Strategic
OIL & GAS LTD.

Updated Management's Discussion and Analysis

Year ended December 31, 2012

April 12, 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 year ended December 31, 2012, 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 audited consolidated financial statements for the years ended December 31, 2012 and 2011, together with the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

FINANCIAL AND OPERATIONAL SUMMARY

	Three Months Ended December 31			Year Ended December 31		
	2012	2011	**% change**	**2012**	2011	**% change**
Financial ($000's, except per share amounts)						
Petroleum and natural gas sales	**15,863**	8,606	84	**56,512**	23,853	137
Funds from (used in) operations [1]	**3,578**	824	334	**20,021**	745	2,587
Per share basic	**0.02**	0.01	100	**0.11**	0.01	1,000
Per share diluted	**0.02**	0.01	100	**0.11**	0.01	1,000
Net loss	**(5,917)**	(16,194)	(63)	**(4,788)**	(24,646)	(81)
Per share basic	**(0.03)**	(0.11)	(72)	**(0.03)**	(0.18)	(83)
Per share diluted	**(0.03)**	(0.11)	(72)	**(0.03)**	(0.18)	(83)
Capital expenditures (excluding acquisitions)	**15,467**	12,648	22	**62,612**	46,030	36
Acquisitions, net of dispositions	**23,696**	-	100	**23,696**	-	100
Net debt (working capital surplus) [1]	**47,303**	(19,534)	(342)	**47,303**	(19,534)	(342)
Operating						
Production						
Oil and NGL (bbl per day)	**2,107**	943	123	**1,871**	659	184
Natural gas (mcf per day)	**1,050**	1,725	(39)	**1,415**	1,780	(21)
Barrels of oil equivalent (Boe per day)	**2,282**	1,230	86	**2,106**	956	120
Average realized price						
Oil and NGL ($ per bbl)	**80.09**	93.05	(14)	**80.69**	88.82	(9)
Natural gas ($ per mcf)	**3.52**	3.36	5	**2.46**	3.83	(36)
Barrels of oil equivalent ($ per Boe)	**75.57**	76.03	(1)	**73.30**	68.37	7
Netback per Boe ($)						
Petroleum and natural gas sales	**75.57**	76.03	(1)	**73.30**	68.37	7
Royalties	**16.81**	17.27	(3)	**12.55**	15.12	(17)
Operating expenses	**27.31**	30.91	(12)	**22.29**	32.54	(31)
Transportation expenses	**2.36**	2.37	-	**2.82**	2.17	30
Operating Netback ($ per Boe) [1]	**29.09**	25.48	14	**35.64**	18.54	92
Common Shares (000's)						
Common shares outstanding, end of period	**186,415**	186,562	-	**186,415**	186,562	-
Weighted average common shares (basic)	**187,176**	144,139	30	**186,800**	140,161	33

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

HIGHLIGHTS

- Production increased by 120 percent from 956 Boed (69 percent oil and NGL) in 2011 to an average 2,106 Boed (89 percent oil and NGL) in 2012. As a result, oil and gas revenues increased 137 percent to $56.5 million in 2012 from $23.9 million in 2011.

- Funds from operations increased from $0.7 million in 2011 to $20.0 million in 2012.

- Exploration and development expenditures totaled $62.6 million for the twelve months ended December 31, 2012 as compared to $46.0 million for 2011. Approximately 98 percent of exploration and development spending was directed to the Corporation’s light oil asset at Steen River.

- The Company added 3.7 MMBoe of proved and probable reserves in 2012, excluding production, for a reserve replacement ratio of 479 percent.

- Strategic increased its proved and probable oil and gas reserves by 55 percent and the net present value of its reserves before tax (discounted at 10 percent) by 54 percent compared to the previous year, as determined by the Corporation’s independent reserve evaluators McDaniel and Associates Consultants Ltd. (“McDaniel”) at December 31, 2012.

- Strategic successfully closed an acquisition of light oil assets at Steen River in December 2012. This acquisition included production capability of 340 Boed (83 % oil, 200 Boed tied in), pipelines, facilities and roads that are strategic to the Corporation’s operations in this core area.

- Strategic realized finding and development (“F&D”) costs, including changes in future development capital (“FDC”) of $26.03 per Boe in 2012, a 57 percent reduction from F&D costs of $60.62 per Boe for 2011. The Company realized finding, development and acquisition (“FD&A”) costs including FDC of $29.36 per Boe in 2012.

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 our revenues and expenses during the reporting period. Management reviews these estimates, including those related to accruals, environmental and decommissioning liabilities, income taxes, and the determination of proved and probable reserves on an ongoing basis. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates.

Non-IFRS Measurements

The 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 December 31		Year ended December 31	
($000)	**2012**	2011	**2012**	2011
Cash generated by operating activities	**2,724**	2,542	**19,785**	(4,553)
Abandonment expenditures	**72**	77	**202**	2,300
Change in non-cash working capital	**782**	(1,795)	**34**	2,998
Funds from operations	**3,578**	824	**20,021**	745

"Netback" is used to evaluate operating performance of our 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 any assets or liabilities related to risk management contracts.

PERFORMANCE OVERVIEW

In 2012 Strategic continued to execute on its corporate strategy to explore and exploit its light oil asset base in northern Canada, while continuing to review other high impact oil resource plays in the Corporation's portfolio.

