Management's Discussion and Analysis

Three and nine months ended September 30, 2016

Strategic Oil & Gas Ltd. ("Strategic" or the "Company") is a publicly-traded oil and gas exploration and production company, with operations focused on light oil development in northern Alberta. The following is management's discussion and analysis ("MD&A") of Strategic's consolidated operating and financial results for the three and nine months ended September 30, 2016, as well as information concerning the Company's future outlook based on currently available information. The MD&A was approved and authorized for issue by Strategic's board of directors on November 16, 2016. This MD&A should be read in conjunction with the Company's interim condensed consolidated financial statements for the three and nine months ended September 30, 2016 and 2015, together with the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

FINANCIAL AND OPERATIONAL SUMMARY

	Three months ended September 30			Nine months ended September 30		
Financial ($thousands, except per share amounts)	**2016**	2015	% change	**2016**	2015	% change
Oil and natural gas sales	**5,478**	7,783	(30)	**16,157**	29,146	(45)
Funds from (used in) operations [1]	**(141)**	1,122	-	**(1,881)**	6,015	-
Per share basic & diluted [1]	**-**	-	-	**-**	0.01	-
Cash provided by (used in) operating activities	**2,244**	4,235	(47)	**4,589**	2,080	121
Per share basic & diluted	**-**	0.01	-	**0.01**	-	-
Net loss	**(5,985)**	(63,918)	(91)	**(19,044)**	(78,327)	(76)
Per share basic & diluted	**(0.01)**	(0.12)	(92)	**(0.04)**	(0.14)	(71)
Capital expenditures (excluding acquisitions)	**10,812**	1,401	672	**20,261**	9,475	114
Bank debt (comparative figure is as of December 31, 2015)	**-**	42,857	(100)	**-**	42,857	(100)
Net debt (comparative figure is as of December 31, 2015) [1]	**70,244**	54,024	30	**70,244**	54,024	30
Operating						
Average daily production						
Crude oil (bbl per day)	**1,231**	1,608	(23)	**1,390**	1,970	(29)
Natural gas (mcf per day)	**2,074**	3,028	(32)	**2,401**	3,873	(38)
Barrels of oil equivalent (boe per day)	**1,577**	2,113	(25)	**1,791**	2,615	(32)
Average prices						
Oil & NGL, before risk management ($ per bbl)	**44.23**	46.72	(5)	**39.07**	48.34	(19)
Oil & NGL, including risk management ($ per bbl)	**44.23**	52.90	(16)	**39.07**	56.20	(30)
Natural gas, before risk management ($ per mcf)	**2.46**	3.13	(21)	**1.93**	2.98	(35)
Natural gas, including risk management ($ per mcf)	**2.46**	3.12	(21)	**1.93**	2.98	(35)
Operating netback ($ per boe) [1]						
Oil and natural gas sales	**37.77**	40.04	(6)	**32.93**	40.82	(19)
Royalties	**(6.42)**	(6.04)	6	**(4.60)**	(4.47)	3
Operating expenses	**(22.97)**	(21.96)	5	**(22.26)**	(22.75)	(2)
Transportation expenses	**(0.87)**	(0.70)	24	**(0.79)**	(1.14)	(31)
Operating Netback [1]	**7.51**	11.34	(34)	**5.28**	12.46	(57)
Common Shares (thousands)						
Common shares outstanding, end of period	**542,410**	542,319	-	**542,410**	542,319	-
Weighted average common shares (basic & diluted)	**542,408**	542,319	-	**542,340**	542,319	-

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

About Strategic

Strategic is a junior oil and gas company committed to becoming a premier northern oil and gas operator by exploiting its light oil assets primarily in northern Alberta. The Company relies on its extensive subsurface and reservoir experience to develop its asset base and grow production and cash flows while managing risk. The Company maintains control over its resource base through high working interest ownership in wells, construction and operation of its own processing facilities and a significant undeveloped land and opportunity base. Strategic's primary operating area is at Marlowe, Alberta. The Company also operates oil and gas production and processing facilities at Bistcho, Alberta and Cameron Hills in the Northwest Territories, as well as minor non-core oil properties in southern Alberta.

PERFORMANCE OVERVIEW, STRATEGY AND OUTLOOK

During the third quarter Strategic focused on the execution of its $21 million capital spending plan for the second half of 2016, including drilling four horizontal Muskeg wells, constructing an all weather road and pipeline from the drilling pad to existing lines at west Marlowe and completing a plant turnaround. The Company achieved further drilling efficiencies with longer horizontal laterals and completed additional stages per well to increase production performance. The wells were drilled 500 meters longer with an average length of 1,900 meters and to date three wells have been completed with 20 stages. The fourth well is scheduled for completion in December 2016.

