Management's Discussion and Analysis

Three and six months ended June 30, 2013

August 14, 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 and six months ended June 30, 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 and six months ended June 30, 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 June 30		Six Months Ended June 30	
	2013	2012	**2013**	2012
Financial ($thousands, except per share amounts)				
Oil and natural gas sales	**23,770**	16,924	**41,657**	28,129
Funds from (used in) operations [1]	**8,672**	8,174	**12,630**	12,094
Per share basic	**0.04**	0.04	**0.06**	0.06
Per share diluted	**0.04**	0.04	**0.06**	0.06
Net income (loss)	**(2,338)**	1,236	**(5,709)**	1,847
Per share basic	**(0.01)**	0.01	**(0.03)**	0.01
Per share diluted	**(0.01)**	0.01	**(0.03)**	0.01
Capital expenditures (excluding acquisitions)	**14,782**	2,103	**65,050**	33,062
Net debt [1]	**80,879**	1,486	**80,879**	1,486
Operating				
Average daily production				
Crude oil (bbl per day)	**2,768**	2,252	**2,544**	1,820
Natural gas (mcf per day)	**6,936**	1,983	**4,916**	1,719
Barrels of oil equivalent (Boe per day)	**3,924**	2,583	**3,364**	2,107
Average realized price				
Crude oil ($ per Bbl)	**86.58**	80.74	**84.49**	82.89
Natural gas ($ per Mcf)	**3.65**	2.08	**3.54**	2.13
Barrels of oil equivalent ($ per Boe)	**67.53**	72.00	**69.07**	73.36
Netback ($ per Boe) [1]				
Oil and natural gas sales [2]	**67.53**	72.00	**69.07**	73.36
Royalties	**(13.46)**	(9.37)	**(14.74)**	(11.08)
Operating expenses	**(19.37)**	(12.64)	**(21.62)**	(15.93)
Transportation expenses	**(4.78)**	(8.14)	**(4.86)**	(7.79)
Operating Netback ($ per Boe)	**29.92**	41.85	**27.85**	38.56
Common Shares (thousands)				
Common shares outstanding, end of period	**210,404**	187,099	**210,404**	187,099
Weighted average common shares (basic)	**210,404**	187,092	**200,121**	187,053
Weighted average common shares (diluted)	**210,404**	187,550	**200,121**	187,898

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

[2] Oil and natural gas sales per Boe includes realized gains on risk management contracts.

SUMMARY

- Average daily production increased by 52 percent from the second quarter of 2012 and 40 percent from the first quarter of 2013 to a record average of 3,924 Boed. As a result, oil and gas revenues increased 41 percent to $23.8 million for the current quarter from $16.9 million for the comparative quarter in 2012.

- Capital expenditures totaled $14.8 million for the three months ended June 30, 2013 as compared to $2.1 million for the second quarter of 2012. Capital spending was primarily directed to infrastructure reconfiguration and expansion projects at Steen River, undeveloped land acquisitions and equipping wells recompleted in the Muskeg Stack and Slave Point zones, as well as new wells drilled in the first quarter. Production continues to be restricted by fluid handling constraints and will be fully optimized when the planned expansion of the operated 9-17 oil battery is completed 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 percent light oil), oil and gas processing facilities and a direct pipeline connection to the Rainbow pipeline in northwest Alberta. Through the implementation of operational efficiencies Strategic improved the operating netback from these assets from a loss of $0.4 million for March 2013 to a positive netback of $1.3 million for the current quarter. The Corporation will continue to review opportunities to add value to the acquired properties.

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:

	Three months ended June 30		Six months ended June 30	
($thousands)	**2013**	2012	**2013**	2012
Cash provided by operating activities	**7,125**	6,580	**9,963**	8,716
Expenditures on decommissioning liabilities	**(28)**	-	**645**	-
Changes in non-cash working capital	**1,575**	1,594	**2,022**	3,378
Funds from operations	**8,672**	8,174	**12,630**	12,094

"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 including realized gains and losses on risk management contracts, 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 deficiency, or less adjusted net working capital.

