Management's Discussion and Analysis

For the three months and year ended December 31, 2016

March 23, 2017

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, 2016, 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, 2016 and 2015, together with the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar amounts are referenced in Canadian dollars. On March 6, 2017, the Company consolidated its common shares on a 20:1 basis, and all share and per share amounts, convertible debenture conversion prices and options information have been restated to reflect the consolidation.

FINANCIAL AND OPERATIONAL SUMMARY

	Three Months Ended December 31			Year Ended December 31		
	2016	2015	% change	**2016**	2015	% change
Financial ($thousands, except per share amounts)						
Oil and natural gas sales	**7,721**	7,349	5	**23,878**	36,496	(35)
Funds from operations (1)	**1,660**	1,268	31	**(219)**	7,285	-
Per share basic (2)	**0.06**	0.05	20	**(0.01)**	0.27	-
Cash flow from (used in) operating activities	**(1,256)**	(275)	357	**3,335**	1,808	84
Per share basic (2)	**(0.04)**	(0.01)	300	**0.12**	0.07	71
Net income (loss)	**48,510**	(31,790)	-	**33,242**	(110,115)	-
Per share basic (2)	**1.69**	(1.17)	-	**1.21**	(4.06)	-
Per share diluted (2)	**0.62**	(1.17)	-	**0.55**	(4.06)	-
Capital expenditures (excluding dispositions)	**9,018**	2,267	298	**29,279**	11,742	149
Bank indebtedness	**-**	42,857	(100)	**-**	42,857	(100)
Convertible debentures	**84,489**	-	-	**84,489**	-	-
Net debt	**37,166**	54,024	(31)	**37,166**	54,024	(31)
Operating						
Average daily production						
Oil and NGL (bbl per day)	**1,487**	1,680	(11)	**1,415**	1,897	(25)
Natural gas (mcf per day)	**2,233**	3,085	(28)	**2,359**	3,674	(36)
Barrels of oil equivalent (boe per day)	**1,859**	2,194	(15)	**1,808**	2,509	(28)
Average prices						
Oil & NGL, before risk management ($ per bbl)	**51.38**	42.65	20	**42.33**	47.07	(10)
Oil & NGL, including risk management ($ per bbl)	**51.38**	50.46	2	**42.33**	54.92	(23)
Natural gas, before risk management ($ per mcf)	**3.36**	2.66	26	**2.27**	2.91	(22)
Natural gas, including risk management ($ per mcf)	**3.36**	2.67	26	**2.27**	2.92	(22)
Netback ($/boe)						
Petroleum and natural gas sales	**45.13**	36.41	24	**36.09**	39.85	(9)
Royalties	**(6.00)**	(5.00)	20	**(4.96)**	(4.59)	8
Operating costs	**(19.87)**	(17.41)	14	**(21.64)**	(21.58)	-
Transportation costs	**(1.01)**	(0.75)	35	**(0.84)**	(1.05)	(20)
Operating Netback ($/boe) (1)	**18.25**	13.25	38	**8.65**	12.63	(32)
Common Shares (thousands)						
Common shares outstanding, end of period (2)	**43,978**	27,116	62	**43,978**	27,116	62
Weighted average common shares (basic) (2)	**28,775**	27,116	6	**27,533**	27,116	2
Weighted average common shares (diluted) (2)	**81,616**	27,116	201	**71,700**	27,116	164

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

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

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 base and opportunity inventory. Strategic's primary operating area is at Marlowe, Alberta.

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.

This MD&A contains oil and gas metrics including production and reserves information and finding and development costs. Unless otherwise indicated, all production and reserves information is presented on a gross basis, which is the Company's working interest prior to deduction of royalties and without including any royalty interests of the Company. Finding and development costs are used as a measure of capital efficiency. The calculation includes all capital costs plus the change in future development costs for the period, divided by the change in reserves for the period, including discoveries, extensions, technical revisions and economic factors. Finding and development costs do not have standardized meanings or methods of calculation and therefore such measures may not be comparable to similar measures used by other entities.

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-GAAP Measurements

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

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

The following table reconciles funds from (used in) operations to cash provided by operating activities:

	Three months ended December 31		Year ended December 31	
($thousands)	**2016**	2015	**2016**	2015
Cash generated by (used in) operating activities	**(1,256)**	(275)	**3,335**	1,808
Expenditures on decommissioning liabilities	**910**	292	**1,625**	4,716
Change in long-term receivable	**-**	(800)	**-**	(800)
Change in non-cash working capital	**2,006**	2,051	**(5,179)**	1,561
Funds from (used in) operations	**1,660**	1,268	**(219)**	7,285

"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.

"Net debt" is used to assess capital requirements and leverage, as well as evaluate funds available for capital spending programs and operations. Net debt is calculated as convertible debentures less working capital, or plus the working capital deficiency.

FOURTH QUARTER SUMMARY

- Capital expenditures of $9.0 million for the current quarter included completion costs for three wells of the Company's four well summer 2016 drilling program as well as minor equipping projects and preliminary costs for Strategic's winter 2017 drilling program. The Company drilled four Muskeg wells on a pad in the second half of 2016 with average lateral lengths of 1,900 meters and 20 completion stages per well. The first two wells are tied in and are producing above the Company's type curve. The third Muskeg well is equipped, tied in and producing 120 boe/d. The completion program for the fourth well on the pad was delayed due to operational issues.

- Production decreased 15% from 2,194 boe/d for the three months ended December 31, 2015 to 1,859 boe/d for the current quarter, primarily due to natural declines and delays in bringing on production from new Muskeg wells. Production from new wells was also temporarily restricted due to limitations of the artificial lift systems installed.