Production results to date from the first Muskeg well 2-13 have exceeded the Company's expectations. The well was tied into the sales pipeline in October 2016 and had an average production rate of 525 bbl/d 36^{o} API light oil and 2.9 MMcf/d of raw natural gas, or 1,008 boe/d over the last 20 days of production.The 2-13 well is the second Muskeg well to produce at over 1,000 boe/d on a multi-day test; these results are encouraging and demonstrate repeatability of well performance in the large areal extent of the Muskeg play.

Including projected additions from the new Muskeg wells expected to be completed in the fourth quarter, Strategic expects to exit 2016 with a production rate of 2,800 boe/day. This capital program is the first step towards exploitation of the delineated, high-impact development corridor at west Marlowe. The Company anticipates continuing to drill along this corridor and executing its growth strategy in 2017 and has identified seventeen locations for near-term drilling.

QUARTERLY SUMMARY

- Capital expenditures of $10.8 million were incurred in the quarter, primarily on drilling and pipeline construction at west Marlowe. The first Muskeg well 2-13 drilled in the quarter was completed and tested at 1,263 boe/d (54% oil) over a 24 hour period.

- Strategic continued to implement operational efficiencies and reduce costs in the third quarter of 2016. Operating costs dropped $0.9 million or 22% from 2015 and $0.2 million or 7% from the second quarter of 2016. General and administrative ("G&A") costs for the current period were reduced by $0.2 million and $0.1 million, or 16% and 11% respectively compared to the third quarter of 2015 and second quarter of 2016.

- The Company issued $3.6 million of additional convertible debentures as payment in kind of interest payable on August 31, 2016 to preserve cash while pursuing its capital program. At September 30, 2016, the Company had $22.7 million in cash, in addition to the $4.6 million currently used as collateral for outstanding letters of credit. Working capital at September 30, 2016 is $13.6 million.

- Average daily production decreased 25% to 1,577 boe/d from 2,113 boe/d for the third quarter of 2015 and 14% from 1,829 boe/d for the second quarter of 2016, due to the temporary shutdown of the Marlowe field for a plant turnaround in September, as well as natural production declines.

- Operating netbacks decreased to $7.51/boe for the three months ended September 30, 2016 from $9.39/boe in the second quarter of the year primarily due to higher unit operating costs caused by lower production volumes. Operating netbacks decreased 34% from the third quarter of 2015 due to lower oil prices and higher unit operating costs. Funds used in operations were $0.1 million for the three months ended September 30, 2016, compared to funds from operations of $0.4 million for the second quarter of 2016 and funds from operations of $1.1 million for the third quarter of 2015. As new oil volumes come on line from the four-well drilling program, fixed costs will be spread over a larger production base and funds from operations are expected to increase.

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 Company's production and reserves are reported in barrels of oil equivalent ("boe"). Boe may be misleading, particularly if used in isolation. A boe conversion ratio for natural gas of 6 Mcf: 1 boe has been used, which is based on an energy equivalency conversion method primarily applicable at the burner tip and does not necessarily represent a value equivalency at the wellhead. As the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

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

Non-GAAP measures

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

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

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

	Three months ended September 30		Nine months ended September 30	
($thousands)	**2016**	2015	**2016**	2015
Cash provided by (used in) operating activities	**2,244**	4,235	**4,589**	2,080
Expenditures on decommissioning liabilities	**188**	(79)	**715**	4,425
Changes in non-cash working capital	**(2,573)**	(3,034)	**(7,185)**	(490)
Funds from (used in) operations	**(141)**	1,122	**(1,881)**	6,015

"Operating Netback" is used to evaluate operating performance of crude oil and natural gas assets. The term netback is calculated as oil and gas sales revenue excluding realized and unrealized gains and losses on risk management contracts, less royalties, and production costs. There is no IFRS measurement that would be directly comparable to operating netbacks.

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

RESULTS OF OPERATIONS

Production

	Three months ended September 30		Nine months ended September 30	
Average daily production volumes	**2016**	2015	**2016**	2015
Oil & NGL (bbl/d)	**1,231**	1,608	**1,390**	1,970
Natural gas (mcf/d)	**2,074**	3,028	**2,401**	3,873
Total (boe/d)	**1,577**	2,113	**1,791**	2,615

Average daily oil & NGL production for the three and nine months ended September 30, 2016 decreased by 23% and 29% from the comparative periods in 2015, due to a lack of production drilling over the past year and facility downtime related to a plant turnaround in the third quarter of 2016. In addition, planned workover and recompletion activities in 2016 were deferred.

Natural gas production volumes for the three and nine months ended September 30, 2016 decreased 31% and 38% from the comparative periods in 2015 due to higher fuel gas usage and a lack of drilling activity at Marlowe, as well as the shut-in of the Bistcho/Cameron Hills property in February 2015.

