Management's Discussion and Analysis

Three months ended March 31, 2013

May 28, 2013

Strategic Oil & Gas Ltd. ("Strategic" or the "Corporation") is a publicly-traded oil and gas exploration and production company, with operations focused on light oil development in northern Alberta. The following is Management's Discussion and Analysis ("MD&A") of Strategic's consolidated operating and financial results for the three months ended March 31, 2013, as well as information concerning the Corporation's future outlook based on currently available information. This MD&A should be read in conjunction with the Corporation's interim condensed consolidated financial statements for the three months ended March 31, 2013 and 2012, together with the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

FINANCIAL AND OPERATIONAL SUMMARY

	Three Months Ended March 31	
	2013	2012
Financial ($ thousands, except where noted)		
Petroleum and natural gas sales	**17,887**	11,204
Funds from operations [1]	**3,958**	3,920
Per share basic	**0.02**	0.02
Per share diluted	**0.02**	0.02
Net income (loss)	**(3,371)**	611
Per share basic	**(0.02)**	0.00
Per share diluted	**(0.02)**	0.00
Capital expenditures (excluding acquisitions)	**50,268**	30,959
Acquisitions	**10,098**	-
Net debt [1]	**74,797**	7,593
Operating		
Production		
Crude oil (bbl/d)	**2,318**	1,388
Natural gas (mcf/d)	**2,874**	1,455
Barrels of oil equivalent (Boed)	**2,797**	1,631
Average realized price		
Crude oil ($/bbl)	**81.71**	86.39
Natural gas ($/mcf)	**3.25**	2.19
Barrels of oil equivalent ($/Boe)	**71.05**	75.50
Netback ($/Boe)		
Petroleum and natural gas sales	**71.05**	75.50
Royalties	**(16.56)**	(13.79)
Operating expenses	**(24.83)**	(21.14)
Transportation expenses	**(4.96)**	(7.22)
Operating Netback [1] ($/Boe)	**24.70**	33.35
Common Shares (000's)		
Common shares outstanding, end of period	**210,404**	187,062
Weighted average common shares (basic)	**189,724**	187,014
Weighted average common shares (diluted)	**189,724**	188,038

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

SUMMARY

- Production increased by 71 percent from 1,631 Boed for the first three months of 2012 to an average of 2,797 Boed in the first quarter of 2013. As a result, oil and gas revenues increased 60 percent to \$17.9 million for the current quarter from \$11.2 million in 2012.

- Capital expenditures before acquisitions totaled \$50.3 million for the three months ended March 31, 2013 as compared to \$31.0 million for the comparative period in 2012. Capital spending was primarily directed to the Corporation's light oil asset at Steen River. Production associated with this activity did not commence until the second quarter due to infrastructure constraints and will be fully optimized when the planned expansion at the Corporation's Steen River facilities is completed early in the third quarter of 2013.

- Strategic closed an acquisition of light oil and natural gas assets at Bistcho in northwest Alberta and Cameron Hills in the Northwest Territories (the "Bistcho/Cameron Hills Assets") on February 28, 2013 for consideration of \$9.7 million, including adjustments. This acquisition included operated production of 500 Boed (40% light oil), oil and gas processing facilities and a direct pipeline connection to the Rainbow pipeline in northwest Alberta. The operating netback from these assets for the month of March 2013 was a net loss of \$0.4 million which has a negative short term effect on the corporate netback. Strategic has implemented changes to improve operational efficiencies in these properties.

- On March 20, 2013 Strategic closed a private placement of 23.2 million common shares at a price of \$1.25 per common share, for net proceeds of \$28.2 million after deducting related offering costs.

ADVISORIES

Basis of Presentation

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

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

Non-IFRS Measurements

The Corporation 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 Corporation 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 flow generated by operating activities:

Period ended March 31	Three months ended		
($000)	**2013**	2012	% change
Net cash generated by operating activities	**2,838**	2,136	33
Expenditures on decommissioning liabilities	**673**	-	-
Changes in non-cash working capital	**447**	1,784	(75)
Funds from operations	**3,958**	3,920	1

"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, less royalties, transportation and operating costs.

"Adjusted net working capital" is used to evaluate funds available on the Corporation's credit facility, and is calculated as current assets less current liabilities, excluding bank debt and any assets or liabilities related to risk management contracts.

"Net debt" is used to assess capital requirements and leverage, and is calculated as bank debt plus adjusted net working capital.

PERFORMANCE OVERVIEW

During the quarter Strategic's infrastructure expansion and reconfiguration program at Steen River resulted in shut-in production and higher operational costs relative to the Corporation's expectations. Management believes the increase in operating costs and the decrease in operating netbacks are temporary and will improve significantly once the facility expansion is completed in the third quarter of 2013.