The Corporation had a highly successful drilling program, resulting in a 120 percent increase in average production from 956 Boed in 2011 to 2,106 Boed in 2012. Declines in natural gas production from 2011 levels were mainly attributed to the shut-in of the Larne property in July due to forest fires, natural production declines and lower development spending on gas-weighted assets. The Larne field was placed back on production in late December 2012.

An increase in the oil weighting of Strategic's production mix allowed the Corporation to realize an average price of $73.30 per Boe, up 7 percent from $68.37 in 2011, despite declines in both oil and gas prices as compared to prior year.

Strategic was active throughout 2012 at Steen River, drilling a total of eighteen wells (18.0 net) with a 100 percent success rate. Seventeen of the wells drilled were targeting Keg River and Sulphur Point oil zones with sixteen vertical wells and one horizontal well drilled during the year. The Corporation drilled one Muskeg Stack horizontal well in the first quarter of 2012. Drilling activity was concentrated along the rim of the Steen River Astrobleme, which has demonstrated high oil deliverability from several formations.

Capital activity in 2012 also included facility upgrades and expansion of storage capacity at the Steen River oil facility. An additional 3,000 bbls of oil storage capacity and a second tanker truck loading station were added to accommodate increased produced volumes. Through the aforementioned acquisition, road, pipeline and facility synergies reduced the Corporation's 2013 capital spending allocated to infrastructure projects by over $12 million.

In order to diversify its revenue stream, access to market and minimize production downtime due to pipeline disruptions, the Corporation reached an agreement to transport up to 1,500 bbl/d of its oil production by rail starting in December 2012.

Reserves

In accordance with National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities ("NI 51-101"), the Company's oil, natural gas and natural gas liquids ("NGL") reserves were evaluated by McDaniel as at December 31, 2012. Gross reserves included below are Strategic's working interest reserves before royalty burdens.

Strategic's reserves at December 31, 2012 are summarized below.

Gross Reserves[1]	Light and Medium Crude Oil (Mbbl)	Heavy Oil (Mbbl)	Natural Gas (MMcf)	Natural Gas Liquids (Mbbl)	Oil Equivalent (MBoe)
Proved Producing	2,669	137	2,604	40	3,279
Proved Non-Producing	405	0	809	1	541
Proved Undeveloped	193	0	20	0	197
Total Proved	**3,268**	**137**	**3,433**	**41**	**4,017**
Total Probable	**2,905**	**78**	**6,895**	**34**	**4,167**
Total Proved and Probable	**6,173**	**215**	**10,328**	**75**	**8,184**

(1) The recovery and reserve estimates of Strategic's oil, natural gas and NGL reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater than or less than the estimates provided herein.

OUTLOOK

For 2013 Strategic has a capital budget of $75 million that is expected to provide growth in crude oil production and continue to expand the productive boundaries of the Steen River light oil play.

Corporate production averaged approximately 3,000 Boed during the first quarter of 2013 even with downtime associated with operational and facility constraints. Approximately $15 million of the 2013 capital program is being targeted towards reconfiguring newly acquired pipelines and upgrading facilities for future production increases. With most of the tie-in work completed, Strategic will minimize future downtime associated with operations at Steen River.

In the first quarter of 2013, Strategic carried out 2D and 3D seismic programs, commenced reconfiguring pipelines, initiated upgrading of facilities, undertook a workover program by re-entering existing vertical wells and drilled and completed a total of six new wells (6.0 net) at Steen River. The six new wells include one vertical Keg River well, three horizontal Muskeg Stack wells and two vertical step out exploration wells. As a result, the Corporation's current production is 4,600 Boed (83% oil), including approximately 1,000 Boed from new wells.

Second quarter drilling is anticipated to start in early May. Strategic expects to complete and tie in up to 3 additional wells in the quarter. Strategic is increasing its exit rate guidance for 2013 to 5,000 Boed.

Keg River Vertical Well

The vertical Keg River well is a step out well drilled in the vicinity of the West Marlowe Keg River Pool. The pool is on the northwest rim of the Steen River Astrobleme, approximately 15 km west of the North Marlowe pool which was the focus of development during 2012. The vertical well extends the existing West Marlowe Keg River pool, and will result in a significant increase in reserves for this pool. The initial production results are very encouraging.

Strategic plans to drill up to six additional Keg River wells during the remainder of the year. Three of these wells will be targeting new structures on the northern rim of the Astrobleme as mapped using the newly shot 3D seismic.

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. Following the success of the first Muskeg Stack well drilled in 2012, Strategic re-entered three existing vertical wells, perforated and fracture stimulated the Muskeg Stack zone. The intent was to fine tune the fracture techniques as well as prove up the oil potential of the Muskeg on the northern rim of the Astrobleme. The vertical wells proved up the presence of oil on the northern rim with production capability of 30-50 bbl/d per day from a single frac. This work helped refine the design and tonnage used per stage for the horizontal wells.

The first Muskeg Stack horizontal 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 ½" frac string with a tubing pressure of 470 psi at an average rate of 566 bbl/d of 34^{o} API oil and 1.1 MMcf/d of raw gas. The average rate over the test period equated to 750 Boed (75% Oil).