PERFORMANCE OVERVIEW

The Corporation's strategy in 2013 has been to grow production through exploitation of its significant multi-zone oil resource at Steen River, as well as expand infrastructure to efficiently accommodate production in the area and acquire complementary oil and gas assets to become a dominant northern oil and gas operator. Strategic consolidated the Steen River area with an acquisition of operated assets, including an oil processing facility in December 2012, and in February 2013 acquired the Bistcho/Cameron Hills Assets. Strategic has navigated through challenges related to liquids handling, facilities and pipeline configuration and evaluation of various productive oil formations in the first half of the year and executed capital programs that have positioned the Corporation for significant growth in future quarters.

Capital spending of $14.8 million for the three months ended June 30, 2013 was concentrated on equipping and tying in wells drilled in the first quarter, infrastructure reconfiguration and expansion projects designed to increase efficiency and processing and disposal capability at Steen River, undeveloped land acquisitions and equipping and tying in wells recompleted and drilled in the first quarter. The infrastructure 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, modifications to the 1-28 plant purchased in December 2012 and ongoing costs related to the expansion of the 9-17 battery to increase fluid handling capacity. Also included in second quarter capital were expenditures for recompletions in the Bistcho and Steen River areas and lease construction and rig mobilization costs related to the Corporation's summer drilling program at Steen River.

The Corporation grew production to 3,924 Boed for the quarter, compared to 2,583 Boed for the second quarter of 2012 and 2,797 Boed for the first three months of 2013, as a result of successful winter drilling activities and a full quarter of production from the Bistcho/Cameron Hills Assets. Production levels early in the quarter were affected by downtime due to hydrate blocking in the horseshoe pipeline and restricted fluid handling at the Corporation's Steen River facilities. The infrastructure projects currently being executed 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.

Strategic's operating netback decreased 29 percent to $29.92/Boe in the second quarter of 2013 from $41.85/Boe for the comparative quarter in 2012, partially resulting from a higher proportion of natural gas in the Corporation's production mix, higher royalties as the wells drilled in the first quarter of 2012 no longer benefited from the 5 percent first year royalty rate, and an increase in operating costs related to the acquisition of the Bistcho/Cameron Hills Assets and the Steen River assets acquired in December 2012.

The Corporation's operating netback increased by $5.22/Boe from the first quarter of 2013 despite an overall reduction in the realized price from $71.05/Boe for the three months ended March 31, 2013 to $67.53/Boe. The reduction in the realized price per Boe was due to the current period production mix being 70.5 percent oil and NGL for the three months ended June 30, 2013 as compared to 82.9 percent for the first quarter of the year. The following factors contributed to the increase in corporate netbacks:

- Strategic realized an operating netback at Steen River $39.36/Boe for the current quarter, which helped increase the corporate netback to $29.92/Boe. The higher operating netback at Steen River was somewhat offset by lower netbacks from Corporation's non-core assets in southern Alberta, non-operated production in British Columbia and the Bistcho/Cameron Hills Assets.

- Realized crude oil prices increased by $4.87/bbl, driven by an increase in oil volumes shipped by rail and a higher Canadian-US dollar exchange rate.

- Royalties expense decreased by $3.10/Boe from the previous quarter, as new wells drilled in the winter came on production during the current period, benefiting from the maximum 5 percent royalty rate for the first year of production. The reduction in the royalty rate is also a result of a higher percentage of natural gas in the Corporation's production mix. Strategic anticipates further reductions in the corporate royalty rate in the third and fourth quarters as new wells from the winter drilling program will be on production for the full quarter, and production volumes are added from summer drilling activity which will also benefit from the maximum 5 percent rate.

- Operating costs decreased by $5.46/Boe due to a higher production base. The decrease was achieved despite increased water disposal costs due to delays in receiving regulatory approvals, which were received subsequent to June 30, 2013.

OUTLOOK

Strategic's infrastructure spending in the second quarter has positioned the Corporation for significant growth. Current corporate production is 4,100 Boed (75% oil). The Corporation resumed its Muskeg Stack drilling program early in the third quarter, and has drilled two horizontal wells to date. The first well has been completed is expected to be tied in shortly. Completion operations are underway on the second well in the program. The Corporation expects to drill up to 4 wells in the third quarter: three Muskeg Stack wells and one Keg River well. All 4 wells are development targets and close to existing infrastructure.