- Funds from operations increased to $1.7 million from $1.3 million for the comparable quarter in 2015, due to higher oil prices and lower operating, general and administrative and cash interest expenses, partially offset by gains on risk management contracts in the 2015 period. The operating netback increased 38% to $18.25/boe in the fourth quarter of 2016 from $13.25/boe for the fourth quarter of 2015 due to a 20% increase in realized oil prices, partially offset by higher unit royalties and operating costs.

- Strategic closed a non-brokered private placement of 16.9 million common shares at a price of $2.40 per common share for gross proceeds of $40.5 million. An additional 2.4 million common shares were issued in January under a brokered private placement at a price of $2.40 per common share for gross proceeds of $5.7 million (net proceeds of $5.4 million after agent's commission and legal costs). Proceeds from the offerings will be used towards continued development of the Marlowe asset in 2017 and general corporate and working capital purposes. The Company currently has 46.4 million shares outstanding.

ANNUAL SUMMARY

- Production decreased by 28% from 2,509 boe/d in 2015 to an average of 1,808 boe/d in 2016 due to natural declines and a lack of drilling activity in 2016. Only four wells were drilled targeting production additions during 2016, three of which came onstream in the fourth quarter of the year. Approximately 100 boe/d of the decrease relates to the shut-in of non-economic assets early in 2015 to conserve cash in a low commodity price environment.

- Funds from operations decreased from $7.3 million in 2015 to funds used in operations of $0.2 million in 2016 as lower revenues due to lower oil prices and production levels were partially offset by reduced costs.

- The Company's focus on cost reductions continued to positively affect netbacks and cash flows in 2016. Year over year operating costs decreased 28% or $5.4 million, general and administrative ("G&A") expenses were reduced by 25% or $1.6 million and transportation costs decreased by 42% or $0.4 million from 2015 levels. The full year 2016 cost estimates provided in December 2016 of $14.25 million in operating costs and $5 million in G&A expenses were achieved.

- Capital expenditures were $29.3 million for the year ended December 31, 2016. The first six months of the year were focused on drilling wells to preserve undeveloped lands, increase reserves and further delineate the Muskeg play at Marlowe. In the second half of 2016 Strategic executed a four well drilling program on one pad designed to increase production and demonstrate improved well performance by drilling longer wells with additional completion stages.

- Due to successful drilling activities in 2016, proved and probable oil and gas reserves increased by 53% or 6.8 MMboe from the previous year to 19.6 MMboe at December 31, 2016, as determined by the Company's independent reserve evaluators McDaniel and Associates Consultants Ltd. ("McDaniel"). All in finding and development costs were $16.11/boe for proved reserves and $9.83/boe for proved and probable reserves.

- Net present value of proved and probable reserves, discounted at 10%, increased 81% from the prior year to $194.4 million at December 31, 2016.

- Net income increased to $33.2 million in 2016 compared to a net loss of $110.1 million in 2015 due to a net impairment reversal of $52.7 million related primarily to the Marlowe core area.

PERFORMANCE OVERVIEW

Strategic's main priorities entering 2016 were to strengthen the Company's balance sheet and delineate the Muskeg resource at its 100% owned and operated Marlowe field in Northern Alberta. The issuance of $94.9 million in convertible debentures in February 2016 eliminated the Company's bank debt and provided working capital for asset development. A four well appraisal drilling program completed in the first quarter of 2016 was instrumental in delineating a significant portion of the Muskeg resource, as well as increasing the Company's understanding of the scope of the play within its large land base at Marlowe. With these goals achieved, the Company planned and executed a four well Muskeg development drilling program in the second half of 2016, designed to add production volumes and continue to unlock the value of this sizable oil resource.

Capital expenditures were $29.3 million in 2016, with a total of 8 wells drilled at Marlowe. Successful drilling activities resulted in a 53% increase in proved and probable reserves to 19.6 MMboe at December 2016. Net present value of proved and probable reserves, discounted at 10%, increased to $194.4 million at December 2016 from $107.5 million at December 31, 2015. These results have confirmed once again the significant productivity and potential of the Muskeg play.

With oil prices remaining low throughout 2016, Strategic continued to identify cost efficiencies across its operations in order to remain competitive. Operating and general and administrative costs dropped 28% and 25% respectively from 2015 levels. In addition, the Company used the pay in kind option on its convertible debentures to make the semi-annual interest payments in additional debentures and conserve cash.

OUTLOOK

The Company's focus remains on developing the reserves and infrastructure in the Marlowe area and continuing to identify efficiencies and reduce drilling costs. In December 2016, Strategic's board of directors approved a capital budget of $30 million for the first half of 2017.In the first quarter of 2017, five wells have been drilled and are awaiting completion operations in the second quarter. The capital budget also included a 4 km pipeline to the 14-35 Muskeg well drilled in the first quarter of 2016. Corporate production peaked at 2,800 boe/d after tie in of the 14-35 in February 2017. Current production is approximately 2,500 boe/d.

With the significant increase in demand for oilfield equipment and services this winter, the Company is facing delays in completing wells and bringing new production onstream. Strategic is endeavoring to mitigate the impact of these delays on its operations, and reiterates its earlier production guidance of exiting the first half of 2017 at 4,000 boe/d.

In order to fund the capital program and provide additional financial flexibility, the Company raised $40.4 million in a non-brokered private placement that closed on December 22, 2016 and an additional $5.4 million net of issue costs on January 31, 2017.

At December 31, 2016, the Company had $50.8 million in cash, in addition to the $4.7 million in term deposits used as collateral for outstanding letters of credit. Strategic anticipates continuing to drill Muskeg development wells along this corridor in 2017 in keeping with its growth strategy.