The second Muskeg Stack horizontal 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 ½" frac string string with a tubing pressure of 92 psi at an average rate of 465 bbl/d of 34^{o} API oil and 1.2 MMcf/d of gas over the four day flow period. The average rate over the test period equated to 665 Boed (70% Oil).

The third Muskeg Stack horizontal 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. Although the well did not kick in and start flowing by the fourth day of swabbing, once the well is on artificial lift and the load is recovered, the Corporation expects the well to perform similar to the other two Muskeg Stack horizontal wells.

The Corporation expects the 30 day rates for each of the Muskeg Stack horizontal wells to be approximately 400 Boed (75% Oil). The average drill, complete, equip and tie-in costs for the three Muskeg Stack wells was $2.95 million per well. The three Muskeg Stack horizontal wells are spaced over 15 km on the rim of the Steen Astrobleme and will help the Corporation prove up 40 sections with a potential to drill four horizontal wells per section.

Deeper Pool Tests

The first step out exploratory vertical well discovered commercial production of light sweet oil from within the crater at a depth of 1350 meters, approximately 400 meters deeper than the producing wells on the rim. The well was tested for a period of two days at swab rates of 180 Boed (96% oil). This well will be tied in during Q4 2013.

The second exploratory step out well, drilled 15 km south of the North Marlowe pool, was drilled to test the multi zone potential in the southeast quadrant of the rim. It has been perforated and fraced as a Slave Point oil well. The well was swabbed for a period of two day and was producing 50 bbl/d on the second day of the swabbing. This well will be tied in during Q4 2013.

In summary, the results of the six wells drilled during the first quarter of 2013 are as follows:

Well	Rate[1]	Test Period (Days)	Test Type
Keg River- Vertical	250 Boed (96% Oil)	12	Pumping
Muskeg Stack Horizontal1	750 Boed (75% Oil)	2	Flowing
Muskeg Stack Horizontal2	665 Boed (70% Oil)	4	Flowing
Muskeg Stack Horizontal3	120 Boed (95% oil)	2	Swabbing (Recovering load fluid)
Deeper Pool test- Vertical	180 Boed (96% Oil)	2	Swab Rates
Slave Point test- Vertical	50 Boed (96% Oil)	2	Swab Rates

[1] Rates include raw gas volumes and do not represent the stabilized rates for the wells.

Recompletions and Workovers

During the first quarter of 2013, the Corporation also conducted a recompletion and workover program by re-entering three existing vertical wells at Steen River and two existing vertical wells at Bistcho to further evaluate the oil potential in the Slave Point. Results from this workover program are being evaluated. The results of the 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 recent wells have proven there is oil charge within the crater.

Facilities

Strategic's current oil handling capability at the two facilities at Steen River is approximately 4,500 bbl/d. With the new wells drilled in the first quarter outperforming expectations and up to three additional wells planned for the second quarter, the Corporation is working on adding an additional 3,500 bbl/d of oil handling capability at Steen River in the third quarter of 2013. The resulting total oil handling capability will be approximately 8,000 bbl/d from Corporation's the two facilities in this area.

Transportation

The Corporation is working towards building 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. Between rail and pipeline, the Corporation will have takeaway capacity of up to 9,000 bbl/d from Steen River. 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.

Fourth quarter information		**Three months ended December 31**	
($000, except where noted)	**2012**	2011	% change
Average daily production volumes			
Oil & NGL (bbl/d)	**2,107**	943	123
Natural Gas (mcf/d)	**1,050**	1,725	(39)
Total (Boed)	**2,282**	1,230	86
Revenues			
Oil & NGL revenue	**15,523**	8,072	92
Natural gas revenue	**340**	534	(36)
Average prices			
Oil & NGL price ($/bbl)	**80.09**	93.05	(14)
Natural gas price ($/mcf)	**3.52**	3.36	5
Oil equivalent ($/Boe)	**75.57**	76.03	(1)
Royalties	**3,529**	1,954	81
Royalties as a percentage of revenues (%)	**22.2%**	22.7%	(2)
Operating expenses	**5,734**	3,499	64
($/Boe)	**27.31**	30.91	(12)
Transportation expenses	**495**	268	85
($/Boe)	**2.36**	2.37	-
General and administrative ("G&A") expenses	**2,442**	2,037	20
($/Boe)	**11.63**	17.99	(35)
Funds from operations	**3,578**	824	334
($/common share)	**0.02**	0.01	100
Cash flow provided by operating activities	**2,724**	2,542	7
($/common share)	**0.01**	0.02	(50)
Net Loss	**(5,917)**	(16,194)	(63)
($/common share)	**(0.03)**	(0.11)	(72)
Exploration and development expenditures	**15,467**	12,648	22
Net acquisitions	**23,696**	-	-

In comparing the three months ended December 31, 2012 with the fourth quarter of 2011:

- Oil and NGL production volumes increased 123 percent as a result of drilling activities at Steen River.
- The 11-28 well at Steen River, which had been producing over 200 Boed, was shut in for approximately 30 days for repairs resulting in a significant reduction in production for the fourth quarter of 2012. In the future, as additional wells are brought on production the effect of any individual well on the Corporation’s production will decrease.
- Oil production was also temporarily backed out by initial production from Strategic’s first horizontal Muskeg stack well.