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 early in the fourth quarter of 2013, bringing total oil handling capability to approximately 8,000 bbl/d from the Corporation's two facilities in this area. Completion of the facility work would also result in a reduction in operating costs during the fourth quarter of 2013.

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.

RESULTS OF OPERATIONS

Production

	Three months ended June 30		Six months ended June 30	
Average daily production	**2013**	2012	**2013**	2012
Oil & NGL (bbl/d)	**2,768**	2,252	**2,544**	1,820
Natural gas (mcf/d)	**6,936**	1,983	**4,916**	1,719
Total (Boed)	**3,924**	2,583	**3,364**	2,107

Oil & NGL production for the three months ended June 30, 2013 increased by 516 bbl/d or 23 percent from the second quarter of 2012, while natural gas production increased 250 percent from the prior period due to winter drilling and recompletion activities at Steen River and the acquisition of the Bistcho/Cameron Hills Assets in March 2013. Production for the six months ended June 30, 2013 increased by 60 percent to 3,364 Boed from 2,107 Boed for the 2012 period. The oil & NGL weighting of Strategic's production mix dropped to 71 percent oil from 87 percent for the second quarter of 2012 due to the loss of oil production resulting from hydrate plugging in the horseshoe pipeline in May, acquisition of gas weighted assets in February 2013 and the higher natural gas content of the Muskeg Stack horizontal oil wells. Initial production levels from the Muskeg wells average approximately 65 percent oil, compared to the Keg River vertical wells drilled in 2012, which are 95 percent oil.

Production volumes continued to be affected by facility and pipeline constraints during the quarter. The facilities projects completed to date in 2013 and currently underway are expected to alleviate these constraints and increase operational efficiency.

Revenue

	Three months ended June 30		Six months ended June 30	
($thousands, except where noted)	**2013**	2012	**2013**	2012
Sales				
Oil & NGL	**21,465**	16,549	**38,511**	27,463
Natural gas	**2,305**	375	**3,146**	666
Oil and natural gas sales	**23,770**	16,924	**41,657**	28,129
Unrealized loss on risk management contracts	**(2,876)**	-	**(3,704)**	-
Realized gain on risk management contracts	**341**	-	**393**	-
Other revenue	**20**	11	**90**	72
Total revenue	**21,255**	16,935	**38,436**	28,201
Average prices [1]				
Oil & NGL, before risk management settlements ($/bbl)	**85.22**	80.74	**83.63**	82.89
Oil & NGL, including risk management Settlements ($/bbl)	**86.58**	80.74	**84.49**	82.89
Natural gas ($/mcf)	**3.65**	2.08	**3.54**	2.13
Oil equivalent ($/Boe)	**67.53**	72.00	**69.07**	73.96
Reference prices				
Oil – WTI ($US/bbl)	**94.22**	93.49	**94.30**	98.21
Natural gas – AECO Daily Index ($/MMBtu)	**3.52**	1.89	**3.35**	2.02

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

The Corporation's oil and natural gas revenues increased to $23.8 million for the three months ended June 30, 2013 from $16.9 million for the second quarter of 2012 primarily due to a 52 percent increase in production volumes, as well as higher oil and natural gas prices. Oil and natural gas revenues totaled $41.7 million for the first half of 2013, a 48 percent increase from $28.1 million for the 2012 period, driven by a 60 percent increase in production volumes.

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. The average oil & NGL price increased 5 percent to $85.22/bbl for the second quarter of 2013 from $80.74 for the second quarter of 2012, due to a slight increase in WTI oil prices and lower differentials for Canadian crude oil compared to the prior period. Strategic's risk management program contributed $1.36/bbl to the Corporation's oil price for the current quarter. Strategic's average natural gas prices for the second quarter and first half of 2013 increased by 75 percent and 66 percent, respectively from the corresponding periods in 2012 due to significant increases in AECO Daily Index prices.

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 June 30, 2013 is as follows:

Financial WTI Crude Oil Contracts

Term		Contract Type	Volume (bbl/d)	Fixed Price ($/bbl)	Index
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.