Strategic was very active in the first quarter of 2013, spending a total of $50.3 million on exploration and development capital programs. The Corporation drilled a total of 6 (6.0 net) new wells and completed 9 (9.0 net) wells at Steen River, carried out 2D and 3D seismic programs, commenced reconfiguring pipelines, initiated upgrading of facilities, and undertook an extensive recompletion program by re-entering 16 vertical wells. The six new wells drilled include one vertical Keg River well, three horizontal Muskeg Stack wells and two vertical step out exploration wells. The Muskeg Stack wells and the Keg River vertical well are tied in whereas the two vertical step-out exploratory wells are planned to be tied in the fourth quarter of 2013.

The Corporation grew production to 2,797 Boed for the quarter. Production levels were affected by downtime due to operational difficulties and restricted fluid handling at the Corporation's Steen River facilities. Strategic identified these facility constraints and initiated a series of infrastructure reconfiguration and expansion projects to increase efficiency and processing and disposal capability at Steen River. The projects include the reconfiguration of 3-inch and 8-inch pipelines which connect the oil production on the western rim of the Steen Astrobleme to the 9-17 oil battery, the expansion of the gathering system in the northern part of the Astrobleme, modifications to the 1-28 plant purchased in December 2012 and the expansion of the 9-17 battery to increase fluid handling capacity, which will be completed in the third quarter of 2013. These projects are critical to accommodating significant production growth in the area, reducing operating costs per Boe and maximizing the deliverability of the Muskeg Stack oil play.

The Corporation achieved an operating netback of $24.70/Boe for the three months ended March 31, 2013, a decrease of $8.65/Boe from the first quarter of 2012. The operating netback for the current period was affected by several factors:

- Lower realized crude oil prices driven by an eight percent decrease in WTI oil prices, which reduced Strategic's realized price by $4.45/Boe;

- Strategic did not sell produced volumes at the end of the quarter due to delivery and transportation resource constraints. The Corporation was carrying incremental inventories of 9,000 bbls of oil in its storage facilities at March 31, 2013 which reduced crude oil revenues by $0.7 million;
- An increase in royalties to 23.3 percent of revenues, from 18.3 percent for the 2012 period. New wells drilled in the first quarter of 2013 did not come on production until the second quarter, and as such the Corporation had less production during the period that benefited from the maximum 5% royalty rate for the first year of production. With approximately 1,000 Boed of new production coming on during the second quarter, Strategic expects to reduce royalties by over $2/boe in future quarters;
- Higher fluid transportation and processing costs at Steen River facilities increased operating costs to $24.83/Boe from $21.14/Boe in 2012. The Corporation intends to reduce operating costs by over $4/boe in future quarters as it completes ongoing infrastructure projects and increases the production base in this area.
- Strategic decreased transportation costs by $2.26/Boe in 2013 by delivering approximately 1,000 bbl/d of oil by rail. Strategic continues to increase volumes delivered by rail which will further reduce the average transportation cost in future quarters.

Muskeg Stack Horizontal Wells

Strategic drilled and completed three horizontal wells in the Muskeg Stack formation during the first quarter of 2013. The Muskeg stack is a sheet-like zone and has been mapped with oil bearing pay over the rim of the Steen River Astrobleme.

The first Muskeg Stack well has a horizontal lateral of 905 meters. The horizontal well was fracture stimulated over 8 stages. The well was flowing oil and gas immediately, and flowed for two days up the 3 1/2" frac string with a tubing pressure of 470 psi at an average rate of 566 bbl/d of 34° API oil and 1.1 MMcf/d of raw gas. The well averaged 335 Boed (50% oil) over the first thirty days of production.

The second Muskeg Stack well has a horizontal lateral of 875 meters. The horizontal well was fracture stimulated over 8 stages. After five days of swabbing the well starting to flow up the 3 1/2" frac string with a tubing pressure of 92 psi at an average rate of 465 bbl/d of 34° API oil and 1.2 MMcf/d of gas over the four day flow period. The well averaged 453 Boed (60% oil) over the first nineteen days of production.

The third Muskeg Stack well has a horizontal lateral of 545 meters. The horizontal well was fracture stimulated over 4 stages. The well was swabbed for approximately 48 hours over four days. Initial clean up rates are 120 Boed (95% oil) at controlled swab rates with 54% of load recovered. This well has been tied in and will be brought on production at the beginning of June.