- Natural gas production volumes declined 39 percent from 2011 levels due to the shut-in of the Larne field in July 2012 and increased natural gas utilization at the Steen River plant to handle increased fluid volumes.

- Revenues increased $7.5 million or 92 percent as a result of higher oil production, partially offset by a decrease in the realized oil & NGL price to $80.09 per bbl for the fourth quarter of 2012 from $93.05 per bbl for the three months ended December 31, 2011.

- Royalties increased $1.6 million or 81 percent, commensurate with the increase in revenues. Royalties as a percentage of revenues have increased from previous quarters in 2012, as a number of oil wells reached the end of the New Well Royalty Rate period and the royalty rate increased from the five percent granted for the first year to the typical 25 to 30 percent for oil production in the Steen River area.

- Operating costs per Boe dropped by 12 percent due to increased oil volumes at Steen River, which allowed the Corporation to spread fixed operating costs over a higher production base. Operating costs increased to $5.7 million from $3.5 million due to increases in production and the overall scope of Strategic's operations in northwestern Alberta.

- The Corporation incurred incremental one-time costs associated with the aforementioned repairs to the 11-28 well discussed above and start up production at Larne after a prolonged shut in period. Chemicals expense increased due to higher fluid production and handling at the Steen River plant. Facility modifications are underway that will mitigate the effect of fluid production on chemicals usage in 2013. Transportation expense increased in proportion to the increase in production, however the Corporation did experience incremental trucking charges due to short term pipeline restrictions at the Rainbow terminal. Excluding non-recurring costs, fourth quarter operating costs would have been $3.9 million or a 40% reduction on a Boe basis for the same period in 2011.

- G&A expenses on a per Boe basis decreased by 35 percent for the fourth quarter of 2012 as a result of higher production levels. G&A expenses increased by $0.4 million over the fourth quarter of 2011, primarily due to increased salaries and office rent as a result of higher staffing levels, as well as financing fees related to the new credit facility obtained in early 2013.

- Funds from operations increased to $3.6 million or $0.02 per common share from $0.8 million or $0.01 per share for the fourth quarter of 2011 due to primarily to higher revenues driven by increased production levels.

- Exploration and development expenditures totalled $15.5 million for the three months ended December 31, 2012 as compared to $12.6 million for the comparable quarter in 2011. Current period expenditures included the drilling of four wells as well as the Corporation's first multistage frac operation in the Muskeg Stack formation, all at Steen River.

- Net loss decreased to $5.9 million ($0.03 per basic and diluted common share) from $16.2 million ($0.11 per basic and diluted common share) due primarily to higher funds from operations and lower impairment charges in the current quarter.

RESULTS OF OPERATIONS

Production

	Year ended December 31		
	2012	2011	% Change
Oil & NGL – bbl/d	**1,871**	659	184
Natural gas – mcf/d	**1,415**	1,780	(21)
Total daily production (Boed)	**2,106**	956	120

Oil & NGL production increased by 1,212 bbl/d or 184 percent from 2011 due primarily to drilling activities at Steen River. Gas production declined 21 percent due to the shut-in of the Larne gas field, as well as a preferential allocation of development capital toward the Corporation's high-netback light oil assets during the year.

The Corporation's production portfolio in 2012 was weighted 89 percent to oil and NGL and 11 percent to natural gas, a significant increase from the 2011 levels of 69 percent to oil and NGL and 31 percent to natural gas.

Revenue

	Year ended December 31	
($000, except where noted)	**2012**	2011
Sales		
Oil & NGL	**55,241**	21,365
Natural gas	**1,271**	2,488
	56,512	23,853
Change in fair value of risk management contract	**(224)**	-
Other revenue	**370**	198
Total sales	**56,658**	24,051
Average prices (note 1)		
Oil & NGL ($/bbl)	**80.69**	88.82
Natural gas ($/mcf)	**2.46**	3.83
Oil equivalent ($/Boe)	**73.30**	68.37

The Corporation's oil and natural gas revenues for the year ending December 31, 2012 increased 137 percent to $56.5 million from $23.9 million in 2011, primarily driven by a 184 percent increase in oil and NGL production.

The average price realized for oil and NGL in 2012 decreased to $80.69 per bbl from $88.82 per bbl in 2011, as continued strength in WTI oil prices was offset by higher differentials for Canadian crude oil compared to the prior year. The Corporation's average natural gas price decreased 36 percent to $2.46 per mcf in 2012 as compared to $3.83 per mcf in 2011 as a result of a 35 percent decrease in AECO Monthly Index prices over the same period.

Overall, the combined average prices realized increased by seven percent despite decreases in both oil and gas prices as Strategic's production mix was more heavily weighted to oil in 2012 compared to 2011.