RESULTS OF OPERATIONS

Production

	Three months ended December 31		Year ended December 31	
	2016	2015	**2016**	2015
Oil & NGL – bbl/d	**1,487**	1,680	**1,415**	1,897
Natural gas – mcf/d	**2,233**	3,085	**2,359**	3,674
Total daily production (boed)	**1,859**	2,194	**1,808**	2,509

Oil & NGL production in 2016 decreased 25% on an annual basis and 11% compared to the fourth quarter of 2015 as a result of a lack of production-related drilling activities during the year. Production from new wells was also temporarily restricted due to limitations of the artificial lift systems installed. Natural gas production for the three and twelve months ended December 31, 2016 decreased by 28% and 36%, respectively from 2015 levels due to a lack of drilling activity at Marlowe. Approximately 100 boe/d of the annual decrease relates to the shut-in of non-economic assets during 2015 to conserve cash in a low commodity price environment.

Revenue

	Three months ended December 31		Year ended December 31	
($thousands, except where noted)	**2016**	2015	**2016**	2015
Sales				
Oil & NGL	**7,031**	6,593	**21,916**	32,591
Natural gas	**690**	756	**1,962**	3,905
Oil and natural gas sales	**7,721**	7,349	**23,878**	36,496
Unrealized gain (loss) on risk management contracts	**-**	(989)	**-**	(3,460)
Realized gain (loss) on risk management contracts	**-**	1,209	**-**	5,439
	7,721	7,569	**23,878**	38,475
Reference prices				
WTI Oil (US$/bbl)	**49.30**	42.18	**43.32**	48.80
Edmonton par ($/bbl)	**61.60**	52.94	**53.00**	57.21
AECO daily index ($/MMBTU)	**3.08**	2.45	**2.15**	2.70
Average prices (1)				
Oil & NGL, before realized gain (loss) on risk management contracts ($/bbl)	**51.38**	42.65	**42.33**	47.07
Oil & NGL, including realized gain (loss) on risk management contracts ($/bbl)	**51.38**	50.46	**42.33**	54.92
Natural gas, before realized gain (loss) on risk management contracts ($/mcf)	**3.36**	2.66	**2.27**	2.91
Natural gas, including realized gain (loss) on risk management contracts ($/mcf)	**3.36**	2.67	**2.27**	2.92
Price per boe before realized gain (loss) on risk management contracts ($/boe)	**45.13**	36.41	**36.09**	39.85

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

Average oil prices received are a function of the benchmark West Texas Intermediate ("WTI") oil price, less foreign exchange, transportation and quality differentials to arrive at Canadian dollar price received at delivery points in northern Alberta. WTI oil prices decreased significantly in the second half of 2015 and early into 2016 due to consistent increases in world production levels coupled with slow demand growth. Oil prices rallied late in 2016 as a result of a decision by OPEC to cut production levels, and are currently trading between US$45-55/bbl. Strategic's average oil price for the fourth quarter of 2016 increased by 20% from the corresponding period in 2015 due to higher WTI oil prices. However, on an annual basis, the Company's realized oil price decreased 10% from 2015, consistent with the decline in WTI oil prices over the same period.

Substantially all of the Company's natural gas is sold at the AECO Daily Index price, adjusted for fuel charges. AECO prices were below $2.00/MMBtu early in 2016 as a result of elevated storage levels and a lack of local demand, but rebounded in the second half of 2016 due to declining North American production and the early onset of winter heating demand across the continent. Strategic's average natural gas price for the fourth quarter of 2016 increased by 26% from the corresponding period in 2015 due to higher AECO Daily index prices and decreased 22% from 2015 on a year to year basis, consistent with the decrease in AECO daily index prices over the same period. The Company receives a premium to AECO pricing as a result of the relatively high heat content of natural gas production at Marlowe.

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 a portion of expected production levels, depending on current commodity prices, price volatility and the size and nature of the Company's capital spending programs. In 2016 Strategic had no commodity price risk management contracts in place. As a result, realized and unrealized gains on risk management contracts were $nil in 2016, compared to realized gains of $1.2 million and $5.4 million and unrealized losses of $1.0 million and $3.5 million, respectively for the three months and year ended December 31, 2015.

Royalties

	Three months ended December 31		Year ended December 31	
($thousands, except where noted)	**2016**	2015	**2016**	2015
Crown royalties	**960**	924	**3,031**	3,817
Freehold and overriding royalties	**66**	85	**252**	386
Total royalties	**1,026**	1,009	**3,283**	4,203
Per boe	**6.00**	5.00	**4.96**	4.59
Percentage of oil & natural gas revenues	**13.3%**	13.7%	**13.7%**	11.5%

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 3,500 metres in total depth.

Royalties for the year ended 2016 decreased to $3.3 million from $4.2 million due to lower oil and natural gas production and revenues, partially offset by higher royalty rates on Muskeg oil wells. The royalty rate for 2016 increased to 13.7% from 11.5% in 2015 due to Muskeg wells coming off the royalty holiday and 2015 royalty expense being reduced by a gas cost allowance credit of $0.2 million related to prior periods.

Royalties for the fourth quarter of 2016 decreased to 13.3% of revenues as compared to 13.7% of revenues for the fourth quarter of 2015 due to an increase in production from newly drilled Muskeg wells in the second half of 2016.

Strategic has analyzed the Modern Royalty Framework ("MRF") announced by the Alberta government in January 2016, which replaced the existing royalty regime on January 1, 2017. Highlights of the MRF include the replacement of royalty credits and holidays through a drilling and completion cost allowance, a post-payout royalty rate based on commodity prices and the reduction of royalty wells for mature wells. The Company anticipates that the effect of the MRF on netbacks at Marlowe will be slightly positive at current commodity prices. All wells drilled in 2016 and prior years will follow the previous royalty framework for the next ten years.