Revenue

	Three months ended September 30		Nine months ended September 30	
($thousands, except where noted)	**2016**	2015	**2016**	2015
Sales				
Oil & NGL	**5,010**	6,911	**14,886**	25,998
Natural gas	**468**	872	**1,271**	3,148
Oil and natural gas sales	**5,478**	7,783	**16,157**	29,146
Unrealized gain (loss) on risk management contracts	**-**	860	**-**	(2,472)
Realized gain (loss) on risk management contracts	**-**	912	**-**	4,230
	5,478	9,555	**16,157**	30,904
Average prices [1]				
Oil & NGL, before realized gain (loss) on risk management contracts ($/bbl)	**44.23**	46.72	**39.07**	48.34
Oil & NGL, including realized gain (loss) on risk management contracts ($/bbl)	**44.23**	52.90	**39.07**	56.20
Natural gas, before realized gain (loss) on risk management contracts ($/mcf)	**2.46**	3.13	**1.93**	2.98
Natural gas, including realized gain (loss) on risk management contracts ($/mcf)	**2.46**	3.12	**1.93**	2.98
Reference prices				
Oil – WTI ($US/bbl)	**44.94**	46.43	**41.33**	51.00
Edmonton par ($/bbl)	**54.80**	56.23	**50.13**	58.63
Natural gas – AECO Daily Index ($/MMBtu)	**2.32**	2.89	**1.85**	2.76

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

Average oil prices received are a function of the benchmark West Texas Intermediate ("WTI") oil price, less foreign exchange, transportation and quality differentials to arrive at Canadian dollar price received at delivery points in northern Alberta. WTI oil prices decreased 3% from the third quarter of 2015, as a decrease in North American oil production was offset by higher production and exports from OPEC nations. Strategic's average oil price for the third quarter of 2016 decreased by 5% from the corresponding period in 2015 due to lower WTI oil prices.

Substantially all of the Company's natural gas is sold at the AECO Daily Index price, adjusted for fuel charges. Strategic's average natural gas price for the third quarter of 2016 decreased by 22% from the corresponding period in 2015 due to lower AECO Daily index prices. The Company receives a premium to AECO pricing as a result of the relatively high heat content of natural gas production at Marlowe.

The Company's oil and natural gas revenues decreased to $5.5 million and $16.2 million for the three and nine months ended September 30, 2016 from $7.8 million and $29.1 million for the respective comparative periods in 2015. The decrease was due to a decline in commodity prices and lower production levels stemming from a lack of drilling and recompletion activities over the past 12 months as well as a plant turnaround in the third quarter of 2016.

Risk management contracts

The Company's net income and funds from operations are exposed to fluctuations in commodity prices, interest rates and foreign exchange rates. As part of its risk management program, Strategic may enter into financial commodity price management contracts for a portion of expected production levels, depending on current commodity prices, price volatility and the size and nature of the Company's capital spending programs. For the three and nine months ended September 30, 2016 Strategic had no commodity price risk management contracts in place. As a result, realized and unrealized gains on risk management contracts were $nil in 2016, compared to realized gains of $0.9 million and $4.2 million and unrealized gains of $0.9 million and unrealized losses of $2.5 million, respectively for the three and nine months ended September 30, 2015.

Royalties

	Three months ended September 30		Nine months ended September 30	
($thousands, except where noted)	**2016**	2015	**2016**	2015
Crown royalties	**859**	1,079	**2,071**	2,894
Freehold and overriding royalties	**73**	96	**186**	301
Total royalties	**932**	1,175	**2,257**	3,195
Per boe	**6.42**	6.04	**4.60**	4.47
Percentage of oil and natural gas sales	**17.0%**	15.1%	**14.0%**	11.0%

Royalty expense consists of royalties paid to provincial governments, freehold land owners and overriding royalty owners. Royalty expense also includes the impact of gas cost allowance, which is the reduction of natural gas royalties payable to the Government of Alberta to recognize capital and operating expenditures incurred in the gathering and processing of its royalty share of production. Crown royalties on oil production are paid in product, which is taken in kind and marketed separately by the provincial government. Royalty rates in western Canada vary based on volume produced by individual wells, market oil prices and the area the production is derived from. Revenues from newly drilled wells benefit from a crown royalty reduction 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 for a well up to 2,500 metres of total depth. The time frame and maximum production amounts are increased by six months and 100,000 Mcf or 10,000 bbls for each additional 500 metres of total depth. Strategic's wells are typically from 2,500 to 3,500 metres in total depth.

Royalties decreased to $0.9 million (17.0% of oil and natural gas sales) for the three months ended September 30, 2016 from $1.2 million (15.1% of oil and natural gas sales) for the comparative period in 2015 as a number of

Muskeg wells drilled in 2014 reached the production threshold for the 5% reduced royalty holiday. Royalty rates on those wells increased to 15-34% for the current quarter, depending on production levels.

