015 decreased 56% to $36.5 million from $82.5 million in 2014, primarily driven by lower production levels and a 44% decrease in oil prices as well as a 35% reduction in natural gas prices.

The average price realized for oil and NGLs in 2015 decreased to $47.07 per bbl from $83.56 per bbl in 2014, as a 48% decline in WTI oil prices was offset slightly by a higher CAD/US foreign exchange rate. Average natural gas prices decreased 35% to $2.91 per mcf in 2015 from $4.49 per mcf in 2014, driven by a 40% decrease in the AECO daily index prices over the same period.

Oil prices for the fourth quarter of 2015 decreased 35% from the comparative period for 2014, as a result of a 42% drop in WTI prices, partially offset by an increase in the CAD/US foreign exchange rate. Natural gas prices decreased 28%, consistent with a decrease in AECO index prices of 34% from quarter to quarter.

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

During the year, the Company recorded net realized gains on risk management contracts of $5.4 million compared to a loss of $6.3 million for the year ended December 31, 2014, as oil prices started to decline in late 2014 and remained low throughout 2015. Realized gains on risk management contracts were consistent at $1.2 million for the three months ended December 31, 2015 and 2014. As at December 31, 2015 Strategic had no remaining commodity price risk management contracts in place.

The Company incurred unrealized losses on risk management contracts related to oil prices of $1.0 million and $3.6 million for the three months and year ended December 31, 2015 as compared to unrealized gains of $8.1 million and $12.2 million, respectively for the 2014 periods. As oil prices declined late in 2014 Strategic's risk management position switched from a liability to an asset and resulted in the unrealized gains in 2014. The losses in 2015 were a result of the contracts settling on a monthly basis, allowing previously unrealized gains to become realized.

Royalties

	Three months ended December 31		Year ended December 31	
($thousands, except where noted)	**2015**	2014	**2015**	2014
Crown royalties	**924**	3,087	**3,817**	16,531
Freehold and overriding royalties	**85**	233	**386**	904
Total royalties	**1,009**	3,320	**4,203**	17,435
Per boe	**5.00**	9.19	**4.59**	13.80
Percentage of oil & natural gas revenues	**13.7%**	17.7%	**11.5%**	21.1%

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 5% 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 in 2015 as a percentage of revenues and on a per boe basis from 2014 due to lower oil pricing used by the provincial government to calculate royalty rates, as well as reduced well productivity for older Keg river production at Marlowe and a higher portion of oil and natural gas sales derived from Muskeg wells drilled in the past 18 months, which benefit from the lower crown royalty rate.

Royalties for the fourth quarter of 2015 decreased to 13.7% of revenues as compared to 17.7% of revenues for the fourth quarter of 2014 due to lower oil prices, partially offset by certain Muskeg wells reaching the maximum production levels, causing royalty rates on those wells to increase from 5% to 23-30%.

Operating and Transportation Costs

	Three months ended December 31		Year ended December 31	
($thousands, except per boe amounts)	**2015**	2014	**2015**	2014
Operating costs	**3,515**	8,242	**19,760**	32,513
Transportation costs (1)	**151**	559	**964**	3,158
	3,666	8,801	**20,724**	35,671
Per boe				
Operating costs	**17.41**	22.83	**21.58**	25.73
Transportation costs	**0.75**	1.55	**1.05**	2.50
	18.16	24.38	**22.63**	28.23

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

Operating expenses decreased from $32.5 million ($25.73 per boe) in 2014 to $19.8 million ($21.58 per boe) in 2015 as the Company made significant changes to its cost structure in 2015, including shutting in uneconomic properties and reducing non-critical maintenance expenditures and field staff. Operating costs for the fourth quarter of 2015 decreased 57% from the three months ended December 31, 2014, due to the shut-in of Bistcho/Cameron Hills and lower workover and maintenance expenses at Marlowe. The effect of these savings on unit operating costs were partially mitigated by the decline in production volumes caused by the shut-in of approximately 700 boe/day Bistcho/Cameron Hills and a lack of drilling activity in 2015.

Transportation costs for the three and twelve months ended December 31, 2015 decreased to $0.2 million and $1.0 million from $0.6 million and $3.2 million for the respective 2014 periods, primarily due the elimination of oil sales by rail in January 2015 (and associated trucking costs) and the shut-in of production at Bistcho/Cameron Hills in February 2015.