Operating and Transportation Costs

	Three months ended December 31		Year ended December 31	
($thousands, except per boe amounts)	**2016**	2015	**2016**	2015
Operating costs	**3,399**	3,515	**14,320**	19,760
Transportation costs	**174**	151	**559**	964
	3,573	3,666	**14,879**	20,724
Per boe				
Operating costs	**19.87**	17.41	**21.64**	21.58
Transportation costs	**1.01**	0.75	**0.84**	1.05
	20.88	18.16	**22.48**	22.63

Operating expenses decreased from $19.8 million ($21.58/boe) in 2015 to $14.3 million ($21.64/boe) in 2016 due to the Company's continued focus on cost reduction at Marlowe and the shut-in of Bistcho/Cameron Hills and other minor high-cost assets in February 2015. Year over year operating costs at Marlowe were reduced by $2.9 million due primarily to savings on labor costs and repairs and maintenance. Operating costs per boe for the year were comparable to the prior year as lower costs were offset by a 28% decrease in production. Operating costs are primarily fixed in nature, and unit costs are expected to decrease in future periods as production volume rises. Operating costs decreased 3% to $3.4 million for the fourth quarter of 2016 from $3.5 million for the comparative period in 2015 due to receipt of a road use credit for $0.5 million at Bistcho, partially offset by higher workover and road maintenance costs at Marlowe related to an earlier onset of winter conditions in 2016 relative to the prior year. Unit operating costs increased by 14% on a quarter over quarter basis due to 15% lower production volumes in the current period.

Transportation costs for the year decreased to $0.6 million in 2016 from $1.0 million for the comparative period in 2015 due to the shut-in of Bistcho/Cameron Hills, reduced natural gas production and a focus on transporting oil via the Company owned sales oil pipelines. Transportation costs in fourth quarter of 2016 were comparable to the 2015 period.

Operating Netbacks

	Three months ended December 31		Year ended December 31	
($/boe)	**2016**	2015	**2016**	2015
Revenues	**45.13**	36.41	**36.09**	39.85
Royalties	**(6.00)**	(5.00)	**(4.96)**	(4.59)
Operating costs	**(19.87)**	(17.41)	**(21.64)**	(21.58)
Transportation costs	**(1.01)**	(0.75)	**(0.84)**	(1.05)
Netback	**18.25**	13.25	**8.65**	12.63

Strategic's operating netback decreased 32% to $8.65/boe in 2016 from $12.63/boe for 2015, primarily due to lower commodity prices throughout most of the year and higher royalty rates. The Company's operating netback increased by 38% to $18.25 in the fourth quarter of 2016 from $13.25 for the comparative period in 2015 due to higher oil prices, partly offset by an increase in royalties and operating costs.

Strategic's focus area is Marlowe, where production is 100% owned and operated by the Company. The Marlowe assets generated netbacks of $19.49/boe and $12.91/boe for the three months and year ended

December 31, 2016 ($16.84/boe and $18.06/boe for the three months and year ended December 31, 2015). The corporate netback is negatively affected by high fixed operating costs at the Company's minor oil properties in Southern Alberta and B.C. and fixed costs at Bistcho/Cameron Hills which was shut-in in 2015 due to low commodity prices. Of the total 2016 operating costs of $14.3 million, $3.3 million relates to non-Marlowe assets, while those assets only produced 68 boe/d for the year. As production volumes increase in the Marlowe area the Company expects the corporate netback to trend towards the operating netback at Marlowe.

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, 2016, the Company recorded $nil of E&E expense compared to $0.7 million for the prior year. Prior period expenses related to seismic costs incurred in the Amber area.

G&A Expense

	Three months ended December 31		Year ended December 31	
($thousands, except per boe amounts)	**2016**	2015	**2016**	2015
Gross G&A expense	**1,701**	1,646	**6,230**	8,028
Overhead recoveries	**(64)**	(78)	**(297)**	(456)
Capitalized G&A	**(281)**	(4)	**(926)**	(917)
G&A expense	**1,356**	1,564	**5,007**	6,655
Per boe	**7.93**	7.75	**7.57**	7.27

G&A expense reflects all head office costs, a portion of which are charged to operated wells and facilities through overhead recoveries. Costs related to technical office staff that are directly involved in the Company's capital spending programs are capitalized to PP&E. G&A expense for the three months ended December 31, 2016 decreased to $1.4 million from $1.6 million for the fourth quarter of 2015 due to higher capitalized G&A driven by ongoing drilling programs in the second half of 2016. G&A expense decreased 25% in 2016 from 2015 due to a lower staff count and reduced rent expenses, software costs and professional fees. G&A expenses per boe increased slightly in 2016 as lower costs were more than offset by lower production levels.

Finance Costs

	Three months ended December 31		Year ended December 31	
($thousands, except per boe amounts)	**2016**	2015	**2016**	2015
Interest expense	**32**	1,051	**806**	3,068
Interest expense on convertible debentures - paid in kind	**1,856**	-	**6,120**	-
Interest expense on convertible debentures – cash portion	**130**	-	**338**	-
Accretion of decommissioning liabilities	**275**	263	**1,056**	1,102
Accretion on promissory notes	**-**	-	**19**	-
Accretion on debentures	**637**	14	**1,974**	14
Finance costs	**2,930**	1,328	**10,313**	4,184
Per boe	**17.13**	6.58	**15.59**	4.57

Finance expense increased to $2.9 million and $10.3 million for the fourth quarter and year ended December 31, 2016 from $1.3 million and $4.2 million, respectively for the comparative periods in 2015 primarily due to the issuance of $94.9 million of 8% convertible debentures on February 29, 2016. In addition to debenture interest incurred, the majority of which was paid in additional debentures in August 2016, an accretion expense is recorded to bring the debenture liability up to the face value of the debentures over the 5-year term. The cash portion of interest expense on convertible debentures relates primarily to withholding tax on interest payments to certain foreign debentureholders. The Company's outstanding bank debt and promissory notes were both repaid in full in February using proceeds from the convertible debenture issue.