Royalties for the nine months ended September 30, 2016 decreased to $2.3 million from $3.2 million for the first nine months of 2015 due to lower oil and natural gas production and revenues, partially offset by higher royalty rates on Muskeg oil wells. The royalty rate for 2016 increased to 14.0% from 11.0% in 2015 due to Muskeg wells coming off the royalty holiday and 2015 royalty expense being reduced by a gas cost allowance credit of $0.2 million related to prior periods.

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

Operating and transportation costs

	Three months ended September 30		Nine months ended September 30	
($thousands, except per boe amounts)	**2016**	2015	**2016**	2015
Operating costs	**3,332**	4,269	**10,921**	16,245
Transportation costs	**126**	137	**385**	813
	3,458	4,406	**11,306**	17,058
Per boe				
Operating	**22.97**	21.96	**22.26**	22.76
Transportation	**0.87**	0.70	**0.79**	1.14
	23.84	22.66	**23.05**	23.90

Operating costs decreased 22% to $3.3 million for the three months ended September 30, 2016 from $4.3 million for the comparative period in 2015 due to reductions in labour costs, third-party maintenance charges and chemicals usage at Marlowe. Unit operating costs increased 5% on a quarter over quarter basis due to lower production volumes in the current period. Operating costs dropped 33% to $10.9 million for first nine months of 2016 from $16.2 million in 2015 due to Company's continued focus on cost reduction at Marlowe, including labor costs, chemicals and workovers as well as the shut-in of Bistcho/Cameron Hills in February 2015. Operating costs per boe for the nine months ended September 30, 2016 decreased by 2% as the cost savings achieved at Marlowe were partially offset by lower production volumes. Operating costs at Marlowe are primarily fixed in nature, and unit costs are expected to decrease in future periods as production volumes rise.

Transportation costs for the nine months ended September 30, 2016 decreased to $0.4 million from $0.8 million for the comparative period in 2015 due to the shut-in of Bistcho/Cameron Hills, reduced natural gas production and a focus on transporting oil via the Company owned sales oil pipelines. Transportation costs for the current quarter were consistent with the third quarter of 2015, as the Company has firm service natural gas transportation contracted on the Transcanada pipeline system and is currently producing less than its contracted volume.

Netbacks

	Three months ended September 30		Nine months ended September 30	
($/boe)	**2016**	2015	**2016**	2015
Revenue	**37.77**	40.04	**32.93**	40.82
Royalties	**(6.42)**	(6.04)	**(4.60)**	(4.47)
Operating costs	**(22.97)**	(21.96)	**(22.26)**	(22.75)
Transportation costs	**(0.87)**	(0.70)	**(0.79)**	(1.14)
Operating netback	**7.51**	11.34	**5.28**	12.46

Strategic's operating netback decreased 32% to $7.51/boe for the third quarter of 2016 from $11.33/boe for the three months ended September 30, 2015 due to lower oil prices and reduced production levels, which increased unit operating and transportation costs. Operating netbacks for the first nine months of 2016 declined to $5.28/boe from $12.46/boe for the comparative period in 2015, primarily due to the drop in commodity prices.

Strategic's focus area is Marlowe, which is 100% owned and operated by the Company. The Marlowe assets generated a netback of $13.36/boe in the third quarter of 2016 compared to $14.66/boe for the third quarter of 2015 as a result of low oil and natural gas prices and reduced production levels due to the plant turnaround. The corporate netback is negatively affected by high fixed operating costs at the Company's minor oil properties in southern Alberta and B.C. and fixed costs at Bistcho/Cameron Hills, which was shut in in 2015 due to low commodity prices. As production volumes increase in the Marlowe area Strategic expects the corporate netback to trend towards the operating netback at Marlowe. The breakdown of Strategic's operating netback for the three months ended September 30, 2016 is as follows:

Operating netback ($/boe)	Marlowe	Other	**Total**
Revenue	37.75	38.34	**37.77**
Royalties	(6.57)	(2.04)	**(6.42)**
Operating costs	(16.92)	(204.72)	**(22.97)**
Transportation costs	(0.90)	-	**(0.87)**
Operating netback	13.36	(168.42)	**7.51**

General and administrative expense

	Three months ended September 30		Nine months ended September 30	
($thousands, except per boe amounts)	**2016**	2015	**2016**	2015
Gross general and administrative expense	**1,351**	1,620	**4,529**	6,382
Overhead recoveries	**(67)**	(75)	**(233)**	(378)
Capitalized G&A	**(230)**	(287)	**(645)**	(913)
Net general and administrative expenses	**1,054**	1,258	**3,651**	5,091
Per boe	**7.27**	6.47	**7.44**	7.13

General and administrative ("G&A") expense for the current quarter decreased 16% to $1.1 million for the current three month period from $1.3 million for the third quarter of 2015 due to a lower staff count and reduced professional fees and rent expense. For the nine months ended September 30, 2016, G&A expense decreased 28% from the corresponding period in 2015 due to lower staffing levels and rent expenses. G&A expenses per boe increased in 2016 as lower costs were more than offset by lower production levels.