Operating Netbacks

	Three months ended December 31		Year ended December 31	
($ per boe)	**2015**	2014	**2015**	2014
Revenues (1)	**36.41**	52.04	**39.85**	65.26
Royalties	**(5.00)**	(9.19)	**(4.59)**	(13.80)
Operating costs	**(17.41)**	(22.83)	**(21.58)**	(25.73)
Transportation costs (1)	**(0.75)**	(1.55)	**(1.05)**	(2.50)
Netback per boe	**13.25**	18.47	**12.63**	23.23

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

Strategic's operating netback decreased 46% to $12.63 per boe in 2015 from $23.23 per boe for 2014, mostly due to the substantial drop in commodity prices. The 2015 decrease in realized price of $25.14/boe from 2014 was partially offset by lower royalties rate ($9.21/boe) due to lower production and oil pricing, lower operating costs ($4.15/boe), despite the fact that these costs were spread over smaller production volumes, as well as a reduction in transportation costs ($1.45/boe) due to the elimination of rail transportation.

The Company's operating netback for the fourth quarter of 2015 decreased $5.22/boe or 28% from 2014, as the $15.63/boe drop in revenues was partially offset by lower unit operating and transportation costs and lower royalty rates. Strategic continued to gain efficiencies at Marlowe throughout 2015, and unit operating costs for the current period were the lowest recorded for any quarter since 2012.

Strategic's focus area is Marlowe, where production is 100% owned and operated by the Company. The Marlowe assets generated netbacks of $16.84/boe and $18.06/boe for the three months and year ended December 31, 2015 despite low commodity prices. The corporate netback is negatively affected by low netbacks at the Company's minor oil properties and fixed costs at Bistcho/Cameron Hills, which were shut in earlier in 2015. The breakdown of Strategic's operating netback by area for 2015 is as follows:

Operating netback ($/boe)	Marlowe	Other	Total
Revenue	40.21	34.82	**39.85**
Royalties	(4.86)	(0.85)	**(4.59)**
Operating costs	(16.29)	(94.45)	**(21.58)**
Transportation costs	(1.00)	(1.82)	**(1.05)**
Operating netback	18.06	(62.30)	**12.63**

Exploration and Evaluation Expense

The Company's E&E expense represents all pre-license costs and capitalized exploration and evaluation costs that have been subsequently expensed due to a lack of technical feasibility and commercial viability. For the year ended December 31, 2015, the Company recorded $0.7 million of E&E expense compared to $0.4 for the prior year. Current period expenses related to seismic costs incurred in the Amber area.

General and Administrative Expenses

	Three months ended December 31		Year ended December 31	
($thousands, except per boe amounts)	**2015**	2014	**2015**	2014
Gross general and administrative expenses	**1,646**	2,775	**8,028**	10,145
Overhead recoveries	**(78)**	(228)	**(456)**	(978)
Capitalized G&A	**(4)**	(313)	**(917)**	(1,774)
Net general and administrative expenses	**1,564**	2,234	**6,655**	7,393
Per boe	**7.75**	6.18	**7.27**	5.85

General and administrative ("G&A") expenses reflect all head office costs, a portion of which are charged to operated wells and facilities through overhead recoveries. Costs related to technical office staff that are directly involved in the Company's capital spending programs are capitalized to PP&E. Net G&A expenses decreased to $6.7 million and $1.6 million for the year and three months ended December 31, 2015 from $7.4 million and $2.2 million for the respective periods in 2014 due to a lower staff count, reduced consulting fees, professional fees and incentive payments and negotiation of a new office lease starting in December 2015. G&A recoveries were lower in 2015 as a result of the shut-in of Bistcho/Cameron Hills in February 2015 and lower capitalized G&A following curtailment of capital expenditures.

Finance Expense

	Three months ended December 31		Year ended December 31	
($thousands, except per boe amounts)	**2015**	2014	**2015**	2014
Interest expense	**1,051**	693	**3,068**	3,375
Accretion of decommissioning liabilities	**263**	273	**1,102**	1,188
Accretion of promissory notes	**14**	-	**14**	-
Total	**1,328**	966	**4,184**	4,563
Per boe	**6.58**	2.68	**4.57**	3.61

Interest expense decreased to $3.1 million for 2015 from $3.4 million for 2014 due to lower average bank debt balances in the current year, partially offset by higher interest rates on the Company's credit facility. For the three months ended December 31, 2015, interest expense increased by $0.4 million from the comparative period in 2014 primarily due to credit facility amendment fees incurred in 2015.

Accretion expense is a reflection of an increase in Strategic's discounted decommissioning liability due to the passage of time. Accretion expense decreased by $0.1 million in 2015 due to lower discount rates compared to 2014. Accretion expense was consistent for the fourth quarters of 2015 and 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.

For the three months and year ended December 31, 2015, the Company recorded $0.04 million and $0.4 million in stock based compensation expense respectively, as compared to $0.2 million and $1.0 million recorded in the 2014 periods. The decrease was driven by the lower number of stock options granted in 2015, and Black-Scholes values of the stock options have decreasing in line with the decrease in share price over the past year.