Accretion of decommissioning liability is a reflection of an increase in Strategic's discounted liability due to the passage of time. Accretion of decommissioning liabilities was relatively consistent for the quarter and year ended December 31, 2016 and their comparative periods in 2015.

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 income 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 year ended December 31, 2016, stock based compensation expense increased by $0.1 million from 2015 as 10.6 million stock options were issued in February 2016. A third of the options vested at the time they were granted; therefore, the fair value of the vested options is expensed on grant date. Stock based compensation expense of $0.1 million for the fourth quarter of 2016 was consistent with the comparative quarter in 2015.

Depletion, Depreciation and Amortization

	Three months ended December 31		Year ended December 31	
($thousands, except per boe amounts)	**2016**	2015	**2016**	2015
Depreciation, depletion, and amortization ("DD&A")	**3,049**	5,136	**13,132**	24,313
Per boe	**17.82**	25.44	**19.85**	26.55

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, 2016 decreased by 46% to $13.1 million compared to $24.3 million for 2015 and decreased by 25% on a per boe basis, due to lower production levels in 2016 and reduced fixed asset balances as a result of impairment charges in the fourth quarter of 2015. DD&A expense decreased to $3.0 million for the fourth quarter of 2016 from $5.1 million in 2015 as a result of reduced production levels and lower DD&A rates driven by an increase in 2016 year-end reserves.

Impairment

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 each reporting date the Company also reviews its assets for indicators of potential impairment reversal. Impairment may be reversed up to the amount of the original impairment charge, net of depletion. At December 31, 2016, the Company identified indicators of impairment for the Bistcho/Cameron Hills based on continued weakness in forward oil prices during the year, a decrease in reserves and a lack of development activity in this CGU, and indicators of impairment reversal at Marlowe due to the significant increase in reserves during the year.

The recoverable amount was determined based on the fair value less costs to sell method. The key assumptions used in determining the recoverable amount include the future cash flows using reserve forecasts, forecasted commodity prices, discount rates, inflation rates and future development costs estimated for reserves by independent reserve engineers.

The values assigned to the future cash flows and forecasted commodity prices were obtained from Strategic's year-end reserve report, which was evaluated 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 10-12% (2015 – 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.

For the year ended December 31, 2016, the Company recognized an impairment reversal of $58.8 million related primarily to the Marlowe CGU and an impairment charge of $6.0 million for the Bistcho/Cameron Hills CGU, compared to total impairment losses of $87.7 million in 2015 primarily related to the Marlowe CGU.

Deferred Taxes

Deferred income taxes arise from differences between accounting and tax basis of assets and liabilities, and are recorded based on the current tax status of the Company, income tax rates and management's best estimate of future events, including development expenditures and cash flows. In 2016 Strategic recorded a $3.8 million deferred tax liability related to the equity portion of convertible debentures issued during the year. As a result, the Company recognized an offsetting amount of previously unrecognized deferred tax assets and a deferred tax recovery of $3.8 million for 2016 (2015 - $nil). The Company has approximately $269 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 Income (Loss)

	Three months ended December 31		Year ended December 31	
($thousands, except per share amounts)	**2016**	2015	**2016**	2015
Funds from (used in) operations	**1,660**	1,268	**(219)**	7,285
Per share – basic (1)	**0.06**	0.05	**(0.01)**	0.27
Cash provided by (used in) operating activities	**(1,256)**	(275)	**3,335**	1,808
Per share - basic (1)	**(0.04)**	(0.01)	**0.12**	0.07
Net income (loss)	**48,510**	(31,790)	**33,242**	(110,115)
Per share – basic (1)	**1.69**	(1.17)	**1.21**	(4.06)
Per share – diluted (1)	**0.62**	(1.17)	**0.55**	(4.06)

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

Funds from operations increased 31% to $1.7 million for the fourth quarter of December 31, 2016 from $1.3 million in the comparative period in 2015 due to increasing oil prices towards the end of the year and lower operating costs and G&A expenses. Funds from operations decreased from $7.3 million in 2015 to funds used in operations of $0.2 million in 2016 due to lower oil prices and production levels, partially offset by lower operating, G&A and cash interest costs.

Cash flow used in operating activities increased to $1.3 million for the fourth quarter of December 31, 2016 from $0.3 million for the comparative period in 2015, primarily due to expenditures on decommissioning liabilities in the three month period and collection of a long term receivable in the 2015 quarter. Cash flow provided by operating activities increased to $3.3 million for the year ended December 31, 2016 from $1.8 million for 2015 despite lower funds from operations, primarily due to insurance funds received related to remediation of a pipeline spill at Marlowe.

Net income increased to $48.5 million and $33.2 million for the fourth quarter and year ended December 31, 2016 compared to net losses of $31.8 million and $110.1 million, respectively for the comparative periods in 2015, due to lower DD&A expenses and a net impairment reversal of $52.7 million in the current periods. The 2015 losses were affected by impairment charges of $27.7 million and $87.7 million, respectively.