The discovery Muskeg Stack well at 12-18 has now been producing intermittently for over six months, but is limited by line pressure. The well is currently capable of production at a rate of 140 Boed (60% oil).

The Muskeg Stack horizontal wells are all tied in and production is limited by the back pressure in the pipeline. The Corporation expects the rates for each of the Muskeg Stack horizontal wells to improve as the line pressures are decreased next week when the 8 inch line becomes operational.

Recompletions and Workovers

During the first quarter of 2013, the Corporation also conducted a recompletion and workover program by re-entering 14 existing wellbores at Steen River to further evaluate the oil potential in the Slave Point, Muskeg Stack, Keg River, Zama and Sulphur Point formations. Results from this workover program are being evaluated and will assist the Corporation in optimizing the effectiveness of future drilling activities in this core area. In addition to enhancing the completion techniques, the workover program has contributed over 300 Boed to the Corporation's production.

Strategic's recompletion program was expanded to include 2 wells at Bistcho, which were successful in validating the potential of the Slave Point oil zone in this newly acquired area. The results of this quarter's drilling and recompletion activities have confirmed the presence of a multi-zone oil resource at Steen River.

Seismic

In the first quarter of 2013 Strategic shot a 19.75 km2 3D seismic program on the north rim of the Steen Astrobleme, on trend between the North Marlowe and Old Marlowe fields, to map structures with multi-zone potential. The Corporation also shot 185 km of exploratory 2D seismic, mostly in the interior of the Steen crater. Strategic has identified multiple play possibilities, and two of the recent wells have proven there is oil charge within the crater.

OUTLOOK

Strategic's infrastructure expansion, successful exploratory drilling, 2D & 3D seismic programs and extensive recompletion activity during the first quarter have positioned the Corporation for significant growth.

Although the Corporation has experienced delays in bringing on new production due to liquids handling and other facility constraints, efforts to mitigate these issues have been productive to date. Strategic averaged approximately 3,900 Boed during April, which includes two weeks of production from the first Muskeg stack horizontal well. In May, increased production volumes from the Muskeg Stack horizontal wells at West Marlowe resulted in hydrate plugging in the horseshoe line, which forced volumes to be shut in from the West Marlowe field and the Muskeg Stack wells. Approximately 900 Boed of production was shutin, however the Corporation is expecting to average approximately 3,700 Boed during May.

The Corporation has resolved the issues associated with the hydrate blocking and put the West Marlowe wells back on production. With pipeline constraints being alleviated, production levels are expected to be 4,600 Boed.

Strategic's current handling capability at the two facilities at Steen River is approximately 4,500 bbl/d of crude oil. The Corporation has initiated a battery expansion project to add 3,500 bbl/d of oil handling capability at Steen River by the third quarter of 2013, bringing total oil handling capability to approximately 8,000 bbl/d from Corporation's the two facilities in this area.

The Corporation continues scoping and planning work for a new rail transloading facility at Steen River with a capacity of 5,000 bbl/d. In the first quarter of 2014, Strategic plans to pipeline connect the Steen River assets to the recently acquired 50 km 4 inch oil pipeline that can deliver up to 4,000 bbl/d of sales oil into the Rainbow pipeline. The capacity on the rail and the pipeline will enable Strategic to reduce trucking charges while maintaining multiple accesses to market for its crude products.

Guidance

Strategic has updated its annual guidance for 2013 as follows:

- Average production of 4,000 Boed
- Funds from operations of $40 million
- Year-end net debt of $65 million

RESULTS OF OPERATIONS

Production

	Three months ended March 31		
	2013	2012	% Change
Oil & NGL – bbl/d	**2,318**	1,388	67
Natural gas – mcf/d	**2,874**	1,455	98
Total daily production (Boed)	**2,797**	1,631	71

Oil & NGL production increased by 930 bbl/d or 67 percent from the first quarter of 2012 due primarily to drilling and recompletion activities at Steen River. Gas production increased 98 percent to 2,874 mcf/d as a result of the acquisition of the Bistcho/Cameron Hills Assets in March 2013. The oil & NGL weighting of Strategic's production mix for the first quarter was 83 percent oil, and is currently approximately 80 percent oil due to the higher natural gas content of the Corporation's Muskeg Stack horizontal wells compared to the Keg River vertical wells drilled in 2012.

Production volumes were affected by facility constraints during the quarter, which resulted in some volumes being held in inventory rather than sold. These volumes are not included in reported production for the quarter. As at March 31, 2013, Strategic had over 9,000 incremental barrels of oil in inventory. These volumes are valued at lower of cost and net realizable value on the Corporation's statement of financial position, and will be recognized in production volumes in future quarters as they are sold.