Subsequent to June 30, 2013, the Corporation entered into a risk management contract to increase its oil price on existing contracts for 1,850 bbl/d for September to December 2013 by $4.53/bbl, as follows:

Volume (bbl/d)	Old Price ($/bbl)	New Price ($/bbl)	Index
300	CAD$97.98	CAD$102.51	WTI - NYMEX
500	CAD$97.89	CAD$102.42	WTI - NYMEX
350	CAD$94.03	CAD$98.56	WTI - NYMEX
200	CAD$93.00	CAD$97.53	WTI - NYMEX
500	CAD$94.00	CAD$98.53	WTI - NYMEX

In exchange for the price increase the counterparty received an option for 600 bbl/d for 2015 at CAD$90.00, which the counterparty may elect to convert to a swap with the Corporation at the price indicated. The expiry date of the option is December 31, 2014.

As a result of changes in the forward price curve for WTI oil, the Corporation recorded unrealized losses on risk management contracts of $2.9 million and $3.7 million for the three and six months ended June 30, 2013. The Corporation had no risk management contracts outstanding during the 2012 periods. Unrealized gains and losses on risk management activities do not affect Strategic's funds from operations or cash available for capital spending programs.

Royalties

	Three months ended June 30		Six months ended June 30	
($thousands, except where noted)	**2013**	2012	**2013**	2012
Crown royalties	**4,487**	1,787	**8,450**	3,525
Freehold and overriding royalties	**318**	415	**523**	724
Total royalties	**4,805**	2,202	**8,973**	4,249
Per Boe	**13.46**	9.37	**14.74**	11.08
Percentage of oil and natural gas sales	**20.2%**	13.0%	**21.5%**	15.1%

Royalty expense consists of royalties paid to provincial governments (including the effect of the Crown royalty initiative program), freehold land owners and overriding royalty owners. Royalty expense also includes the impact of gas cost allowance ("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.

Royalties increased to $4.8 million or 20.2 percent of revenues in the current period from $2.2 million or 13.0 percent of revenues for the three months ended June 30, 2012. Royalties for the first six months of 2013 were 21.5 percent of revenues as compared to 15.1 percent of revenues in 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, a portion 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's overall royalty rate for the current quarter decreased from the 23.3 percent rate realized in the first three months of 2013 as wells drilled as part of the winter program were tied in and commenced production.

Operating and Transportation costs

	Three months ended June 30		Six months ended June 30	
($thousands, except per Boe amounts)	**2013**	2012	**2013**	2012
Operating costs	**6,917**	2,973	**13,166**	6,109
Transportation costs	**1,707**	1,913	**2,956**	2,986
	8,624	4,886	**16,122**	9,095
Per Boe				
Operating	**19.37**	12.64	**21.62**	15.93
Transportation	**4.78**	8.14	**4.86**	7.79
	24.15	20.78	**26.48**	23.72

Operating costs increased to $6.9 million and $13.2 million for the three and six month periods ended June 30, 2013 from $3.0 million and $6.1 million, respectively for 2012 due to increases in the scope of Strategic's activities at the Steen River core area, as well as the acquisition of the Bistcho/Cameron Hills Assets on February 28, 2013. The Corporation incurred expenses on the additional Steen River assets acquired in December 2012 to maintain roads and operate wells and facilities. Operating costs at Steen River were also affected by water disposal costs due to delays in receiving regulatory approvals, which was received subsequent to June 30, 2013.

Unit operating costs increased by 53 percent for the second quarter and 36 percent on a year-to-date basis from 2012 levels, due to increased staff levels and activity at Steen River and the acquisition of the Bistcho/Cameron Hills Assets, which have higher costs per Boe than Strategic's pre-existing oil and gas properties. Operating costs for the Bistcho/Cameron Hills Assets totaled $3.5 million since the acquisition date.

Unit transportation costs decreased from $8.14/bbl and $7.79/bbl for the three and six months ended June 30, 2012 to $4.78/bbl and $4.86/bbl, respectively in 2013, as a result of a higher proportion of natural gas in the Corporation's production mix. The Corporation is also shipping a significant portion of its oil production by rail, which benefits from reduced transportation costs.