Capital Expenditures

($thousands)	Three months ended December 31 2016	2015	Year ended December 31 2016	2015
Drilling, completions and equipping	**8,425**	2,064	**19,997**	10,631
Pipelines and facilities	**591**	40	**4,835**	742
	9,016	2,104	**24,832**	11,373
Dispositions	**-**	-	**(15)**	-
Total property, plant and equipment	**9,016**	2,104	**24,817**	11,373
Exploration and evaluations	**2**	163	**4,447**	369
Total net capital expenditures	**9,018**	2,267	**29,264**	11,742

Capital expenditures increased significantly to $9.0 million for the three months ended December 31, 2016 from $2.3 million for the comparative period in 2015, due to completion work performed on the four well summer Muskeg drilling program at Marlowe and a plant turnaround. Expenditures for both periods include preliminary costs for the winter drilling program and minor recompletion projects.

Capital expenditures of $29.3 million for 2016 were focused on drilling 4 appraisal wells in the first quarter for 2016 to preserve undeveloped lands, increase reserves and further delineate the Muskeg play at Marlowe, and drilling an additional 4 development wells and related infrastructure to tie the 15-14 four well pad to the Company-owned processing plant and oil sales pipeline.

On June 15, 2016 the Company announced a capital program for the second half of 2016 of $21 million. Actual capital expenditures for the six month period amounted to $19.8 million, with the primary difference being the deferral of completion costs for the fourth Muskeg well to the first quarter of 2017.

Decommissioning Liabilities

Decommissioning liabilities decreased to $52.7 million at December 31, 2016 from $53.9 million at December 31, 2015, primarily due to expenditures during the year of $1.6 million and an increase in discount rates, partially offset by an increase in cost estimates for Marlowe facilities and accretion expense. The current portion of the decommissioning liabilities at December 31, 2016 includes $1.6 million which relates to remediation of the site of a 2010 pipeline spill at Marlowe. In 2016 an insurance settlement of $6.0 million was collected related to the pipeline spill.

SUMMARY OF QUARTERLY FINANCIAL DATA

The following table summarizes quarterly financial results:

Quarter ended ($thousands, except where noted)	**Dec 31, 2016**	Sept 30, 2016	Jun 30, 2016	Mar 31, 2016 (restated) [2]
Oil and natural gas sales	**7,721**	5,478	5,974	4,705
Net income (loss)	**48,510**	(5,985)	(5,800)	(3,483)
Net income (loss) per share – basic [1]	**1.69**	(0.22)	(0.21)	(0.13)
Net income (loss) per share – diluted [1]	**0.62**	(0.22)	(0.21)	(0.13)
Average daily production (boed)	**1,859**	1,577	1,829	1,968
Average realized price ($/boe)	**45.13**	44.23	35.89	26.26

Quarter ended ($thousands, except where noted)	Dec 31, 2015	Sept 30, 2015	Jun 30, 2015	Mar 31, 2015
Oil and natural gas sales	7,349	7,783	10,942	10,422
Net income (loss)	(31,790)	(63,918)	(5,797)	(8,610)
Net income (loss) per share – basic & diluted [1]	(1.17)	(2.36)	(0.21)	(0.32)
Average daily production (boed)	2,194	2,113	2,480	3,267
Average realized price ($/boe)	36.41	40.04	48.49	35.45

(1) Adjusted for the share consolidation on a twenty to one basis.
(2) Net loss for the first quarter of 2016 has been adjusted to reflect a $3.8 million deferred tax recovery.

Oil and natural gas sales are a function of average daily production levels, the oil/gas production mix and commodity prices, and decreased significantly with reduced production levels throughout 2016, and lower oil prices in the first quarter of 2016. Sales rebounded in the fourth quarter of 2016 due to the highest average realized price of all periods presented. Sales were highest in the second quarter of 2015 as the average realized price was slightly below $50/boe and production reached 2,480 boe/d.

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 income of $48.5 million for the fourth quarter of 2016 was driven by a net impairment recovery of $52.7 million for the period and lower DD&A charges compared to prior quarters. Net losses are highest in the third and fourth quarters of 2015 due to impairment charges of $60.0 million and $27.7 million respectively. Maintaining positive net income on a consistent basis will depend on the Company's ability to increase sales volume and reduce unit production costs and DD&A, as well as on an increase in commodity prices.

LIQUIDITY AND CAPITAL RESOURCES

The Company considers its capital structure to include shareholders' equity and working capital, bank debt and convertible debentures. 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 working capital (deficiency), as calculated below:

($thousands)	**December 31, 2016**	December 31, 2015
Current assets	**59,157**	9,347
Accounts payable and accruals	**(8,393)**	(5,029)
Promissory notes	**-**	(9,703)
Current decommissioning liabilities	**(3,441)**	(5,782)
Bank indebtedness	**-**	(42,857)
Adjusted working capital (deficiency)	**47,323**	(54,024)
Convertible debentures	**(84,489)**	-
Net debt	**(37,166)**	(54,024)

At December 31, 2016, the Company had $47.3 million in working capital, compared to a working capital deficiency of $54.0 million at December 31, 2015. A financing of convertible debentures closed in the first quarter allowed Strategic to repay its credit facility and promissory notes and provide funding for the Company's summer drilling program. The credit facility was cancelled after repayment. Approximately $4.7 million of the working capital balance is held in term deposits which serve as collateral against outstanding letters of credit.

On February 29, 2016, Strategic issued a total of $94.9 million in senior secured convertible debentures via private placement (the "Debentures"), for net proceeds of $92.6 million after issue costs. Approximately $58.8 million of the offering was acquired by entities controlled by a director of the Company and an additional $4.1 million was acquired by directors and officers of the Company. The Debentures have a five-year term and bear an annual interest rate of 8.0%, payable semi-annually in arrears, with an option for the Company to pay the interest an equivalent principal amount of debentures for the first two years ("PIK feature"). The Debentures are convertible into common shares at a conversion price of $1.80 per share, subject to adjustment in certain events.