Finance expense

	Three months ended September 30		Nine months ended September 30	
($thousands)	**2016**	2015	**2016**	2015
Interest expense	**37**	734	**776**	2,017
Interest expense on convertible debentures	**1,735**	-	**4,264**	-
Interest expense on convertible debentures – cash portion	**208**	-	**208**	-
Accretion of decommissioning liabilities	**249**	286	**779**	839
Accretion on promissory notes	**-**	-	**19**	-
Accretion on debentures	**569**	-	**1,337**	-
Total	**2,798**	1,020	**7,383**	2,856

Finance expense increased to $2.8 million and $7.4 million for the second quarter and first nine months of 2016 from $1.0 million and $2.9 million, respectively for the comparative periods in 2015 primarily due to interest incurred on the convertible debentures issued on February 29, 2016. In addition to debenture interest incurred, an accretion expense is recorded to bring the debenture liability up to the face value of the debentures over the 5-

year term. The Company's outstanding bank debt and promissory notes were both repaid in full in February using proceeds from the debenture issue.

Accretion expense is a reflection of an increase in Strategic's discounted decommissioning liability due to the passage of time. Accretion of decommissioning liabilities was relatively consistent for the three and nine month periods in 2016 compared to 2015.

Stock based compensation

Stock based compensation is a non-cash charge which reflects the estimated value of stock options granted. The Company uses the fair value method of accounting for stock options granted to directors, officers, employees and consultants. The fair value of all stock options granted is recorded as a charge to net loss over the period from the grant date to the vesting date of the option. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes options pricing model.

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

Depletion, depreciation, amortization and exploration costs

	Three months ended September 30		Nine months ended September 30	
($thousands, except per boe amounts)	**2016**	2015	**2016**	2015
Depreciation, depletion and amortization ("DD&A")	**3,199**	5,088	**10,083**	19,177
Per boe	**22.04**	26.18	**20.55**	26.86

DD&A is computed individually for each producing area on a unit of production basis, using proved and probable reserves and including future development expenditures in the cost base subject to depletion. DD&A expense also includes amortization of undeveloped land costs. Major components, such as facilities and pipelines, are separated from oil and gas properties and depreciated on a straight-line basis over their estimated useful lives. DD&A expense decreased to $3.2 million and $10.1 million for the three and nine months ended September 30, 2016 from $5.1 million and $19.2 million, respectively for the 2015 periods as a result of lower production levels and a reduction in property, plant and equipment balances stemming from impairment charges recorded in 2015.

Funds from operations and net loss

	Three months ended September 30		Nine months ended September 30	
($thousands, except per share amounts)	**2016**	2015	**2016**	2015
Funds from (used in) operations	**(141)**	1,122	**(1,881)**	6,015
Per share – basic & diluted	**-**	-	**-**	0.01
Cash flow from operating activities	**2,244**	4,235	**4,589**	2,080
Per share – basic & diluted	**-**	0.01	**0.01**	-
Net loss for the period	**(5,985)**	(63,918)	**(19,044)**	(78,327)
Per share – basic & diluted	**(0.01)**	(0.12)	**(0.04)**	(0.14)

Funds used in operations totaled $0.1 million for the three months ended September 30, 2016 compared to funds from operations of $1.1 million for the same period in 2015, primarily due to lower oil revenues partially offset by lower operating costs and G&A expenses. Funds used in operations totaled $1.9 million for the first nine months of 2016 compared to funds from operations of $6.0 million in 2015. Although operating costs and G&A expenses were reduced by $5.3 million and $1.4 million, respectively lower oil and natural gas prices and production levels contributed to a $13.0 million reduction in revenues during the current period, leading to lower funds from operations. Strategic continues to implement cost-cutting initiatives and implement operational efficiencies to mitigate the impact of low commodity prices. Funds from operations in 2015 also benefited from realized risk management gains of $0.9 million for the third quarter and $4.2 million for the first nine months.

Cash flow from operating activities totaled $2.2 million for the three months ended September 30, 2016, a reduction from $4.2 million for the same period in 2015 due primarily to lower funds from operations. Cash flow from operating activities increased to $4.6 million for the nine months ended September 30, 2016 compared to $2.1 million for the same period in 2015 as lower funds from operations was more than offset by the collection of a $6.0 million insurance receivable in the current period.