Netbacks

	Three months ended June 30		Six months ended June 30	
($/Boe)	**2013**	2012	**2013**	2012
Revenue	**67.53**	72.00	**69.07**	73.36
Royalties	**(13.46)**	(9.37)	**(14.74)**	(11.08)
Operating costs	**(19.37)**	(12.64)	**(21.62)**	(15.93)
Transportation costs	**(4.78)**	(8.14)	**(4.86)**	(7.79)
Operating netback	**29.92**	41.85	**27.85**	38.56

Strategic's operating netback decreased 29 percent to $29.92/Boe in the second quarter of 2013 from $41.85/Boe for the comparative quarter in 2012.

Operating netbacks have decreased in the 2013 periods, partially as a result of a higher proportion of natural gas in the Corporation's production mix, which lower the realized price per Boe. The Corporation's drilling program is exclusively focused on oil wells; however the horizontal wells drilled in the Muskeg Stack formation tend to come on production at approximately 35 percent natural gas.

Strategic experienced higher royalty rates in 2013, as many of the wells drilled in the first quarter of 2012 reached the end of the first year of production and no longer benefited from the 5 percent first-year royalty rate, whereas a portion of the production additions from the winter 2013 capital program were related to recompletions, which do not receive the 5 percent first-year royalty rate.

The lower netback is also a result of an increase in operating costs per Boe due to the acquisition of the Bistcho/Cameron Hills Assets and the acquisition of assets at Steen River in December 2012, partially offset by lower unit transportation expenses. A significant portion of Strategic's operating costs at Steen River are fixed in nature, and therefore unit costs will tend to decline as production volumes increase in this area.

Strategic's operating netback increased 21 percent to $29.92/Boe in the second quarter of 2013 from $24.70/Boe from the first quarter of 2013. The operating netback at Steen River, which is Strategic's key asset, has increased to $39.36/boe during the second quarter of 2013. Royalty rates and unit operating costs at Steen River have been reduced from the first quarter of 2013, and are expected to decrease further as new production volumes come on-stream.

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 and six months ended June 30, 2013 compared to $0.03 million and a credit of $0.1 million for the 2012 periods.

General and Administrative Expense

	Three months ended June 30		Six months ended June 30	
($thousands, except per Boe amounts)	**2013**	2012	**2013**	2012
General and administrative expense	**1,498**	1,659	**3,403**	2,741
Per Boe	**4.20**	7.06	**5.59**	7.15

General and administrative ("G&A") expense decreased to $4.20/Boe for the second quarter of 2013 from $7.06/Boe in 2012, as a result of an increase corporate production volumes and increased overhead recoveries. G&A expenses totaled $3.4 million for the six months ended June 30, 2013, a $0.7 million increase from the first six months of 2012, due to higher salaries and office rent related 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 six month 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 June 30		Six months ended June 30	
($thousands, except per Boe amounts)	**2013**	2012	**2013**	2012
Interest expense	**532**	8	**945**	11
Accretion expense	**207**	75	**397**	153
Total	**739**	83	**1,342**	164
Per Boe	**2.07**	0.35	**2.20**	0.43

Interest expense increased to $0.5 million and $0.9 million for the three and six months ended June 30, 2013 from $nil for 2012. Strategic did not have any bank debt outstanding in the 2012 period, and therefore had minimal interest expense.

Accretion expense is a reflection of increase in the Corporation's discounted decommissioning liability due to the passage of time. Accretion expense increased from the prior year due to Strategic's expanding asset base as a result of acquisitions and drilling activity over the past year. The Corporation's decommissioning liability decreased by approximately $3.4 million from March 31, 2013 as a result of the increase in the risk-free discount rate used to measure the liability.

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 second quarter of 2013 the Corporation incurred $0.5 million in stock based compensation expense as compared to $0.1 million for the three months ended June 30, 2012, due to a higher number of stock options granted in the current period. Stock based compensation expense decreased to $0.9 million for the first half of 2013 from $1.0 million for 2012. In the first quarter of 2012, 2,260,000 stock options were granted and vested immediately, therefore the entire fair value was expensed on the grant date.