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 December 31, 2012 is in note 17 to the consolidated financial statements. The Corporation continued to add to its risk management portfolio after the reporting date. A summary of risk management contracts outstanding at April 9, 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	300	US$100.00	WTI - NYMEX
01-Jan-2013	31-Dec-2013	Swap	200	US$90.00	WTI - NYMEX
01-Jul-2013	31-Dec-2013	Swap	300	US$95.27	WTI - NYMEX
01-Feb-2013	31-Dec-2013	Swap	500	US$95.25	WTI - NYMEX
01-Feb-2013	31-Dec-2013	Swap	500	US$99.00	WTI - NYMEX
01-May-2013	31-Dec-2013	Swap [2]	350	CAD$94.03	WTI - NYMEX
01-Jul-2013	31-Dec-2013	Option [1]	500	$100.00	WTI - NYMEX
01-Jan-2014	31-Dec-2014	Swap [2]	1,000	CAD$92.00	WTI - NYMEX
01-Jan-2014	31-Dec-2014	Option [1]	500	$99.00	WTI - NYMEX
01-Jan-2015	30-Jun-2015	Swap [2]	1,000	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 addition, Strategic has also entered into financial contracts to fix the WTI – Edmonton light oil price differential at CAD$4.75 per bbl on 1,000 bbl/d for April 1 to June 30, 2012.

As a result of changes in the forward price curve for WTI oil, the Corporation recorded an unrealized loss on risk management contracts of $0.2 million for the year ended December 31, 2012. 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.

	Year ended December 31	
($000, except where noted)	**2012**	2011
Crown royalties	**8,316**	4,599
Freehold royalties	**55**	110
Overriding royalties	**1,306**	565
Total royalties	**9,677**	5,274
Per Boe	**12.55**	15.12
Percentage of oil & natural gas revenues	**17.1**	22.1

On a percentage of revenue and per Boe basis royalties decreased as a result of the lower royalty rate on new production. Royalties increased to $9.7 million for year ended December 31, 2012 from $5.3 million for the period year due to higher revenues, driven primarily by higher oil production. 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.

Operating and Transportation Costs

($000, except per Boe amounts)	Year ended December 31 2012	2011
Operating costs	**17,184**	11,353
Transportation costs	**2,170**	758
	19,354	12,111
Per Boe		
Operating costs	**22.29**	32.54
Transportation costs	**2.82**	2.17
	25.11	34.71

Operating expenses increased from $11.4 million in 2011 to $17.2 million in 2012 due to higher trucking, chemicals and labour costs, primarily as a result of an increase in oil production and the scope of the Corporation's activities at Steen River. On a unit basis, operating expenses decreased 31 percent to $22.29 per Boe in 2012 compared to $32.54 per Boe for the prior year. The lower operating costs per Boe are due to operational efficiencies at Steen River, and the allocation of fixed costs in this core area over a higher production base. Excluding the fourth quarter, non-recurring costs discussed previously, the Corporation's per unit operating costs decreased by 39 percent year over year.

Transportation costs increased by 186 percent or $1.4 million from 2011 levels due primarily to higher oil production volumes.

The Corporation will continue to focus on controlling unit operating expenses and transportation costs in its core areas in 2013.

Operating Netbacks

($ per Boe)	Year ended December 31 2012	2011
Revenues	**73.30**	68.37
Royalties	**(12.55)**	(15.12)
Operating costs	**(22.29)**	(32.54)
Transportation costs	**(2.82)**	(2.17)
Netback per Boe	**35.64**	18.54

Strategic's operating netback increased 92 percent to $35.64 per Boe in 2012 from $18.54 per Boe for 2011 as a result of a higher percentage of oil production in 2012, lower royalty rates and a substantial reduction in operating costs per Boe as the Corporation's fixed operating costs at Steen River were spread over a higher production base. As the Corporation continues to grow production the operating netback will continue to improve, assuming no changes in oil, gas and NGL prices.

Exploration and Evaluation 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.

For the year ended December 31, 2012, the Corporation recorded $0.03 million of E&E expense compared to $1.3 million for the same period in the prior year. The decrease is a result of lower pre-licensing costs incurred during 2012 and higher unsuccessful exploration and evaluation costs derecognized in the prior year.

General and Administrative Expenses

	Year ended December 31	
($000, except per Boe amounts)	**2012**	2011
General and administrative expenses	**7,434**	5,706
Per Boe	**9.64**	16.35

General and administrative expenses ("G&A") increased to $7.4 million for 2012 from $5.7 million in 2011. The increase was a result of higher salaries and office rent due to staff additions during the year to manage the Company's growing production and land base. G&A per unit decreased to $9.64 per Boe from $16.35 per Boe in 2011 as higher G&A costs were more than offset by higher production levels.

Finance Expense

	Year ended December 31	
($000, except per Boe amount)	**2012**	2011
Interest expense	**103**	82
Interest expense – debenture	**-**	156
Accretion expense	**327**	201
Total	**430**	439
Per Boe	**0.56**	1.26

Finance expense measured $0.4 million for both 2012 and 2011, as higher accretion expense in the current year related to increased decommissioning liabilities was offset by reduced interest expense, as a result of the repayment of the outstanding convertible debentures in November 2011.

Strategic did not have any bank debt outstanding for most of 2012, but had drawings on its credit facility as of December 31, 2012 to fund the acquisition of assets at Steen River which closed on December 21, 2012. Going forward the Corporation intends to use drawings on the credit facility to fund capital expenditure programs and acquisitions, as well as funds from operations and equity financings, 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.

During the year ended December 31, 2012 the Corporation recorded $1.9 million in stock based compensation expense as compared to $2.6 million recorded in the previous year. The decrease is primarily due to lower fair values per stock option granted, as a result of decreased trading volatility. The prior year expense was affected by a grant of 3.5 million options that vested immediately, and therefore the entire fair value was expensed on the grant date.