Net loss decreased to $6.0 million and $19.0 million for the three and nine months ended September 30, 2016 compared to $63.9 million and $78.3 million, respectively for the comparative periods in 2015, due to lower DD&A expenses and an impairment charge of $60.0 million recorded in 2015.

Capital expenditures

	Three months ended September 30		Nine months ended September 30	
($thousands)	**2016**	2015	**2016**	2015
Drilling, completions and equipping	**7,201**	970	**11,571**	8,567
Pipelines and facilities	**3,611**	380	**4,245**	702
	10,812	1,350	**15,816**	9,269
Dispositions	**-**	-	**(15)**	-
Total property, plant and equipment	**10,812**	1,350	**15,801**	9,269
Total exploration and evaluations (“E&E”)	**-**	51	**4,445**	206
Net capital expenditures	**10,812**	1,401	**20,246**	9,475

Capital expenditures increased to $10.8 million for the three months ended September 30, 2016 from $1.4 million for the comparative period in 2015, due to the execution of the four well summer Muskeg drilling program at Marlowe and related road and lease construction, pipeline construction and a plant turnaround at Marlowe.

Capital expenditures of $20.2 million for the first nine months of 2016 were focused on drilling 4 appraisal wells in the first quarter of 2016 to preserve undeveloped lands, increase reserves and further delineate the Muskeg play at Marlowe, and drilling an additional 4 development wells and related infrastructure to tie the 15-14 four well pad to the sales pipeline.

The first appraisal well drilled in 2016 confirmed the significant productivity of the Muskeg play. The other three wells are not completed and are at a significant distance from existing infrastructure and therefore, the related costs have been included in E&E expenditures.

In the first quarter of 2016 Strategic executed a non-cash asset swap in the Bistcho area, assuming a 100% working interest in the Bistcho gas processing facility and 14 wells capable of production, and assigning its working interest in 68 non-producing wellbores to its joint venture partner. As a result of the swap the Company gained full ownership and control of the processing infrastructure in the area and will avoid significant near-term decommissioning liabilities at Bistcho.

Decommissioning liabilities

Decommissioning liabilities increased to $63.0 million at September 30, 2016 from $53.9 million at December 31, 2015 primarily due to change in estimate on the 9-17 and 1-28 facilities and accretion expense, partially offset by $0.7 million in decommissioning expenditures to date in 2016. The current portion of the decommissioning liabilities at September 30, 2016 includes $5.1 million which relates to remediation of the site of a prior year pipeline spill at Marlowe. Strategic had claimed this amount, in addition to amounts already incurred with respect to the remediation effort, from its insurer. The insurance receivable of $6.0 million was collected in full in May 2016.

SUMMARY OF QUARTERLY FINANCIAL DATA

The following table summarizes quarterly financial results:

Quarter ended ($thousands, except where noted)	**Sept 30, 2016**	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015
Oil and natural gas sales	**5,478**	5,974	4,705	7,349
Net loss	**(5,985)**	(5,800)	(7,259)	(31,790)
Net loss per share – basic & diluted	**(0.01)**	(0.01)	(0.01)	(0.06)
Average daily production (boed)	**1,577**	1,829	1,968	2,194
Average price ($/boe)	**44.23**	35.89	26.26	36.41

Quarter ended ($thousands, except where noted)	Sept 30, 2015	Jun 30, 2015	Mar 31, 2015	Dec 31, 2014
Oil and natural gas sales	7,783	10,942	10,422	18,790
Net loss	(63,918)	(5,797)	(8,610)	(117,321)
Net loss per share – basic & diluted	(0.12)	(0.01)	(0.02)	(0.22)
Average daily production (boed)	2,113	2,480	3,267	3,925
Average price ($/boe)	40.04	48.49	35.45	52.04

Oil and natural gas sales are a function of average daily production levels, the oil/gas production mix and commodity prices and decreased significantly with reduced production levels and lower oil prices in the first three quarters of 2016. Sales were highest in the fourth quarter of 2014 as the average realized price was over $50/boe and production reached 3,925 boe/d.

Net loss varies with funds from operations, as well as non-cash expenses incurred such as unrealized losses and gains on risk management contracts, DD&A and impairment. Net losses are highest in the fourth quarter of 2014 and third and fourth quarters of 2015 due to impairment charges of $114.0 million, $60.0 million and $27.7 million, respectively. Maintaining positive net income on a consistent basis will depend on the Company's ability to increase sales volumes and reduce unit production costs and DD&A, as well as on an increase in commodity prices.