Revenue

	Three months ended March 31		
($ thousands, except where noted)	**2013**	2012	% Change
Sales			
Oil & NGL	**17,046**	10,914	55
Natural gas	**841**	290	190
	17,887	11,204	60
Realized gain on risk management contracts	**52**	-	-
Unrealized loss on risk management contract	**(828)**	-	-
Other revenue	**70**	61	15
Total sales	**17,181**	11,265	53
Average prices [1]			
Oil & NGL, before realized gains ($/bbl)	**81.71**	86.39	(5)
Oil & NGL, including realized gains ($/bbl)	**81.96**	86.39	(5)
Natural gas ($/mcf)	**3.25**	2.19	48
Oil equivalent ($/Boe)	**71.05**	75.50	(6)
Reference prices			
Oil - WTI (US$/bbl)	**94.37**	102.93	(8)
Natural gas - AECO daily index ($/MMBtu)	**3.18**	2.16	47

(1) The average prices above exclude the change in fair value of risk management contracts as well as other income.

The Corporation's oil and natural gas revenues for the three months ended March 31, 2013 increased 60 percent to $17.9 million from $11.2 million in the first quarter of 2012, primarily driven by a 67 percent increase in oil and NGL production.

The average price realized for oil and NGL in 2013 decreased to $81.71/bbl from $86.39/bbl in the first three months of 2012 due to an eight percent drop in WTI oil prices, partially offset by lower differentials for Canadian crude oil compared to the prior year. The Corporation's average natural gas price increased 48 percent to $3.25/mcf in 2013 as compared to $2.19/mcf in 2012 as a result of a 47 percent increase in AECO Daily Index prices over the same period.

Risk Management Contracts

The Corporation's net income and funds from operations are exposed to fluctuations in commodity prices, interest rates and foreign exchange rates. As part of its risk management program, Strategic may enter into financial commodity price management contracts for up to 60 percent of expected production levels, depending on current commodity prices, price volatility and the size and nature of the Corporation's capital spending programs.

A summary of Strategic's commodity price risk management contracts as at March 31, 2013 is found in note 14 to the consolidated financial statements. The Corporation continued to add to its risk management portfolio after the reporting date, and converted certain U.S. dollar risk management contracts into Canadian dollars to better match the hedging instruments with the Corporation's revenue stream. A summary of risk management contracts outstanding at May 27, 2013 is as follows:

Financial WTI Crude Oil Contracts

Term		Contract Type	Volume (bbl/d)	Fixed Price ($/bbl)	Index
01-Jan-2013	30-Jun-2013	Swap (2)	300	US$100.00	WTI - NYMEX
01-Jan-2013	31-Dec-2013	Swap (2)	200	US$90.00	WTI - NYMEX
01-Jul-2013	31-Dec-2013	Swap	300	CAD$97.98	WTI - NYMEX
01-Feb-2013	31-Dec-2013	Swap	500	CAD$97.89	WTI - NYMEX
01-Feb-2013	31-Dec-2013	Swap (2)	500	US$99.00	WTI - NYMEX
01-May-2013	31-Dec-2013	Swap	350	CAD$94.03	WTI - NYMEX
01-May-2013	31-Dec-2013	Swap	200	CAD$93.00	WTI - NYMEX
01-Jul-2013	31-Dec-2013	Swap	500	CAD$94.00	WTI - NYMEX
Average for Apr-Jun 2013 (2)			1,868	CAD$97.69	
Average for Jul-Dec 2013 (2)			2,550	CAD$96.41	
01-Jan-2014	31-Dec-2014	Swap	1,500	CAD$92.00	WTI - NYMEX
01-Jan-2014	31-Dec-2014	Option (1)	500	US$99.00	WTI - NYMEX
01-Jan-2015	30-Jun-2015	Swap	750	CAD$90.15	WTI - NYMEX

(1) The counterparty may elect to convert this option to a swap contract with the Corporation at the fixed price indicated.
(2) The contract settles against the average WTI price at NYMEX, converted to Canadian dollars per barrel based on the average exchange rate for the contract period. In calculating the average Canadian dollar swap price, US dollar contracts are converted to Canadian dollars at an average exchange rate of CAD$1.02 = US$1.00.

In addition, Strategic has also entered into financial contracts to fix the WTI – Edmonton light oil price differential at CAD$4.75/Bbl on 1,000 bbl/d for April 1 to June 30, 2013.