Depletion, depreciation and amortization

	Three months ended June 30		Six months ended June 30	
($thousands, except per Boe amounts)	**2013**	2012	**2013**	2012
Depreciation, depletion and amortization ("DD&A")	**7,475**	6,890	**13,441**	11,350
Per Boe	**20.93**	29.32	**22.08**	29.60

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 increased to $7.5 million and $13.4 million for the three and six months ending June 30, 2013 from $6.9 million and $11.4 million, respectively for the 2012 periods due to increases in production partially offset by lower DD&A rates. DD&A expense per Boe in 2013 decreased by 29 percent for the current quarter and 25 percent for the six month period from 2012 as a result of positive reserve additions from capital expenditures and a low acquisition cost per Boe for the Bistcho/Cameron Hills Assets.

Funds from operations and net income (loss)

	Three months ended June 30		Six months ended June 30	
($thousands, except per Boe amounts)	**2013**	2012	**2013**	2012
Funds from operations	**8,672**	8,174	**12,630**	12,094
Per share				
Basic	**0.04**	0.04	**0.06**	0.06
Diluted	**0.04**	0.04	**0.06**	0.06
Net income (loss)	**(2,338)**	1,236	**(5,709)**	1,847
Per share				
Basic	**(0.01)**	0.01	**(0.03)**	0.01
Diluted	**(0.01)**	0.01	**(0.03)**	0.01

Funds from operations increased from $8.2 million and $12.1 million for three and six months ended June 30, 2012 to $8.7 million and $12.6 million, respectively for the current three and six month periods, as higher revenues due to increased oil and gas production were partially offset by higher royalties, operating costs and interest expense.

Strategic recorded a net loss of $2.3 million ($0.01 per basic and diluted common share) for the three months ended June 30, 2013 compared to net income of $1.2 million ($0.01 per basic and diluted common share) in the 2012 period, as a result of higher royalties and operating costs, as well as an unrealized loss on risk management contracts of $2.9 million. The $5.7 million net loss for the first six months of 2013 is due to higher royalties, operating costs and G&A expense compared to the 2012 period and an unrealized loss on risk management contracts of $3.7 million, partially offset by increased revenues driven by higher production levels. Net income for the first six months of 2012 also benefited from a deferred tax recovery of $2.3 million.

Capital Expenditures

	Three months ended June 30		Six months ended June 30	
($thousands)	**2013**	2012	**2013**	2012
Drilling and completions	**4,199**	820	**35,144**	22,484
Equipping and facilities	**8,573**	1,051	**23,150**	9,411
Other	**87**	14	**246**	42
	12,859	1,885	**58,540**	31,937
Acquisitions	**-**	-	**10,098**	-
Total property, plant and equipment	**12,859**	1,885	**68,638**	31,937
Land and seismic	**1,923**	218	**6,510**	1,125
Total exploration and evaluations	**1,923**	218	**6,510**	1,125
Total capital expenditures	**14,782**	2,103	**75,148**	33,062

Capital expenditures for the second quarter of 2013 totaled $14.8 million, as compared to $2.1 million for the three months ended June 20, 2012. Current period capital expenditures were concentrated on facilities projects including modifications and pipelines at the 1-28 gas plant, initial design and construction for the 9-17 oil battery expansion, installation of a water disposal line at the 9-17 battery and three well tie-ins. Also included in second quarter capital were expenditures for equipping six wells drilled or recompleted in the first quarter, recompletions in the Bistcho and Steen River areas, lease construction and rig mobilization costs related to the Corporation's summer drilling program and undeveloped land acquisitions at Steen River.

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 $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 ($thousands, except where noted)	**Jun 30, 2013**	Mar 31, 2013	Dec 31, 2012	Sep 30, 2012
Oil and natural gas sales	**23,770**	17,887	15,863	12,520
Net loss	**(2,338)**	(3,371)	(5,917)	(718)
Net loss per share – basic	**(0.01)**	(0.02)	(0.03)	(0.01)
Net loss per share – diluted	**(0.01)**	(0.02)	(0.03)	(0.01)
Average daily production (Boed)	**3,924**	2,797	2,282	1,930
Average realized price ($/Boe)	**67.53**	71.05	75.57	70.52