Depletion, Depreciation and Amortization

	Three months ended December 31		Year ended December 31	
($thousands, except per boe amounts)	**2015**	2014	**2015**	2014
Depreciation, depletion, and amortization (“DD&A”)	**5,136**	16,340	**24,313**	42,011
Per boe	**25.44**	45.25	**26.55**	33.25

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 for the year ended December 31, 2015 decreased by 42% to $24.3 million compared to $42.0 million for 2014 and decreased by 20% on a boe basis, due to lower production levels in 2015 and reduced fixed asset balances as a result of impairment charges in the fourth quarter of 2014. DD&A expense decreased to $5.1 million for the fourth quarter of 2015 from $16.3 million in 2014 as a result of reduced production levels and lower DD&A rates. DD&A in the fourth quarter of 2014 was affected by the loss of reserves in certain non-core areas, which increased DD&A rates for that period.

Impairment Loss

Impairment testing is required when there are indicators of impairment such as a significant drop in commodity prices or a downward revision of proved and probable oil and gas reserves. When indicators of impairment exist, impairment testing is performed at the cash generating unit (“CGU”) level and is a point in time process for testing and measuring a potential impairment of assets, whereby the carrying value of each CGU is compared to the CGU’s recoverable amount, which is the greater of its value in use and its fair value less costs to sell. The Company’s development and production assets are aggregated into CGUs based on their ability to generate largely independent cash flows. At September 30, 2015 and December 31, 2015, the Company identified indicators of impairment for the Marlowe, Bistcho/Cameron Hills and other Canadian CGUs based on continued weakness in forward oil prices during the year, a lack of drilling and other reserve-adding activities in 2015 and decreases in recognized reserves in certain areas from 2014 levels.

The recoverable amount was determined based on the fair value less costs to sell method for reserves as well as resources estimated by management to be realized based on planned future drilling locations not considered in the reserve report. The key assumptions used in determining the recoverable amount include the future cash flows using reserve and resource forecasts, forecasted commodity prices, discount rates, inflation rates and future development costs estimated for reserves by independent reserve engineers and by internal estimates based on historical experiences and trends for planned future drilling locations.

The values assigned to the future cash flows, forecasted commodity prices and future development costs were obtained from Strategic's year-end reserve report, which was evaluated or audited by its independent reserve engineers. These values were based on future cash flows of proved plus probable reserves discounted at a pre-tax rate of 10% (2014 – 10%). The future cash flows also consider, when appropriate, past capital activities, observable market conditions, comparable transactions and future development costs primarily based on anticipated development capital programs.

The value of resources incremental to the reserve report was obtained from internal analysis completed by management most notably through the review of its drilling program results and future drilling plans outlined in its current five-year plan. This was further supported by contingent and prospective resource studies that were compiled by independent reserve engineers. Based on this internal analysis, Strategic identified and risked potential drilling locations that were not assigned any proved plus probable reserves. The value of these additional drilling locations was included in the recoverable amount, based on the net present value of proved undeveloped locations within the same resource play from the Company's most recent annual reserve report. A discount rate of 15% and risk factors of 20% to 50% were applied to determine an estimate of the present value of the future cash flows from these future drilling locations.

For the year ended December 31, 2015, the Company recognized an impairment charge of $92.0 million (2014 - $114.0 million), including $85.9 million (2014 - $97.1 million) related to Marlowe, $5.0 million (2014 - $14.8 million) related to Bistcho/Cameron Hills and $1.1 million (2014 - $2.1 million) related to the Other Canadian CGU. Impairment charges were primarily related to the decline in oil prices and decreases in reserves from the previous period. This was partially offset by a $4.3 million reversal of a previous impairment charge related to insurance coverage of an environmental liability.

Deferred Taxes

Strategic recorded a deferred tax recovery of $nil in the current year, compared to $2.3 million for the year ended December 31, 2014. As of December 31, 2015 the Company has approximately $249 million in accumulated tax losses available to shelter future income, and does not anticipate paying income taxes in the foreseeable future.

Funds From Operations and Net Loss

	Three months ended December 31		Year ended December 31	
($thousands, except per share amounts)	**2015**	2014	**2015**	2014
Funds from operations	**1,268**	4,974	**7,285**	12,270
Per share – basic & diluted	**0.00**	0.01	**0.01**	0.03
Cash provided by (used in) operating activities	**(275)**	8,134	**1,808**	13,396
Per share - basic & diluted	**0.00**	0.02	**0.00**	0.04
Net loss	**(31,790)**	(117,321)	**(110,115)**	(129,490)
Per share – basic & diluted	**(0.06)**	(0.22)	**(0.20)**	(0.34)

Funds from operations decreased 41% and 75% respectively to $7.3 million and $1.3 million for the year and three months ended December 31, 2015 from $12.3 million and $5.0 for the comparative periods in 2014, primarily due to lower oil prices and production levels in the current year, partially mitigated by cost reductions and gains on risk management contracts. Strategic implemented a series of cost-cutting initiatives implemented throughout 2015 to reduce cash costs and mitigate the impact of declining commodity prices. This included shutting in uneconomic assets, trimming office and field staff and reducing maintenance expenditures, as well as implementing technical and operational improvements.