Depletion, depreciation and amortization

	Year ended December 31	
($000, except per Boe amounts)	**2012**	2011
Depreciation, depletion, and amortization	**20,838**	9,383
Per Boe	**27.03**	26.89

Depletion, depreciation and amortization ("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 for the year ended December 31, 2012 increased by 122 percent to $20.8 million compared to $9.4 million for the same period in 2011, commensurate with the increase in production from year to year. On a Boe basis DD&A expense increased slightly to $27.03 per Boe from $26.89 per Boe in 2011.

Impairment Loss

Impairment testing is performed at the cash generating unit ("CGU") level and is a point in time process for testing and measuring a potential impairment of assets whereby the carrying value of each CGU is compared to the CGU's recoverable amount, which is the greater of its value in use and its fair value less costs to sell. Impairment testing is required when there are indicators of impairment such as a significant drop in commodity prices or a downward revision of proved and probable oil and gas reserves.

The Corporation's development and production assets are aggregated into CGU's based on their ability to generate largely independent cash flows. The Corporation has identified the following ten CGU's based on geographical area for impairment testing purposes: Steen River/Marlow, Lessard, Larne, Bistcho, Taber, Conrad, Cheddarville, individual gas wells, Maxhamish, and Antelope.

During the year ended December 31, 2012, the Corporation recorded an impairment charge of $4.0 million, related primarily to the Taber and Maxhamish CGUs. In 2011 Strategic recognized an impairment of $12.3 million related primarily to the Maxamish CGU, which is not operated by Strategic. The recoverable amount was determined using value in use based on the discounted cash flows of proved and probable reserves using forecast commodity prices and costs, as per the Corporation's reserve evaluator. The future cash flows were discounted using a pre-tax rate of 10 percent.

Funds from operations and net income (loss)

	Year ended December 31	
($000, except per share amounts)	**2012**	2011
Funds from operations	**20,021**	745
Per share		
basic	**0.11**	0.01
diluted	**0.11**	0.01
Net income (loss)	**(4,788)**	(24,646)
Per share		
basic	**(0.03)**	(0.18)
diluted	**(0.03)**	(0.18)

For the year ended December 31, 2012, the Corporation recorded a net loss of $4.8 million ($0.03 per basic and diluted common share) compared to a net loss of $24.6 million ($0.18 per basic and diluted common share) in the prior year. The lower net loss is a result of reduced impairment charges and higher funds from operations compared to 2011. Funds from operations increased significantly to $20.0 million ($0.11 per basic and diluted common share) in 2012 from $0.7 million ($0.01 per basic and diluted common share) for the year ended December 31, 2011 due primarily to increasing oil production from the Steen River core area and lower operating and G&A expenses on a per Boe basis.

Capital Expenditures

($000)	Year ended December 31 2012	2011
Drilling and completions	**44,115**	29,517
Equipping and facilities	**13,820**	7,876
Other	**246**	145
	58,182	37,538
Acquisitions	**23,696**	-
Total Property, plant and equipment	**81,878**	37,538
Land and seismic	**4,430**	8,492
Total exploration and evaluations	**4,430**	8,492
Total net capital expenditures	**86,308**	46,030

Total capital expenditures were $86.3 million in 2012, an 88 percent increase from $46.0 million in 2011.

Drilling, completions, equipping and facilities expenditures increased to $58.2 million from $37.5 million as drilling activities were expanded to 18 (18.0 net) wells in 2012 compared to 10 (8.8 net) wells in 2011. Drilling was focused on exploitation of the Keg River and Sulphur Point formations through vertical well development, but the Corporation also drilled one Muskeg stack horizontal well in the first quarter of 2012 in order to verify the prospectivity of this oil zone. Facility projects in 2012 included expansion of the oil storage facility to add 3,000 bbls of storage capacity and a second tanker truck loading station, as well as tying in wells drilled during the year and in late 2011.

Acquisitions capital spending of $23.7 million in the current year is comprised of an acquisition of oil and gas assets closed in December 2012. With this acquisition Strategic gained oil production and significant infrastructure within the Steen River core area.

Exploration and evaluation costs are area expenditures where technical feasibility and commercial viability has not yet been determined. Costs incurred prior to lease acquisition are expensed as incurred. Exploration and evaluation costs decreased from 2011 levels due to lower spending on undeveloped land acquisitions and seismic.

SUMMARY OF QUARTERLY FINANCIAL DATA

The following table summarizes quarterly financial results:

Quarter ended ($000, except where noted)	**Dec-12**	Sep-12	Jun-12	Mar-12	Dec-11	Sep-11	Jun-11	Mar-11
Petroleum and natural gas sales	**$ 15,863**	$ 12,520	$ 16,924	$ 11,204	$ 8,606	$ 5,200	$ 5,432	$4,614
Income (loss)	**(5,917)**	(718)	1,235	611	(16,194)	(1,395)	(2,167)	(4,891)
Income (loss) per share								
Basic	**(0.03)**	(0.01)	0.01	0.00	(0.11)	(0.01)	(0.02)	(0.04)
Diluted	**(0.03)**	(0.01)	0.01	0.00	(0.11)	(0.01)	(0.02)	(0.04)
Production Boed	**2,282**	1,930	2,583	1,631	1,230	914	884	790
Average price ($/Boe)	**75.57**	70.52	72.00	75.50	76.03	61.83	67.54	64.92

Petroleum and natural gas sales have increased significantly with higher production levels in 2012 quarters as compared to 2011. Revenue per Boe has also trended higher as the Corporation's capital programs are targeting oil and the production mix has been increasingly weighted to oil in recent quarters. The higher sales figures in 2012 are contributing to higher funds from operations and reductions in the net loss incurred in those quarters. Net income will typically fluctuate with production and revenues, and was highest in the second quarter of 2012 when revenues were highest.