Quarter ended ($thousands, except where noted)	Jun 30, 2012	Mar 31, 2012	Dec 31, 2011	Sep 30, 2011
Oil and natural gas sales	16,924	11,204	8,606	5,200
Net income (loss)	1,235	611	(16,194)	(1,395)
Net income (loss) per share – basic	0.01	0.00	(0.11)	(0.01)
Net income (loss) per share – diluted	0.01	0.00	(0.11)	(0.01)
Average daily production (Boed)	2,583	1,631	1,230	914
Average realized price ($/Boe)	72.00	75.50	76.03	61.83

Oil and natural gas sales are a function of production levels and realized prices, and have increased significantly with higher production levels in 2012 and 2013 quarters as compared to 2011. Net income (loss) varies with sales and cash flows, as well as non-cash expenses incurred such as unrealized losses on risk management contracts, 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. Maintaining positive net income on a consistent basis will depend on the Corporation's ability to increase production and reduce unit operating costs, transportation costs and DD&A.

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)	**June 30, 2013**	December 31, 2012
Current assets	**13,208**	11,661
Accounts payable and accrued liabilities	**(23,287)**	(24,839)
Working capital deficiency	**(10,079)**	(13,178)
Total line of credit	**100,000**	48,500
Amount drawn	**(70,800)**	(34,125)
Authorized letters of credit	**(3,857)**	(20)
Unutilized line of credit	**25,343**	14,355
Net available funds	**15,264**	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 percent to 2.5 percent over the bank's prime lending rate for prime loans, or at bankers' acceptance rates plus a stamping fee ranging from 1.75 percent to 3.75 percent, 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 next review date for the Facility is October 1, 2013.

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 bank debt and risk management liabilities are both excluded from current liabilities. At June 30, 2013, the Corporation's adjusted working capital ratio was 0.80, and therefore the financial covenant was not met. Prior to June 30, the Corporation had requested from the lender a draw of $14.0 million on the acquisition/development portion of the Facility in respect of a four-well drilling program for which preliminary expenditures were incurred in the second quarter. The request was approved subsequent to June 30, 2013 and $7 million has been received, with the remainder receivable upon confirmation of successful results from the first two wells of the drilling program. The Corporation has received from the lender a waiver of the covenant violation at June 30, 2013. The Corporation expects to be in compliance with the financial covenant by September 30, 2013.

SHARE CAPITAL

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Weighted average common shares outstanding (thousands)				
Basic	**210,404**	187,092	**200,121**	187,053
Diluted	**210,404**	187,550	**200,121**	187,898

	June 30, 2013	December 31, 2012
Outstanding securities (thousands)		
Common shares	**210,404**	186,415
Stock options	**12,700**	12,483

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.

In the first half of 2013, 1,180,000 stock options were granted at an average price of $1.24 per common share, and 788,333 stock options were exercised for common shares of the Corporation, for total proceeds of $0.7 million.

As of August 6, 2013 there are 210,403,601 common shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

For the six months ended June 30, 2013, legal fees in the amount of $0.3 million (June 30, 2012 - $0.2 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 $0.1 million (June 30, 2012 - $0.1 million) were incurred to a company controlled by an officer. Accounts payable and accrued liabilities at June 30, 2013 include $0.3 million (December 31, 2012 - $nil) 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 at June 30, 2013:

Year ended December 31	**($thousands)**
2013	**286**
2014	**338**
2015	**311**
2016	**10**
Total	**945**

RECENT ACCOUNTING PRONOUNCEMENTS

The IASB has undertaken a three-phase project to replace IAS 39 “Financial Instruments: Recognition and Measurement” with IFRS 9 “Financial Instruments”. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. IFRS 9 is required to be adopted prospectively for annual periods beginning January 1, 2015 with earlier adoption permitted. Portions of the standard remain in development and the full impact of the standard on Strategic’s financial statements will not be known until the standard is complete.

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 Strategic's business. By their nature, forward-looking statements are subject to numerous risks and uncertainties; some of which are beyond Strategic's control, including the impact of general economic conditions, industry conditions, operations risks, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, changes in environmental tax and royalty legislation, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources, and other risks and uncertainties described under the heading 'Risk Factors' and elsewhere in the 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.