Cash flow provided by (used in) operating activities dropped to ($0.3) million and $1.8 million for the fourth quarter and year ended December 31, 2015 from $8.1 million and $13.4 million, respectively in 2014 due to reduced funds from operations and expenditures on decommissioning liabilities in the current year, primarily related to the remediation of a prior year pipeline spill at Marlowe.

Net loss decreased to $110.1 million ($0.20 per basic and diluted common share) from $129.5 million ($0.34 per basic and diluted common share) in 2014 as a result of reduced oil prices.

Capital Expenditures

	Three months ended December 31		Year ended December 31	
($thousands)	**2015**	2014	**2015**	2014
Drilling, completions and equipping	**2,064**	19,308	**10,631**	68,467
Pipelines and facilities	**40**	4,818	**742**	29,947
	2,104	24,126	**11,373**	98,414
Net acquisitions (dispositions)	**-**	(6)	-	(3,828)
Total property, plant and equipment	**2,104**	24,120	**11,373**	94,586
Exploration and evaluations	**163**	330	**369**	2,905
Total net capital expenditures	**2,267**	24,450	**11,742**	97,491

Capital expenditures decreased significantly to $11.7 million in 2015 from $97.5 million in 2014 as the decline in commodity prices restricted Strategic's cash flows and the borrowing base on the Company's credit facility, and therefore the Company elected to curtail its Muskeg drilling program in January 2015. Strategic drilled one well in 2015 compared to 14 wells in 2014. Current year expenditures also included completion of a well drilled in late 2014, preliminary expenditures for the 2016 winter capital program and recompletions and equipping costs to limit production declines. Pipeline and facility expenditures decreased 98% in 2015 due to the reduced drilling program. The Bistcho pipeline project to tie in oil production from Marlowe and the 9-17 facility expansion at Marlowe were both completed in 2014, which will allow the Company to increase production to approximately 6,000 Boe/d without requiring major facility expenditures.

Capital expenditures for the three months ended December 31, 2015 decreased 91% to $2.3 million from $24.5 million for the fourth quarter of 2014 as a result of the focus on capital preservation in the 2015 period. Capital expenditures for the current quarter included preliminary costs related to the winter 2016 four well Muskeg drilling program, as well as recompletions and minor seismic expenditures.

Decommissioning Liabilities

Decommissioning liabilities decreased to $53.9 million at December 31, 2015 from $54.9 million at December 31, 2014, as expenditures during the year of $4.7 million which reduced the liability were partially offset by a reduction in discount rates. The current portion of the decommissioning liabilities increased to $5.8 million at December 31, 2015 and relates primarily to required remediation of the site of a prior year pipeline spill at Marlowe. Strategic has claimed this amount, in addition to amounts already incurred with respect to the remediation effort, from its insurer. The Company has received an offer from the insurer to settle this claim for a total payment of $6.0 million, and as such this amount has been included in accounts receivable at December 31, 2015. The insurance receivable is expected to be collected in 2016. In 2014, the Company had recorded an impairment charge of $5.0 million related to the portion of the remediation cost that was not covered by an insurance receivable. As a result of the settlement reached, $4.3 million of this impairment was reversed in 2015.

SUMMARY OF QUARTERLY FINANCIAL DATA

The following table summarizes quarterly financial results:

Quarter ended ($thousands, except where noted)	Dec 31, 2015	Sept 30, 2015	Jun 30, 2015	Mar 31, 2015
Oil and natural gas sales	**7,349**	7,783	10,942	10,422
Net income (loss)	**(31,790)**	(63,918)	(5,797)	(8,610)
Net income (loss) per share – basic & diluted	**(0.06)**	(0.12)	(0.01)	(0.02)
Average daily production (boed)	**2,194**	2,113	2,480	3,267
Average realized price ($/boe)	**36.41**	40.04	48.49	35.45

Quarter ended ($thousands, except where noted)	Dec 31, 2014	Sept 30, 2014	Jun 30, 2014	Mar 31, 2014
Oil and natural gas sales	18,790	19,394	23,384	21,370
Net loss	(117,321)	213	(2,717)	(9,664)
Net loss per share – basic	(0.22)	0.00	(0.01)	(0.04)
Average daily production (boed)	3,925	3,234	3,538	3,147
Average realized price ($/boe)	52.04	65.18	72.61	73.82

Oil and natural gas sales are a function of average daily production levels, the oil/gas production mix and commodity prices, which were highest in the first and second quarter of 2014, as average realized prices were over $70/boe for those periods. Conversely, sales were lowest in the third and fourth quarters of 2015 due to reduced production volumes and oil prices.