LIQUIDITY AND CAPITAL RESOURCES

The Company considers its capital structure to include shareholders' equity, working capital, bank debt and convertible debentures. The objectives of the Company are to maintain financial flexibility to achieve goals of continued growth and access to capital. In order to maintain or adjust the capital structure, Strategic may issue new common shares, issue or repay debt, or adjust exploration and development capital expenditures. The Company monitors its capital structure based on net debt and working capital (deficiency), as calculated below:

($thousands)	**September 30, 2016**	December 31, 2015
Current assets	**29,925**	9,347
Accounts payable and accruals	**(9,410)**	(5,029)
Promissory notes	**-**	(9,703)
Current decommissioning liabilities	**(6,903)**	(5,782)
Bank indebtedness	**-**	(42,857)
Net working capital (deficiency)	**13,612**	(54,024)
Convertible debentures	**(83,856)**	-
Net debt	**(70,244)**	(54,024)

At September 30, 2016, the Company had $13.6 million in working capital, compared to a working capital deficiency of $54.0 million at December 31, 2015. A financing of convertible debentures closed in the first quarter allowed Strategic to repay its credit facility and promissory notes and provide funding for the Company's summer drilling program. The credit facility was cancelled after repayment. Approximately $4.6 million of the working capital balance is held in term deposits which serve as collateral against outstanding letters of credit.

On February 29, 2016, Strategic issued a total of $94.9 million in secured senior convertible debentures via private placement (the "Debentures"), for net proceeds of $92.6 million after issue costs. Approximately $58.8 million of the offering was acquired by entities controlled by a director of the Company and an additional $4.1 million was acquired by directors and officers of the Company. The Debentures have a five-year term and bear an annual interest rate of 8.0%, payable semi-annually in arrears, with an option for the Company to pay the interest an equivalent principal amount of debentures for the first two years ("PIK feature"). The Debentures are convertible into common shares at a conversion price of $0.09 per share, subject to adjustment in certain events.

The Debentures can be called prior to the maturity date by the Company if either a) the 90-day weighted average trading price of Strategic common shares is over $0.36 per share, or b) anytime in the fifth year of the term. If the Company elects to call the Debentures under option b), interest must be paid from the date the Debentures are called up to the redemption date.

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

On August 31, 2016, Strategic elected to use the PIK feature available on the Debentures for the first interest payment and as a result $0.2 million in cash interest was paid and the Company issued an additional $3.6 million in convertible debentures (the "PIK Debentures". The PIK Debentures were split into a financial liability component of $3.3 million and an equity component of $0.3 million. Of the $3.6 million PIK Debentures issued, $2.2 million were issued to entities controlled by a director of the Company and an additional $0.8 million were issued to directors and officers of the Company. The maturity date and other terms of PIK Debentures are identical to the Debentures other than the conversion rate which was $0.165 per share. As such, $3.6 million of interest expense on Debentures for this period did not reduce funds from operations.

Below is a summary of the debt and equity components of the convertible debentures:

($000)	**Convertible Debentures Component**	**Equity Component**	**Total**
Issued on February 29, 2016	81,174	13,677	94,851
Issuance costs	(1,964)	(331)	(2,295)
Additional debentures issued as payment in kind of interest	3,309	308	3,617
Accretion expense	1,337	-	1,337
Balance end of period	**83,856**	**13,654**	**97,510**

The liability component of all debentures issued is being accreted to the adjusted face value of $98.5 million over the term of the debentures.

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

SHARE CAPITAL

	Three months ended September 30		Nine months ended September 30	
	2016	2015	**2016**	2015
Weighted average common shares outstanding (thousands)				
Basic & diluted	**542,408**	542,319	**542,340**	542,319

	September 30, 2016	December 31, 2015
Outstanding securities (thousands)		
Common shares	**542,410**	542,319
Stock options	**20,735**	11,365

During the first nine months of 2016, 10.6 million stock options were granted at an average price of $0.09 per common share, 765,000 stock options expired and 413,333 options were cancelled or forfeited. Of the 10.6 million stock options granted in 2016, 91,667 were exercised in the second and quarters of 2016 and 91,677 common shares were issued.

As of November 16, 2016 there were 542,410,296 common shares outstanding and 20,735,000 stock options outstanding. If all of the outstanding Debentures were converted into common shares, an additional 1,075,821,212 common shares would be issued.

TRANSACTIONS WITH RELATED PARTIES

For the nine months ended September 30, 2016, legal fees in the amount of $0.2 million (September 30, 2015 - $0.2 million) were incurred with a legal firm of which a director is a partner, and these amounts are included as general and administrative expenses. Software rental of $0.2 million (September 30, 2015 - $0.2 million) were incurred with a company controlled by an officer. Accounts payable and accrued liabilities at September 30, 2016 include $0.1 million (December 31, 2015 - $0.2 million) due to related parties. The above transactions were conducted in the normal course of operations and were recorded at exchange amounts which were agreed upon between the Company and the related parties.