As a result of changes in the forward price curve for WTI oil, the Corporation recorded an unrealized loss on risk management contracts of $0.8 million for the three months ended March 31, 2013 (three months ended March 31, 2012 – nil). Unrealized gains and losses on risk management activities do not affect Strategic's funds from operations or cash available for capital spending programs.

Royalties

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 ("GCA"), 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. In 2011 the provincial government amended its royalty framework to reduce the royalty rate on revenues from newly drilled wells to five percent for the first year of production, up to a maximum of 500,000 Mcf of natural gas or 50,000 bbls of crude oil.

	Three months ended March 31	
($ thousands, except where noted)	**2013**	2012
Crown royalties	**3,963**	1,737
Freehold and overriding royalties	**205**	310
Total royalties	**4,168**	2,047
Per Boe	**16.56**	13.79
Percentage of oil & natural gas revenues (%)	**23.3**	18.3

Royalties increased to $4.2 million or 23.3 percent of revenues in the current period from $2.0 million or 18.3 percent of revenues for the first three months of 2012. The increase in the royalty rate is a result of wells drilled in early 2012 reaching the first year of production and no longer benefiting from the five percent royalty. In addition, much of the production additions for the current quarter were associated with recompletion activity, which does not receive the royalty reduction for the first year of production. Strategic expects that its overall royalty rate will decrease in the second quarter when the wells drilled as part of the winter program are tied in and commence production.

Operating and Transportation Costs

	Three months ended March 31	
($ thousands, except per Boe amounts)	**2013**	2012
Operating costs	**6,249**	3,137
Transportation costs	**1,249**	1,071
	7,498	4,208
Per Boe		
Operating costs	**24.83**	21.14
Transportation costs	**4.96**	7.22
	29.79	28.36

Operating costs increased from $3.1 million in 2012 to $6.2 million in 2013 due primarily to increases in production and the scope of Strategic's activities at the Steen River core area, as well as the acquisition of the Bistcho/Cameron Hills Assets. On a unit basis, operating expenses increased 17 percent to $24.83/Boe in 2012 compared to $21.14/Boe for the prior period. The higher unit operating costs are due to increased chemicals expense at Steen River and the inclusion of the Bistcho/Cameron Hills Assets, which have higher costs per Boe than Strategic's pre-existing oil and gas properties. The Bistcho/Cameron Hills Assets are winter-access only, and therefore operating costs for these assets tend to be highest in the winter months, when goods can be delivered and service work completed. In addition, Strategic allocated $0.3 million of the $0.5 million cost of the oil inventory acquired at Cameron Hills to operating costs in March. The Corporation also incurred expenses on the additional Steen River assets acquired in December 2012 to maintain roads and operate wells and facilities.

Transportation costs increased by $0.2 million from 2012 levels due primarily to higher oil production volumes. Transportation costs per Boe decreased by 31 percent as the Corporation is shipping a significant portion of its oil production by rail, which benefits from reduced transportation costs.

Operating Netbacks

	Three months ended March 31	
($ per Boe)	**2013**	2012
Revenues	**71.05**	75.50
Royalties	**(16.56)**	(13.79)
Operating costs	**(24.83)**	(21.14)
Transportation costs	**(4.96)**	(7.22)
Netback per Boe	**24.70**	33.35

Strategic's operating netback decreased 26 percent to $24.70/Boe in the first quarter of 2013 from $33.35/Boe for the comparative quarter in 2012 as a result of lower oil prices, higher royalty rates and an increase in operating costs, partially offset by lower transportation expenses.

Exploration and Evaluation ("E&E") Expense

The Corporation'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.

E&E expense was $nil for the three months ended March 31, 2013 compared to $0.1 million for the same period in the prior year.

General and Administrative Expenses

	Three months ended March 31	
($ thousands, except per Boe amounts)	**2013**	2012
General and administrative expenses	**1,905**	1,081
Per Boe	**7.57**	7.29

General and administrative expenses ("G&A") increased to $1.9 million ($7.57/Boe) for the first quarter of 2013 from $1.1 million ($7.29/Boe) in 2012. The increase was a result of higher salaries and office rent due to staff additions during the year to manage the Corporation's growing production and land base. Also included in G&A expense for the current period was $0.2 million in non-recurring fees incurred for the setup of the Corporation's credit facility and $0.1 million of transaction costs related to the acquisition of the Bistcho/Cameron Hills Assets.

Finance Expense

	Three months ended March 31	
($ thousands, except per Boe amounts)	**2013**	2012
Interest expense	**469**	3
Foreign exchange gain realized	**(56)**	-
Accretion expense	**190**	78
Total	**603**	81
Per Boe	**2.40**	0.55

Finance expense increased to $0.6 million for the three months ended March 31, 2013 from $0.1 million for the first quarter of 2012 due to an increase in both interest and accretion expense. The higher accretion expense is related to the Corporation's expanding asset base as a result of acquisitions and drilling activity over the past year. Strategic did not have any bank debt outstanding in the 2012 period, and therefore had minimal interest expense.