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 losses were high in the fourth quarter of 2014, the third quarter of 2015 and the fourth quarter of 2015 due to impairment charges of $114.0 million, $60.0 million and $27.7 million, respectively. The net loss was the lowest in the second quarter of 2014 due to 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.

LIQUIDITY AND CAPITAL RESOURCES

The Company considers its capital structure to include shareholders' equity and working capital, including bank debt and promissory notes. 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)	December 31, 2015	December 31, 2014
Current assets, (excluding risk management contracts)	**9,347**	11,439
Accounts payable and accruals	**(5,029)**	(26,815)
Promissory notes	**(9,703)**	-
Current decommissioning liabilities	**(5,782)**	(4,007)
Adjusted working capital (deficiency)	**(11,167)**	(19,383)
Bank indebtedness	**(42,857)**	(29,016)
Net debt	**(54,024)**	(48,399)

At December 31, 2015, the Company had a $55.5 million credit facility with a Canadian chartered bank, consisting of a $40 million revolving operating loan and a $15.5 million non-revolving facility. In addition to $42.9 million drawn on the facility at December 31, 2015, the Company had $4.5 million letters of credit outstanding with third parties which reduced the amount of funds available under the facility. Amounts outstanding under the amended revolving facility were repayable on demand, and bore interest at a rate of 3.0% over the bank's prime lending rate. Amounts due under the non-revolving facility bore interest at a rate of 2.0% above the interest rates on the operating loan. The facility was secured by a general security agreement including a floating charge on all property, plant and equipment. The non-revolving facility was being reduced as follows:

- $0.5 million per month
- An additional $9.5 million on or before February 1, 2016
- The balance of the non-revolving facility on or before June 1, 2016

The Company was also required to raise $40 million in capital subordinated to the lender on or before June 1, 2016, with a minimum of $25.0 million raised prior to February 1, 2016, and drill two wells before March 31, 2016 primarily to retain certain undeveloped lands.

At December 31, 2015 the Company was in compliance with all covenants under the facility. However, as of February 1, 2016 the Company had not raised $25.0 million in capital or made the required repayments to the lender, and therefore was in violation of the facility covenants.

On November 19, 2015, the Company obtained a loan of $10 million, in the form of convertible unsecured promissory notes, from an entity which is a significant shareholder in the Company and controlled by the Chairman of the Board of Directors. The notes bore interest at 1% per month, compounded monthly, up to March 31, 2016 and at 1.5% per month thereafter. The notes, together with accrued interest, were repayable at any time without penalty, at the earlier of the closing of a raise of capital subordinated to the credit facility or June 30, 2016.

The principal amount and accrued interest, or any part of such amount, were convertible at the holder's option, at a price equal to the lesser of $0.115 per share, or that price per common share that is the issue price of shares issued on an equity raise prior to January 31, 2017.

The promissory notes were determined to be a hybrid instrument with the conversion option being an embedded derivative, classified as a financial liability through profit and loss. The fair value of the debt component of the promissory note was determined to be $9.7 million and the conversion feature was allocated a value of $0.3 million. The conversion option is revalued at each reporting date, with the decrease in value of $0.3 million in the fourth quarter of 2015 recorded as a gain on the income statement. The debt component will be accreted up to the principal amount over the term of the promissory note.

On February 11, 2016, the Company announced a financing transaction to raise approximately $90 million by way of an offering of convertible debentures (the "Debentures") on a private placement basis. The offering was intended to provide necessary funding to the Company to repay its existing credit facilities and execute its winter capital program. The offering closed on February 29, 2016, raising gross proceeds of $94.9 million (net proceeds of $92.6 million after transaction costs). The Debentures are for a five year term and bear interest at a rate of 8% per annum, payable semi-annually in arrears, with an option for the Company to pay the interest in equivalent principal amount of Debentures for the first two years. The Debentures are convertible into common shares of the Company at a price of $0.09 per share. In addition, the Notes will be callable by the Company (i) any time if the 90-day volume weighted average trading price of the underlying shares exceeds 400% of the Conversion Price; or (ii) after the 4th anniversary of issuance, regardless of share price, at par plus accrued and unpaid interest plus the value of remaining interest from the effective date of redemption to the maturity date.

Using proceeds from the issuance of the Debentures, the Company repaid the promissory notes and all indebtedness owing to the lender in full, and the lender cancelled the credit facility and provided the company with a release and discharge of the guarantees and the security formerly required under the facility agreement.

Letters of credit in the amount of $4.5 million are still outstanding and are secured by term deposits held with the Company's lender.

The Company had a working capital deficiency at December 31, 2015 and 2014 as capital spending has exceeded cash flows 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.