COMMITMENTS

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

Year	Office ($000)	Gas transportation ($000)
2016	$ 56	$ 114
2017	445	458
2018	391	201
2019	371	90
2020	1	72
2021 and thereafter	-	25
	$ 1,264	$ 960

FUTURE ACCOUNTING PRONOUNCEMENTS

Future accounting pronouncements are unchanged from those identified in note 3(n) the Company's consolidated financial statements for the year ended December 31, 2015.

CRITICAL ACCOUNTING ESTIMATES

This MD&A is based on Strategic's interim condensed consolidated financial statements, which have been prepared in accordance with IFRS. A summary of the Company's significant accounting policies is contained in *Note*

3 to the Company's consolidated financial statements for the year ended December 31, 2015. These accounting policies are subject to estimates and key judgments about future events, many of which are beyond the Company'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 Company's interim condensed consolidated financial statements is included in Strategic's MD&A for the year ended December 31, 2015.

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 Company anticipates that it will make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If the Company's future revenues or reserves decline, the Company'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 Company. Moreover, future activities may require Strategic to alter its capitalization significantly, and potentially increase the Company's debt levels above industry standards. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects.

The Company has $98.5 million in Debentures outstanding and current funds from operations are minimal. Strategic will need to increase production levels and cash flows in order to manage the repayment of the Debentures by the maturity date.

Oil and natural gas prices and marketing

The Company'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. Petroleum prices decreased significantly in late 2014 and 2015 and have remained low due to global oversupply, caused primarily by growth in North American oil production and lack of a voluntary production curtailment by the Organization of Petroleum Exporting Countries ("OPEC"). 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 Company. Any decline in oil or natural gas prices could have a material adverse effect on the Company's operations, financial condition, proved reserves and the level of expenditures undertaken for the development of its oil and natural gas reserves.

The Company 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 Company 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. The Company may be required to make cash payments to its counterparties in respect of these contracts, and therefore net income and cash flows will be affected by fluctuations in the value of these forward contracts, and the effect could be significant. In addition, a ceiling price on a risk management contract would restrict the Company from obtaining the full benefit of any commodity price appreciation.

Carbon tax proposal

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

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

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

Environmental concerns

The operation of oil and natural gas wells and pipelines involves a number of natural hazards that may result in blowouts, environmental damage or other unexpected or dangerous conditions resulting in liability to the Company and possibly liability to fourth parties. The oil and natural gas industry is subject to extensive environmental regulation that provides for restrictions and prohibitions on releases or emissions of various substances produced in association with certain oil and natural gas industry operations, and such regulations may be expanded to include regulation of, among other things, emissions of carbon dioxide. In addition, legislation requires that well and facility sites are abandoned and reclaimed to the satisfaction of provincial authorities. A breach of such legislation may result in fines or the issuance of clean-up orders. The Company carries insurance to mitigate the cost of remediating damage from environmental incidents, but there can be no assurance that the insurance will cover all types of incidents or that remediation costs will not exceed the limit of the insurance carried.

The Company will make reasonable provisions for well abandonment, facility decommissioning and site remediation where appropriate; however there can be no assurance that such provisions will be sufficient to satisfy all such obligations. Well and facility abandonment liabilities reduce the value of the Company's reserves and affect its ability to obtain credit facilities. In addition, decommissioning expenditures that are planned for the first 12 months after the reporting date are classified as current liabilities on the balance sheet and affect the Company's working capital, net debt levels and debt covenant calculations.

Regulation

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

Other business risks affecting Strategic's operations are substantially unchanged from those presented in the Company's MD&A for the year ended December 31, 2015.

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) anticipated production rates; (ii) expected capital spending; (iii) the Company's growth strategy and timing; (iv) potential profitability and productivity of its asset base; (v) the impact of cost reduction initiatives; (vi) 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 Company's Annual Information Form for the year ended December 31, 2015 and other documents filed with Canadian provincial securities authorities, available to the public at www.sedar.com. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. The principal assumptions Strategic has made includes security of land interests; drilling cost stability; royalty rate stability; oil and gas prices to remain in their current range; finance and debt markets continuing to be receptive to financing the Company and industry standard rates of geologic and operational success. Strategic's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements or if any of them do so, what benefits that Strategic will derive there from. Strategic disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Test Production Rates

Any references in this MD&A to initial or test production rates are useful in confirming the presence of hydrocarbons, however such rates are not determinative of the rates at which such wells will continue production. While encouraging, readers are cautioned not to place reliance on such rates in calculating aggregate production. Initial production or test rates are not necessarily indicative of long-term performance of the relevant well or fields or of ultimate recovery of hydrocarbons. Test volumes are quoted on a raw basis before shrinkage on natural gas volumes. Total corporate production volumes include natural gas shrinkage.

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