The net losses in the fourth quarter of 2012 and 2011 are largely due to impairment charges recorded 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:

	As at December 31	
($000)	**2012**	2011
Current assets	**11,661**	37,443
Accounts payable and accrued liabilities, excluding bank indebtedness and risk management liabilities	**(24,839)**	(17,908)
Adjusted net working capital surplus (deficit) [1]	**(13,178)**	19,535
Total line of credit	**48,500**	21,000
Amount drawn	**(34,125)**	-
Authorized Letters of Guarantee	**(20)**	(800)
Unutilized line of credit	**14,355**	20,200
Net available funds	**1,177**	39,735

[1] This is a non-IFRS measurement. See "Non-IFRS Measurements" in this MD&A.

On January 15, 2013 Strategic replaced its $48.5 million operating line with a $100 million credit facility, increasing the net available funds for growth. The Corporation anticipates that 2013 capital spending including acquisitions will total approximately $85 million, and expects that this spending will be funded by net available funds on the line of credit, funds from operations for the year and proceeds from an offering of common shares closed on March 20, 2013.

Credit Facility

At December 31, 2012 Strategic had a revolving operating line with a Canadian Chartered bank in the amount of $48.5 million. In addition to the $34.1 million outstanding on the operating line at the reporting date, the Corporation also had $0.02 million in letters of credit, which reduced amounts available under the line. The operating line was repayable on demand and bore interest at a rate of 1.0% over the bank's prime lending rate. The operating line was secured by a general security over all present and acquired property of the Corporation and a floating charge on all lands. The operating line contained 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 is excluded from current liabilities. At December 31, 2012 Strategic was in compliance with all covenants.

On January 15, 2013 the Corporation replaced the operating line with a $100 million credit facility (the "Facility"), comprised of an $80 million revolving operating loan and a $20 million acquisition/development demand loan. 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, and contains the same working capital covenant as the operating line. The Facility is subject to periodic review by the lender, with the next review date scheduled for May 1, 2013.

SHARE CAPITAL

	Year ended December 31	
	2012	2011
Outstanding Common shares		
Weighted average Common shares outstanding		
- Basic	**186,800,318**	140,161,040
- Diluted	**186,800,318**	140,161,040

	December 31, 2012	December 31, 2011
Outstanding Securities		
- Common Shares	**186,415,268**	186,562,068
- Common Share Options	**12,483,333**	6,780,333

On August 16, 2012 Strategic announced a Notice of Intention to purchase its common shares from time to time in accordance with the normal course issuer bid procedures under Canadian securities laws. During 2012 the Corporation repurchased and cancelled 958,800 common shares at a weighted average price of $0.78 per common share for a total of $0.75 million.

During the year 812,000 stock options were exercised for common shares of the Corporation, for total proceeds of $0.4 million.

Subsequent to the reporting date Strategic issued 23.2 million common shares at a price of $1.25 per common share, for gross proceeds of $29.0 million before transaction costs. The private placement closed on March 20, 2013.

SUMMARY OF ANNUAL INFORMATION

		Year ended December 31	
($000, except per share amounts)	**2012**	2011	2010
Total Revenue	**56,512**	23,853	6,124
Net income (loss)	**(4,788)**	(24,646)	(339)
Per common share basic)	**(0.03)**	(0.18)	-
Per common share (diluted)	**(0.03)**	(0.18)	-
Total Assets	**159,718**	117,695	89,391
Total long-term liabilities	**18,773**	12,523	11,299

Net revenues have increased dramatically over the past two years as a result of production additions from successful capital programs, primarily at Steen River. Total revenues in 2010 included only 10 days of production from the Corporation's assets at Steen River, as they were acquired on December 22, 2010. Net losses were higher in 2011 and 2012 as compared to 2010 despite higher revenues as a result of impairment charges totalling $12.3 million and $4.0 million respectively. Net loss was reduced in 2010 by a $9.3 million gain on the acquisition of a subsidiary. Total assets have increased due to capital spending and acquisitions exceeding depletion and depreciation expense over the two-year period. Long-term liabilities consist of decommissioning obligations, and have increased over the two-year period as the Corporation's oil and gas asset base has also increased.

TRANSACTIONS WITH RELATED PARTIES

Legal fees in the amount of $0.3 million (December 31, 2011 - $0.3 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. Consulting fees in the amount of $0.07 million were recorded in 2012 (December 31, 2011 - $0.03 million) for geophysical consulting performed by a former director. Software charges of $0.1 million (December 31, 2010 - $0.1 million) were charged to a company controlled by an officer. Accounts payable and accrued liabilities at December 31, 2012 include $0.01 million (December 31, 2011 - $0.15 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	($000)
2013	601
2014	338
2015	311
2016	10
	1,260

OUTSTANDING SHARE DATA

Common Shares

The Corporation is authorized to issue an unlimited number of common shares. As at March 21, 2013 the Corporation had 210,403,601 common shares outstanding and 12,395,000 stock options outstanding under its stock option program.