SHARE CAPITAL

	Year ended December 31	
	2015	2014
Weighted average common shares outstanding (thousands)		
Basic	**542,319**	381,240
Diluted	**542,319**	381,240

($000)	**# of Shares**		**Amount**
Balance as at January 1, 2014	260,600,646	$	197,970
Exercise of options	400,000		205
Shares issued	281,317,983		122,673
Share issue costs	-		(1,170)
Balance as at December 31, 2014 and 2015	**542,318,629**		**319,678**

For the year ended December 31, 2015, 0.02 million stock options were granted at an average price of $0.15 per common share. Subsequent to the reporting period, the Company issued 10,640,000 stock options to directors, management, employees and consultants with an exercise price of $0.09 per common share.

As of March 31, 2016 there were 542,318,629 common shares outstanding and 21,240,000 stock options outstanding.

SUMMARY OF ANNUAL INFORMATION

		Year ended December 31	
($000, except per share amounts)	**2015**	2014	2013
Total revenue	**36,496**	82,466	78,738
Net income (loss)	**(110,115)**	(129,490)	(22,316)
Per common share (basic & diluted)	**(0.20)**	(0.34)	(0.10)
Total assets	**130,593**	239,601	274,221
Total long-term liabilities	**48,107**	50,904	37,413

Net revenues decreased substantially in 2015 compared to the previous two years as a result of lower oil prices and production levels. Net loss was lowest in 2013 due to lower finance costs and impairment charges compared to 2014 and 2015. The losses in 2014 and 2015 were affected by impairment charges of $114.0 million and $92.0 million, respectively, related to a significant decline in oil prices. Total assets decreased in 2014 and again in 2015 as DD&A expense and impairment charges exceeded capital spending in both periods. Long-term liabilities consist primarily of decommissioning obligations, and have increased over the three-year period as the Company's oil and gas asset base has also increased, and discount rates dropped in 2015 relative to previous years.

TRANSACTIONS WITH RELATED PARTIES

Legal fees in the amount of $0.2 million (2014 - $0.4 million) were incurred to a legal firm of which a director is a partner, and are included as general and administrative expenses or share issue costs. Software charges of $0.2 million (2014 - $0.2 million) were incurred to a software firm which is controlled by an officer of the Company under a five year agreement which is up for renewal in 2018. Accounts payable and accrued liabilities at 2015 include $0.2 million (2014 - $0.1 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. Transaction amounts reflect fair values.

On November 19, 2015, the Company obtained an interest-bearing loan of $10 million from an entity which is a significant shareholder in the Company and controlled by the Chairman of the Board of Directors. The loan was repaid in full plus interest on February 29, 2016.

COMMITMENTS

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

Year	**Operating lease ($000)**	**Gas transportation ($000)**
2016	$ 141	$ 458
2017	68	458
2018	-	201
2019	-	90
2020	-	72
2021 and thereafter	-	25
	$ 209	$ 1,304

SENSITIVITY ANALYSIS

The following table analyses the Company's sensitivity of funds from operations for the period shown to changes in commodity prices and interest rates:

	For the year ended December 31	
($000)	**2015**	2014
$1.00 increase in oil price	**601**	659
$0.25 increase in gas price	**342**	487
1% increase in interest rate	**359**	464

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. IFRS 15 will be applied by the Company on January 1, 2017 and the Company is currently evaluating the impact of the 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. IFRS 9 will be applied by the Company on January 1, 2018 and the Company is currently evaluating the impact of the standard on its financial statements.

CHANGES IN ACCOUNTING POLICIES

As of January 1, 2014, the Company adopted several new IFRS standards and amendments in accordance with the transitional provisions of each standard. A brief description of each new standard and its impact on the Company's consolidated financial statements follows below:

IAS 36 “Impairment of Assets”
This standard has been amended to reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The retrospective adoption of these amendments impact the Company’s disclosures in the notes to the consolidated financial statements in periods when an impairment loss or impairment reversal is recognized.

IAS 39 “Financial Instruments: Recognition and Measurement”
This standard has been amended to clarify that there would be no requirement to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The retrospective adoption of the amendments does not have any impact on the Company’s consolidated financial statements.

IFRIC 21 “Levies”
This standard was developed by the IFRS Interpretations Committee (“IFRIC”) and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 “Income Taxes”) and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation does not have any impact on the Company’s financial statements.

CRITICAL ACCOUNTING ESTIMATES

A summary of the Company’s significant accounting policies is contained in *Note 3* to the consolidated financial statements. These accounting policies are subject to estimates and key judgments about future events, many of which are beyond the Company’s control. The following is a discussion of the accounting policies that are critical to the financial statements.

Reserves Estimates

The Company retained McDaniel to evaluate its crude oil and natural gas reserves, prepare an evaluation report, and report to the Company. The process of estimating crude oil and natural gas reserves is subjective and involves a significant number of decisions and assumptions in evaluating available geological, geophysical, engineering and economic data. These estimates will change over time as additional data from ongoing development and production activities becomes available and as economic conditions affecting crude oil and natural gas prices and costs change. Reserves can be classified as prove, probable or possible with decreasing levels of likelihood that the reserve will be ultimately produced.