Going forward the Corporation intends to use funds from operations and equity financings to fund capital expenditure programs and acquisitions, as well as drawings on the credit facility, as deemed appropriate.

Stock based compensation

Stock based compensation is a non-cash charge which reflects the estimated value of stock options granted. The Corporation 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 first quarter of 2013 the Corporation incurred $0.4 million in stock based compensation expense as compared to $0.9 million recorded in the previous year. The decrease is primarily due to a lower number of options issued during the current period. Typically an option grant include a portion that vests immediately, and the fair value of such portion is expensed on the grant date.

Depletion, depreciation and amortization

	Three months ended March 31	
($ thousands, except per Boe amounts)	**2013**	2012
Depreciation, depletion, and amortization ("DD&A")	**5,966**	4,460
Per Boe	**23.70**	30.05

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. DD&A expense for the first three months of 2013 increased by 34 percent compared to 2012 primarily due to the increase in production from quarter to quarter. On a Boe basis DD&A expense decreased to $23.70/Boe from $30.05/Boe in 2012 as a result of positive reserve additions from capital expenditures in the first quarter and a decrease of $0.3 million in undeveloped land amortization from period to period.

Funds from operations and net income (loss)

	Three months ended March 31	
($ thousands, except per share amounts)	**2013**	2012
Funds from operations	**3,958**	3,920
Per share		
basic	**0.02**	0.02
diluted	**0.02**	0.02
Net income (loss)	**(3,371)**	611
Per share		
basic	**(0.02)**	0.00
diluted	**(0.02)**	0.00

Funds from operations totalled $4.0 million ($0.02 per basic and diluted common share) in 2013 compared to $3.9 million ($0.02 per basic and diluted common share) for the three months ended March 31, 2012. The change in funds from operations is largely attributable to increasing oil production in the Steen River core area, offset by lower netbacks due to reduced oil pricing and higher operating costs, as well as an increase in G&A expenses of $0.8 million from period to period. Operating costs were affected by increased chemicals usage and the cost of oil inventory at Cameron Hills, and G&A expenses included $0.3 million of transaction costs and fees related to the setup of the Corporation's credit facility. Despite a minimal change in funds from operations, Strategic recorded a net loss of $3.4 million ($0.02 per basic and diluted common share) for the three months ended March 31, 2013 compared to net income of $0.6 million ($0.00 per basic and diluted common share) in the 2012 period. The $4.0 million decrease in net income is a result of higher non-cash charges such as DD&A expense and an unrealized loss on risk management contracts in the current period, as well as net income for the first quarter of 2012 benefiting from a deferred tax recovery of $2.3 million.

Capital Expenditures

	Three months ended March 31	
($ thousands)	**2013**	2012
Drilling and completions	**30,945**	21,664
Equipping and facilities	**14,577**	8,360
Other	**159**	28
Expenditures, excluding acquisitions	**45,681**	30,052
Acquisitions	**10,098**	-
Total Property, plant and equipment	**55,779**	30,052
Land and seismic	**4,587**	907
Total exploration and evaluations	**4,587**	907
Total net capital expenditures	**60,366**	30,959

Capital expenditures increased to $45.7 million for the first quarter of 2013 from $30.1 million for the comparative period. Drilling and completions activities were focused on Keg River vertical and Muskeg Stack horizontal wells, as well as an extensive recompletion program at Steen River. The Corporation's recompletion activities were spread throughout the Steen River area as well as the newly acquired Bistcho assets, confirming oil productivity in multiple zones. Facility projects in 2013 included equipping drilled and recompleted wells, a significant oil pipeline extension and initial planning work on an oil battery expansion scheduled for the summer of 2013.

Land and seismic expenditures increased to $4.6 million for the quarter from $0.9 million for the first three months of 2012. The Corporation shot a 19.75 km2 3D seismic program on the north rim of the Steen Astrobleme, and also shot 185 km of exploratory 2D seismic in the interior of the Steen crater. Strategic has identified multiple play possibilities, and recent wells have proven there is oil charge within the crater.

Acquisitions

Acquisitions capital spending of $10.1 million in the current year relates to the acquisition of the Bistcho/Cameron Hills Assets in February 2013 for $9.7 million including approximately $0.5 million in oil inventory and the acquisition of a royalty interest in the Steen River area for $0.4 million.