SENSITIVITY ANALYSIS

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

	For the year ended December 31	
($000)	**2012**	2011
10% increase in oil price	**4,527**	1,569
10% increase in gas price	**131**	240
1% increase in interest rate	**(30)**	-

FUTURE ACCOUNTING PRONOUNCEMENTS

The following pronouncements from the International Accounting Standards Board ("IASB") will become effective for financial reporting periods beginning on or after January 1, 2013 and have not yet been adopted by the Corporation. All of these new or revised standards permit early adoption with transitional arrangements depending on the date of initial application.

The following standards and interpretations have not been in effect as they will only be applied for the first time in future periods. They may result in consequential changes to the accounting policies and other note disclosures.

IFRS 7 "Financial Instruments: Disclosures" and IAS 32 "Financial Instruments: Presentation"
In December 2011, the IASB issued amendments to IFRS 7 and IAS 32 to clarify the current offsetting model and develop common disclosure requirements to enhance the understanding of potential effects of offsetting arrangements.

IFRS 9 "Financial Instruments"
As of January 1, 2015, the Corporation will be required to adopt IFRS 9, as part of the first phase of the IABS's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". 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 10 "Consolidated Financial Statements"
IFRS 10 replaces Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" and the consolidation requirements of IAS 27 "Consolidated and Separate Financial Statements". The new standard replaces the existing risk and rewards based approaches and establish control as the determining factor when determining whether an interest in another entity should be included in the consolidated financial statements.

IFRS 11 "Joint Arrangements"
IFRS 11 replaces IAS 31 "Interests in Joint Ventures". The new standard focuses on the rights and obligations of an arrangement, rather than its legal form. The standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted.

IFRS 12 "Disclosure of Interests in Other Entities"
IFRS 12 provides comprehensive disclosure requirements on interests in other entities, including joint arrangements, associates, and special purpose entities. The new disclosures are intended to assist financial statement users in evaluating the nature, risks and financial effects of an entity's interest in subsidiaries and joint arrangements.

IFRS 13 "Fair Value Measurement"
IFRS 13 provides a common definition of fair value measurement within IFRS. The new standard provides measurement and disclosure guidance and applies when another IFRS requires or permits an item to be measured at fair value, with limited exceptions.

IAS 28 "Investments in Associates and Joint Ventures"
IAS 28 was amended in 2011 and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 is effective for reporting periods beginning on or after January 1, 2013, with earlier adoption permitted.

The Corporation is currently evaluating the impact of adopting all of the newly issued and amended standards.

CRITICAL ACCOUNTING ESTIMATES

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

Reserves estimates

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

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

E&E costs

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

Impairment

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

Decommissioning liabilities

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

Business combinations

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

Risk management contracts

Fair values of financial risk management contracts are based on mark-to-market assessments and estimates of fair values, which are subject to management's judgment and measurement uncertainty.

Stock based compensation

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

Other estimates

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

BUSINESS RISKS

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

Acquisition and Development of Additional Reserves

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

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

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

Oil and Natural Gas Prices and Marketing

The Corporation's revenues are dependent upon prevailing prices for oil and natural gas. Oil and natural gas prices can be extremely volatile and are affected by the actions of domestic and international markets, foreign governments, international cartels and the Canadian federal and provincial governments. In addition, the marketability of the production depends upon the availability and capacity of gathering systems and pipelines, the effect of federal and provincial regulation (including tax and royalty regimes) on such production and general economic conditions. All of these factors are beyond the control of the Corporation. Any decline in oil or natural gas prices could have a material adverse effect on the Corporation's operations, financial condition, proved reserves and the level of expenditures for the development of its oil and natural gas reserves.

The Corporation may manage the risk associated with changes in commodity prices and foreign exchange rates by, from time to time, entering into crude oil or natural gas price hedges and forward foreign exchange contracts. To the extent that the Corporation engages in risk management activities related to commodity prices and foreign exchange rates, it will be subject to credit risks associated with counterparties with which it contracts.

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.

Environmental Concerns

The operation of oil and natural gas wells involves a number of natural hazards that may result in blowouts, environmental damage or other unexpected or dangerous conditions resulting in liability to the Corporation and possibly liability to fourth parties. The oil and natural gas industry is subject to extensive environmental regulation that provides for restrictions and prohibitions on releases or emissions of various substances produced in association with certain oil and natural gas industry operations, and such regulations may be expanded to include regulation of, among other things, emissions of carbon dioxide. In addition, legislation requires that well and facility sites are abandoned and reclaimed to the satisfaction of provincial authorities. A breach of such legislation may result in fines or the issuance of clean-up orders. The Corporation will make reasonable provision for well abandonment where appropriate, however there can be no assurance that such provision will be sufficient to satisfy all such obligations.

Permits and Licenses

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

Reliance on Operators and Key Employees

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

Third Party Credit Risk

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

Title to Properties

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

Competition

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

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, 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, 2011 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.