Reserve estimates are a key input to the Company’s depletion calculations and impairment tests. Property, plant and equipment within each area are depleted using the unit-of-production method based on proved plus probable reserves using estimated future prices and costs. In addition, the costs subject to depletion include an estimate of future costs to be incurred in developing proved reserves. A revision in reserve estimates or future development costs could result in the recognition of higher depletion charged to net income.

E&E Costs

Capitalized costs that are exploratory in nature such as undeveloped land acquisitions, seismic expenditures and exploration drilling are included in E&E costs. Costs are transferred from E&E to property, plant and equipment once technical feasibility and commercial viability of the underlying resource have been established. The results of a drilling operation can take considerable time to analyze and the determination that commercial reserves have been discovered requires both judgment and application of industry experience. The evaluation of petroleum and natural gas leasehold acquisition costs requires management’s judgment to evaluate the fair value of land in a given area.

Impairment

Under IFRS, the carrying amount of property, plant and equipment and E&E assets are reviewed at each reporting date to determine whether there is any indication of impairment. Management's judgement is required to perform such reviews. If there are indications of impairment, carrying values of assets are compared to related recoverable amounts. Reserves, revenue, royalty and operating cost estimates and the timing of future cash flows are all critical components of the recoverable amount. Revisions of these estimates could result in significant changes to impairment charges recorded in a reporting period, as well as the carrying value of the Company's assets.

Decommissioning Liabilities

Decommissioning liabilities are measured based on the estimated costs of decommissioning and estimated timing to reclamation, discounted to their net present value using a credit-adjusted risk-free rate. Decommissioning liabilities are reassessed at each reporting date, and these estimates may change.

By nature of its oil and gas operations in Northern Alberta, the Company is subject to numerous safety and environmental regulations, with which non-compliance may result in adverse financial impact. The Company mitigates these risks through the adherence to formal safety and environmental policies, as well as adequate insurance coverage. The Company is currently remediating an environmental spill at Marlowe. While the Company believes it has recorded its best estimate of the impact of this contingency in these financial statements, the ultimate outcome of this incident is uncertain.

Business Combinations

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition of control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their recognized amounts (generally fair value) at the acquisition date. The excess of the cost of acquisition over the recognized amounts of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the recognized amount of the net assets acquired, the difference is recognized as a bargain purchase gain in net income or loss.

Risk Management Contracts

Estimated fair values of financial instruments are subject to fluctuation depending upon the underlying commodity prices, interest rates, volatility curves and the risk of non-performance.

Stock Based Compensation

Stock based compensation expense is based on estimated fair values of stock options as of the grant date, which are calculated using a Black-Scholes option pricing model and involves assumptions such as volatility, expected option life and expected dividend yield.

Other Estimates

The accrual method of accounting requires management to incorporate certain estimates including estimates of revenue, royalties and operating costs at a specific report date, but for which actual revenues and costs have not yet been received. In addition, estimates are made on capital projects which are in process or recently completed where actual costs have not been received by the reporting date. The Company obtains the estimates from the individuals with the most knowledge of the activity and from all project documentation received. The estimates are reviewed for reasonableness and compared to past performance to assess the reliability of the estimates. Past estimates are compared to actual results in order to make informed decisions on future estimates.

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. The following reviews the general and specific risks to which the Company is exposed.

Acquisition and Development of Additional Reserves

The Company’s future success is dependent upon its ability to develop or acquire additional oil and natural gas reserves that are economically recoverable at attractive prices. Except to the extent that the Company conducts successful activities or acquires properties containing proved reserves, or both, the proved reserves and production will generally decline as reserves are produced. The drilling of oil and natural gas wells involves a high degree of risk, especially the risk of a well that is not sufficiently productive to provide an economic return on the capital expended to drill the well or of its ongoing operational costs.

Exploration and development risks are due to the uncertain results of searching for and producing oil and natural gas using imperfect scientific methods. These risks are mitigated by using highly skilled staff, focusing activities in areas in which the Company has existing knowledge and expertise or access to such expertise, using up-to-date technology to enhance methods and controlling costs to maximize returns. Advanced oil and natural gas related technologies such as three dimensional seismography, reservoir simulation studies and horizontal drilling might, where appropriate, be used by the Company to improve its ability to find, develop and produce oil and natural gas. However, notwithstanding this, the combination of technology, knowledge and skilled people may not eliminate these risks.