SUMMARY OF QUARTERLY FINANCIAL DATA

The following table summarizes quarterly financial results:

Quarter ended ($ thousands, except where noted)	**Mar-13**	Dec-12	Sep-12	Jun-12	Mar-12	Dec-11	Sep-11	Jun-11
Petroleum and natural gas sales	**17,887**	15,863	12,520	16,924	11,204	8,606	5,200	5,432
Net income (loss)	**(3,371)**	(5,917)	(718)	1,235	611	(16,194)	(1,395)	(2,167)
Net income (loss) per share								
Basic	**(0.02)**	(0.03)	(0.01)	0.01	0.00	(0.11)	(0.01)	(0.02)
Diluted	**(0.02)**	(0.03)	(0.01)	0.01	0.00	(0.11)	(0.01)	(0.02)
Production (Boe/d)	**2,797**	2,282	1,930	2,583	1,631	1,230	914	884
Average price ($/Boe)	**71.05**	75.57	70.52	72.00	75.50	76.03	61.83	67.54

Petroleum and natural gas sales have increased significantly with higher production levels in 2012 and 2013 quarters as compared to 2011. Net income (loss) depends on sales and cash flows, as well as non-cash expenses incurred such as DD&A and impairment. Net losses are highest in the fourth quarters of 2012 and 2011 due to impairment charges in those periods of $4.0 million and $12.3 million, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation considers its capital structure to include shareholders' equity and working capital, including bank debt. The objectives of the Corporation are to maintain a strong balance sheet affording the Corporation financial flexibility to achieve goals of continued growth and access to capital.

In order to maintain or adjust the capital structure, the Corporation may issue new common shares, issue or repay debt, or adjust exploration and development capital expenditures.

The Corporation monitors its capital program based on available funds, which is the combination of working capital and remaining unused line of credit, as calculated below:

($ thousands)	**March 31, 2013**	December 31, 2012
Current assets	**20,012**	11,661
Accounts payable and accrued liabilities	**(46,959)**	(24,839)
Net working capital surplus (deficit)	**(26,947)**	(13,178)
Total line of credit	**100,000**	48,500
Amount drawn	**(47,850)**	(34,125)
Authorized Letters of Guarantee	**(3,857)**	(20)
Unutilized line of credit	**48,293**	14,355
Net available funds	**21,346**	1,177

The Corporation has a $100 million credit facility (the "Facility") with a Canadian Chartered bank, comprised of an $80 million revolving operating loan and a $20 million acquisition/development demand loan. Drawdowns on the acquisition/development loan may be made with the approval of the lender for property acquisitions or drilling projects. Amounts outstanding under the Facility are repayable on demand, and bear interest at a rate of 0.5% to 2.5% over the bank's prime lending rate for prime loans, or at bankers' acceptance rates plus a stamping fee ranging from 1.75% to 3.75%, depending on Strategic's debt to cash flow ratio. The Facility is secured by a general security agreement including a floating charge on all lands. The Facility contains a financial covenant that requires the Corporation to maintain an adjusted working capital ratio of not less than 1:1, but for the purpose of the calculation the unused portion of the line is included in current assets and, the current portion of debt and risk management liabilities are both excluded from current liabilities. The Facility is currently being reviewed by the lender, and Strategic expects that the size of the Facility may increase due to reserves added from the first quarter capital program.

SHARE CAPITAL

	Three months ended March 31	
	2013	2012
Outstanding common shares		
Weighted average common shares outstanding		
- Basic	**189,724,055**	187,013,716
- Diluted	**189,724,055**	188,037,722

	March 31, 2013	March 31, 2012
Outstanding securities		
- Common shares	**210,403,601**	187,062,068
- Common share options	**12,405,000**	8,000,333

On March 20, 2013 Strategic issued 23.2 million common shares via a private placement at a price of $1.25 per common share, for gross proceeds of $29.0 million ($28.2 million after transaction costs), of which 15.2 million common shares were acquired by entities that share a common director with the Corporation. Proceeds from the offering were used to fund the acquisition of the Bistcho/Cameron Hills Assets and a portion of first quarter capital expenditures.

During the first quarter of 2013 788,333 stock options were exercised for common shares of the Corporation, for total proceeds of $0.7 million.

As of May 23, 2013 there are 210,403,601 common shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

Legal fees in the amount of $0.2 million (March 31, 2012 - $0.1 million) were incurred to a legal firm of which a director is a partner, and included as general and administrative expenses or share issue costs. Software charges of $0.05 million (March 31, 2012 - $0.03 million) were incurred to a company controlled by an officer. Accounts payable and accrued liabilities at March 31, 2013 include $0.2 million (March 31, 2012 - $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 Corporation and the related parties.