The Debentures can be called prior to the maturity date by the Company if either a) the 90-day weighted average trading price of Strategic common shares is over $7.20 per share, or b) anytime in the fifth year of the term. If the Company elects to call the Debentures under option b), interest must be paid from the date the Debentures are called up to the redemption date.

The Debentures have been classified as a financial liability, net of issue costs and net of the equity component of $13.7 million. The initial carrying amount of the financial liability was determined by discounting the stream of future payments of interest and principal, using a discount rate of 12% which was the estimated rate for debt with similar terms without conversion features. The issue costs were split between liabilities and equity in proportion to each component.

On August 31, 2016, Strategic elected to use the PIK feature available on the Debentures for the first interest payment and as a result $0.2 million in cash interest was paid and the Company issued an additional $3.6 million in convertible debentures (the "PIK Debentures"). The PIK Debentures were split into a financial liability component of $3.3 million and an equity component of $0.3 million. Of the $3.6 million PIK Debentures issued, $2.2 million were issued to entities controlled by a director of the Company and an additional $0.8 million were issued to directors and officers of the Company. The maturity date and other terms of PIK Debentures are identical to the Debentures other than the conversion rate which was $3.30 per share. As a result of using the PIK feature for the Debenture interest payments, a total of $6.1 million in interest expense on Debentures did not reduce funds from operations in 2016.

The Company elected to use the PIK feature again for the semi-annual interest payment due on February 28, 2017, and issued $3.7 million in additional debentures. The maturity date and other terms of these debentures issued as interest in kind are identical to the original convertible debentures other than the conversion price which is $2.70 per share.

The liability component of all debentures issued is being accreted to the face value over the term of the debentures.

At current commodity prices and production levels, Strategic's cash from operations is not sufficient to fund the development of its asset base in its entirety. Any capital expenditures undertaken by the Company will be funded by existing working capital, and potentially new equity or debt issuances as required.

SHARE CAPITAL

Effective March 6, 2017, the Company's common shares were consolidated on the basis of one new share for twenty old shares (1:20) in the capital of the Company. All information regarding the issued, issuable and outstanding common shares, options, conversion price of convertible debentures and weighted average number and per share information has been retrospectively restated to reflect the twenty to one consolidation.

	Year ended December 31	
	2016	2015
Weighted average common shares outstanding (thousands)		
Basic	**27,533**	27,116
Diluted	**71,700**	27,116

	# of Shares	Amount ($000)
Balance as at January 1, 2015 and 2016	27,115,931	319,678
Exercise of options	4,583	13
Shares issued	16,855,429	40,453
Conversion of debentures	2,222	4
Share issue costs	-	(75)
Balance as at December 31, 2016	**43,978,165**	**360,073**

On December 1, 2016, $4,000 convertible debentures were converted into 2,222 common shares.

On December 22, 2016, the Company issued a total of 16.9 million common shares via a non-brokered private placement at a price of $2.40 per common share for gross proceeds of $40.5 million (net proceeds of $40.4 million after transaction costs). Of the $40.5 million gross proceeds, $32.1 million (13.3 million common shares) were acquired by entities controlled by a director of the Company and another $1.6 million (0.3 million common shares) were acquired by directors and officers of the Company.

On January 31, 2017, the Company issued a total of 2.4 million common shares via a brokered private placement at a price of $2.40 per common share for gross proceeds of $5.7 million (net proceeds of $5.4 million after transaction costs). Proceeds from both private placements will be applied to the execution of the Company's $30 million capital program for the first half of 2017 and used for general corporate purposes.

As of March 23, 2017 there were 46,373,996 common shares outstanding and 994,000 stock options outstanding. If all of the outstanding debentures were converted into common shares at December 31, 2016, an additional 53.8 million common shares would be issued.

SUMMARY OF ANNUAL INFORMATION

		Year ended December 31	
($000, except per share amounts)	**2016**	2015	2014
Total revenue	**23,878**	36,496	82,466
Net income (loss)	**33,242**	(110,115)	(129,490)
Per common share (basic)	**1.21**	(4.06)	(6.79)
Per common share (diluted)	**0.55**	(4.06)	(6.79)
Total assets	**248,668**	130,593	239,601
Total long-term liabilities	**133,699**	48,107	50,904

Net revenues decreased substantially in 2016 and 2015 compared to 2014 as a result of lower oil prices and production levels. Net income was $33.2 million in 2016 compared to losses in 2015 and 2014 due to a net impairment recovery of $52.7 million, as well as reduced operating costs and lower depletion charges owing to a smaller production base. Total assets decreased in 2014 and again in 2015 as DD&A expense and impairment charges exceeded capital spending in both periods. However, total assets increased in 2016 due to the impairment reversal, drilling programs and capital raised during the year. Long-term liabilities consist primarily of decommissioning obligations and convertible debentures, and have increased primarily due to the issuance of the debentures.

TRANSACTIONS WITH RELATED PARTIES

Legal fees in the amount of $0.2 million (2015 - $0.2 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 (2015 - $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 2016 include $0.1 million (2015 - $0.2 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.

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)
2017	$ 445	$ 458
2018	391	201
2019	371	90
2020	1	72
2021	-	25
	$ 1,208	$ 846

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)	**2016**	2015
$1.00 increase in oil price	**444**	601
$0.25 increase in gas price	**196**	342
1% increase in interest rate	**214**	359

FUTURE ACCOUNTING PRONOUNCEMENTS

In April 2016, the IASB issued its final amendments to IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by the Company on January 1, 2018. The Company is developing a project plan and is currently in the process of reviewing its various revenue streams and underlying contracts with customers to determine the impact, if any, that the adoption of IFRS 15 will have on its financial statements, as well as the impact that adoption of the standard will have on disclosure.