Acquisitions of resource issuers and resource assets by the Company will be based on engineering and economic assessments made by management. These assessments include a series of assumptions regarding such factors as recoverability and marketability of oil and natural gas, future prices of oil and natural gas and operating costs, future capital expenditures and royalties and other governmental levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the control of the Company. In particular, changes in the prices of and markets for oil and natural gas from those anticipated at the time of making such assessments will affect the value of the Company’s common shares. In addition, all such assessments involve a measure of geological and engineering uncertainty that could result in lower production and reserves than anticipated.

Oil and Natural Gas Prices and Marketing

The marketability and price of oil and natural gas that may be acquired or discovered by the Company will be affected by numerous factors beyond its control. The Company's ability to market its natural gas and oil may depend upon its ability to acquire space on pipelines that deliver natural gas and oil to commercial markets. The Company may also be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities, and related to operational problems with such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

The Company's revenues, profitability and future growth and the carrying value of its oil and gas properties are substantially dependent on prevailing prices of oil and gas which are volatile and subject to fluctuations. The Company's ability to borrow and to obtain additional capital on attractive terms is also substantially dependent upon oil and gas prices. Petroleum prices fell precipitously in late 2014 and have remained low over the last 15 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”). Continued low commodity prices may have an adverse effect on the Company’s cash flows, reserves values and capital resources, including the availability of its credit facilities.

Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond the control of the Company. These factors include economic conditions in the United States and Canada, the actions of OPEC, governmental regulation, political stability in the Middle East and elsewhere, the foreign supply of oil and gas, the price of foreign imports and the availability of alternative fuel sources. Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and the demand of these commodities due to the current state of the global economy, OPEC actions, instability in the Middle East and the impact of emerging countries such as China and India on the demand for crude oil and natural gas.

Volatile oil and gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

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. The Company's cash flows are being adversely affected by low commodity prices. As such, the Company's ability to expend the capital necessary to undertake or complete future drilling programs in order to replace reserves and maintain production will be limited without additional financing. There can be no assurance that debt or equity financing 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. The convertible debentures recently issued by Strategic will need to be repaid or refinanced in five years. 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.

Environmental Concerns

The operation of oil and natural gas wells involves a number of natural hazards that may result in blowouts, environmental damage or other unexpected or dangerous conditions resulting in liability to the Company and possibly liability to fourth parties. The oil and natural gas industry is subject to extensive environmental regulation that provides for restrictions and prohibitions on releases or emissions of various substances produced in association with certain oil and natural gas industry operations, and such regulations may be expanded to include regulation of, among other things, emissions of carbon dioxide. In addition, legislation requires that well and facility sites are abandoned and reclaimed to the satisfaction of provincial authorities. A breach of such legislation may result in fines or the issuance of clean-up orders. The Company carries insurance to mitigate the cost of remediating damage from environmental incidents, but there can be no assurance that the insurance will cover all types of incidents or that remediation costs will not exceed the limit of the insurance carried. In addition, the Company will make reasonable provisions for well abandonment, facility decommissioning and site remediation where appropriate, however there can be no assurance that such provisions will be sufficient to satisfy all such obligations. In addition, decommissioning expenditures that are planned for the first 12 months after the reporting date are classified as current liabilities on the balance sheet and affect the Company's net debt levels and debt covenant calculations.

Permits and Licenses

Strategic's operations may require licenses and permits from various governmental authorities. There can be no assurance that Strategic will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at its projects.

Reliance on Operators and Key Employees

To the extent the Company is not the operator of its oil and gas properties, the Company will be dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. In addition, the success of the Company will be largely dependent upon the performance of its management and key employees. The Company does not have any key man insurance policies, and therefore there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on the Company. In addition, there is competition for qualified personnel in the oil and natural gas industry and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of the business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of Strategic's management.

Third Party Credit Risk

The Company is or may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production, operators of facilities, pipelines, terminals and other infrastructure used by Strategic and other parties. In the event such entities fail to meet their contractual obligations to the Company, such failures could have a material adverse effect on the Company and its cash flow from operations.

Title to Properties

Although title reviews will be done according to industry standards prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells as determined appropriate by management, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat a claim of Strategic which could result in a reduction of the revenue received by the Company.

Competition

Strategic competes with numerous other organizations in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. The Company also competes with other companies for all of its business inputs including exploitation and development prospects, access to commodity markets, property and corporate acquisitions, and available capital. The Company endeavors to be competitive by maintaining a strong financial condition, by attracting and retaining technically competent and accountable staff, by refining and enhancing business processes on an ongoing basis and by utilizing current technologies to enhance exploitation, development and operational activities.

Refer to the Company's Annual Information Form for the year ended December 31, 2015 for a discussion of additional risk factors.

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 violations of credit facility covenants; (vi) anticipated production and service costs; (vii) incremental development opportunities; (viii) total shareholder return; (ix) anticipated compliance with credit facility covenants; (x) asset disposition plans; (xi) potential 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, 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, 2015 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.