COMMITMENTS

The Corporation has lease agreements for office space resulting in the following commitments:

Year ended	($ thousands)	
2013	$	443
2014	$	338
2015	$	311
2016	$	10
2017	$	-
	$	1,102

RECENT ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2013, the Corporation adopted the following IFRS pronouncements:

- IFRS 10 "Consolidated Financial Statements" supersedes IAS 27 "Consolidation and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities." This standard provides a single model to be applied in control analysis for all investees, including special purpose entities. The retrospective adoption of this standard does not have any impact on the Corporation's financial statements.

- IFRS 11 "Joint Arrangements" divides joint arrangements into two types, joint operations and joint ventures, each with their own accounting model. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting. The retrospective adoption of this standard does not have any impact on the Corporation's financial statements.

- IFRS 12 "Disclosure of Interests in Other Entities" combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities. The retrospective adoption of the annual disclosure requirements of this standard does not have a material impact on the Corporation's annual financial statements.

- IFRS 13 Fair Value Measurement – IFRS 13 provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Corporation adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Corporation to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

- IAS 27 "Separate Financial Statements" has been amended as a result of changes to IFRS 10. The retrospective adoption of these amendments does not have any impact on the Corporation's financial statements.

- IAS 28 "Investments in Associates and Joint Ventures" has been amended as a result of changes to IFRS 10 and IFRS 11. The retrospective adoption of these amendments does not have any impact on the Corporation's financial statements.

- The amendments to IAS 32 "Financial Instruments: Presentation" clarify the current requirements for offsetting financial instruments. The amendments to IFRS 7 "Financial Instruments: Disclosures" develop common disclosure requirements for financial assets and financial liabilities that are offset in the financial statements, or that are subject to enforceable master netting arrangements or similar agreements. The Corporation retrospectively adopted the amendments to both standards on January 1, 2013. The application of these amendments does not have any impact on the Corporation's financial statements, other than increasing the level of disclosures provided in the notes to the financial statements.

CRITICAL ACCOUNTING ESTIMATES

This MD&A is based on Strategic's consolidated financial statements, which have been prepared in accordance with IFRS. A summary of the Corporation's significant accounting policies is contained in *Note 3* to the Corporation's consolidated financial statements for the year ended December 31, 2012. These accounting policies are subject to estimates and key judgments about future events, many of which are beyond the Corporation's control. Actual results may differ from these estimates and the differences may be significant. A discussion of specific estimates employed in the preparation of the Corporation's consolidated financial statements is included in Strategic's MD&A for the year ended December 31, 2012.

BUSINESS RISKS

There are numerous risks facing participants in the oil and gas industry. Some of the risks are common to all businesses while others are specific to a sector. While Strategic realizes that these risks cannot be eliminated, it is committed to monitoring and mitigating these risks.

Substantial Capital Requirements and Liquidity

The Corporation anticipates that it will make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If the Corporation's future revenues or reserves decline, the Corporation's ability to expend the capital necessary to undertake or complete future drilling programs may be limited. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. Moreover, future activities may require Strategic to alter its capitalization significantly, and potentially increase the Corporation's debt levels above industry standards. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's financial condition, results of operations or prospects.

Other business risks affecting Strategic's operations are substantially unchanged from those presented in the Corporation's MD&A for the year ended December 31, 2012.

FORWARD-LOOKING STATEMENTS

This report includes certain information, with management's assessment of Strategic's future plans and operations, and contains forward-looking statements which may include some or all of the following: (i) forecasted capital expenditures and plans; (ii) exploration, drilling and development plans, (iii) prospects and drilling inventory and locations; (iv) anticipated production rates; (v) expected royalty rate; (vi) anticipated operating and service costs; (vii) the Corporation's financial strength; (viii) incremental development opportunities; (ix) reserve life index; (x) total shareholder return; (xi) growth prospects; (xii) asset disposition plans; (xiii) sources of funding, which are provided to allow investors to better understand Stragtegic's business. By their nature, forward-looking statements are subject to numerous risks and uncertainties; some of which are beyond Strategic's control, including the impact of general economic conditions, industry conditions, operations risks, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, changes in environmental tax and royalty legislation, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources, and other risks and uncertainties described under the heading 'Risk Factors' and elsewhere in the Corporation's Annual Information Form for the year ended December 31, 2012 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 Corporation 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 Corporation can be found on its website at www.sogoil.com and on the SEDAR website: www.sedar.com.