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 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the requirements of IAS 39. The Company anticipates that adoption of IFRS 9 will result in changes to the classification of the Company's financial assets but will not change the classification of the Company's financial liabilities. The Company does not anticipate any material changes in the carrying values of the Company's financial instruments as a result of the adoption of IFRS 9. The Company does not anticipate that the new impairment model will result in material changes to the valuation of its financial assets on adoption of IFRS 9. IFRS 9 also contains a new model to be used for hedge accounting. The Company does not currently apply hedge accounting to its risk management contracts and does not currently intend to apply hedge accounting to any of its existing risk management contracts on adoption of IFRS 9. 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 on a retrospective basis by the Company on January 1, 2018.

In January 2016, the IASB issued IFRS 16 "Leases," which replaces IAS 17 "Leases." For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 "Revenue from Contracts with Customers." The standard is required to be adopted either retrospectively or using a modified retrospective approach. IFRS 16 will be applied by the Company on January 1, 2019 and the Company is currently evaluating the impact of the standard 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. The timely preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses for the period. Actual results may differ from these estimates. Information regarding the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty are outlined below.

The Company uses estimates of oil and natural gas reserves in the calculation of depreciation and depletion and also for value in use and fair value less costs to sell (“FVLCS”) calculations of non-financial assets. By their nature, the estimates of reserves, including estimates of price, costs, discount rates and the related future cash flows, are subject to measurement uncertainty.

The recoverability of the carrying value of oil and gas properties is assessed at the cash generating unit (“CGU”) level. Determination of the properties and other assets to be included within a particular CGU is based on management’s judgment with respect to the integration between assets, shared infrastructure and cash flows. Changes in the assets comprising each CGU impacts recoverable amounts used in impairment assessments and could have a material impact on net income. At December 31, 2016 and December 31, 2015, Strategic conducts its operation through 4 CGUs, namely Steen/Marlow, Bistcho, other Canadian and USA.

The transfer of exploration and evaluation assets to property, plant and equipment is based on estimated reserves used in the determination of an asset’s technical feasibility and commercial viability.

Amounts recorded for decommissioning obligations and the associated accretion are calculated based on estimates of asset retirement costs, timing of expenditures, risk free interest rates, site remediation and related cash flows.

Derivative financial instruments are measured at fair value which is subject to management uncertainty, due to the use of future oil and natural gas prices and the volatility in these prices.

The determination of fair value of stock-based compensation is based on estimates using an option pricing model which requires estimates of assumptions such as volatility, risk free interest rate, forfeiture rate, and expected option life.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. Income taxes are subject to measurement uncertainty, the timing and likelihood of any recognition of deferred income tax assets, which are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

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 two years 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.

Carbon Tax

The 2016 budget released by the provincial government of Alberta contained certain proposed carbon tax measures that will affect all businesses that contribute to carbon emissions in the province. The budget introduced a carbon tax of $20 per tonne starting on January 1, 2017, and increasing to $30 per tonne on January 1, 2018.

In October 2016, the Canadian federal government announced a new national carbon pricing regime, proposing a benchmark carbon pricing program that includes, at a minimum, a price on carbon emissions of $10 per tonne in 2018, rising by $10 per tonne each year to $50 per tonne in 2022. The government also proposed a federal backstop in the event that provinces fail to meet the benchmark.

Additional details of the federal and Alberta carbon pricing proposals are expected to be finalized in the coming months, and further legislation and regulation is expected. The Company is evaluating the potential impact of these proposals on its operations.

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.

Regulation

The Company is operating in a highly regulated industry. On June 20, 2016 the Alberta Energy Regulator ("AER") issued Bulletin 2016-16, which restricts the ability of companies in the energy industry to transfer assets and licenses to third parties and increases the time and effort involved in obtaining a new license. As the number of regulations applicable to the Company increase, so will the costs of compliance.

International Trade Risks

As the bulk of the Company's oil and gas ends up in the United States, changes resulting from the change in U.S. Administrations may result in legislative and regulatory changes that could have an adverse effect on the Company.

As a result of the 2016 U.S. presidential election and the related change in political agenda, coupled with the transition of administration, there is uncertainty as to the position the United States will take with respect to world affairs and events. This uncertainty may include issues such as U.S. support for existing treaty and trade relationships with other countries, including Canada. In particular, the proposal to implement a "border adjustment tax" that would impose unfavourable tax treatment on goods imported to the U.S. could, if implemented, have a significant impact on Canadian companies that do business in the U.S. Implementation by the U.S. of new legislative or regulatory regimes could impose additional costs on the Company, decrease U.S.

demand for the Company's products or otherwise negatively impact the Company, which may have a material adverse effect on Strategic's business, financial condition and operations.

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 exploration and development prospects, access to commodity markets, technical and field services, 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, 2016 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) anticipated production and service costs; (vi) incremental development opportunities; (vii) total shareholder return; (viii) potential sources and uses of financing, 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, 2016 and other documents filed with Canadian provincial securities authorities and are available to the public at www.sedar.com. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. The principal assumptions Strategic has made includes security of land interests; drilling cost stability; royalty rate stability; oil and gas prices to remain in their current range; finance and debt markets continuing to be receptive to financing the Company and industry standard rates of geologic and operational success. Strategic's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements or if any of them do so, what benefits that Strategic will derive there from. Strategic disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Further information with respect to the Company can be found on its website at www.sogoil.com and on the SEDAR website: www.sedar.com.