



Management's Discussion and Analysis

Three months ended March 31, 2017

May 15, 2017

Strategic Oil & Gas Ltd. ("Strategic" or the "Company") is a publicly-traded oil and gas company, with operations focused on light oil development in northern Alberta. The following is management's discussion and analysis ("MD&A") of Strategic's consolidated operating and financial results for the three months ended March 31, 2017, as well as information concerning the Company's future outlook based on currently available information. This MD&A should be read in conjunction with the Company's interim condensed consolidated financial statements for the three months ended March 31, 2017 and 2016, together with the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). On March 6, 2017 the Company consolidated its common shares on a 20:1 basis, and all share and per share amounts, convertible debenture conversion prices and stock options information for prior periods have been restated to reflect the consolidation.

FINANCIAL AND OPERATIONAL SUMMARY

Financial (\$thousands, except per share amounts)	Three months ended March 31		
	2017	2016	% change
Oil and natural gas sales	8,888	4,705	89
Funds from (used in) operations ⁽¹⁾	2,383	(2,180)	-
Per share basic ⁽¹⁾	0.05	(0.08)	-
Cash provided by (used in) operating activities	50	(1,474)	-
Per share basic	0.00	(0.05)	-
Net loss ⁽²⁾	(4,440)	(3,483)	27
Per share basic & diluted	(0.10)	(0.13)	(23)
Capital expenditures	18,067	8,296	118
Working capital (comparative figure is as of December 31, 2016)	38,637	47,323	(18)
Net debt (comparative figure is as of December 31, 2016) ⁽¹⁾	49,989	37,166	35
Operating			
Average daily production			
Crude oil (bbl per day)	1,628	1,546	5
Natural gas (mcf per day)	3,872	2,534	53
Barrels of oil equivalent (boe per day)	2,273	1,968	15
Average prices			
Oil & NGL (\$ per bbl)	53.86	30.22	78
Natural gas (\$ per mcf)	2.86	1.96	46
Operating netback (\$ per boe) ⁽¹⁾			
Oil and natural gas sales	43.44	26.26	65
Royalties	(5.53)	(3.42)	62
Operating expenses	(18.57)	(22.44)	(17)
Transportation expenses	(1.43)	(0.72)	99
Operating Netback ⁽¹⁾	17.91	(0.32)	(5,697)
Common Shares ⁽³⁾ (thousands)			
Common shares outstanding, end of period	46,374	27,116	71
Weighted average common shares (basic & diluted)	45,549	27,116	68

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

⁽²⁾ The comparative condensed statement of loss has been adjusted to reflect a \$3.8 million adjustment to deferred tax recovery related to the issuance of convertible debentures.

⁽³⁾ Adjusted for the share consolidation on a 20:1 basis.

About Strategic

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

ADVISORIES

Basis of presentation

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

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

(\$thousands)	Three months ended March 31	
	2017	2016
Cash provided by (used in) operating activities	50	(1,474)
Expenditures on decommissioning liabilities	1,668	488
Changes in non-cash working capital	665	(1,194)
Funds from (used in) operations	2,383	(2,180)

“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.

PERFORMANCE OVERVIEW, STRATEGY AND OUTLOOK

During the first quarter Strategic focused on the execution of its \$30 million capital spending plan for the first half of 2017, which included drilling five horizontal Muskeg wells and the construction of a four kilometre pipeline to tie-in the 14-35 Muskeg well drilled in the first quarter of 2016. The pipeline project was completed in early February 2017.

The 2017 Muskeg wells were drilled with 1,900 metre lateral lengths and 20 stage completions, similar to the wells drilled in the second half of 2016. To date all five wells drilled in the first quarter have been completed and are being tied-in. Test rates from the newly drilled wells over a 48 hour period ranged from 300 boe/d to 800 boe/d (80% oil). Once tied-in, production from the new wells will be limited by pipeline pressure to approximately 1,500 boe/d.

The Company continued its cost reduction efforts in the current quarter, reducing operating costs and general and administrative (“G&A”) expenses by \$0.2 million and \$0.1 million, respectively from the first quarter of 2016. Strategic expects costs operating and G&A expenses to continue to drop on a per boe basis as production levels rise, increasing the Company’s netbacks.

Strategic raised \$5.3 million through a private placement in January 2017 and had \$38.6 million in working capital as of March 31, 2017. The Company intends to commence a \$24 million third quarter capital program which includes drilling up to five additional horizontal wells. The Company has cash resources to continue to drill along its high-impact Muskeg development corridor at West Marlowe as part of the execution of its growth strategy in the second half of 2017.

QUARTERLY SUMMARY

- Capital expenditures of \$18.1 million were incurred in the quarter, primarily on drilling five horizontal Muskeg wells, pipeline construction at west Marlowe and resolving the operational issue encountered on the fourth Muskeg well drilled in the second half of 2016.
- Average daily production increased 15% from the first quarter of 2016, and 22% from the fourth quarter of 2016 to 2,273 for the three months ended March 31, 2017, primarily due to the Company’s four well Muskeg drilling program in the second half of 2016 and the 14-35 Muskeg well coming on production.
- Funds from operations increased significantly to \$2.4 million for the three months ended March 31, 2017 from funds used in operations of \$2.2 million for the first quarter of 2016, as higher commodity prices and production led to a \$4.2 million increase in revenues.
- Strategic continued to implement operational efficiencies and reduce costs in the first quarter of 2017. Operating costs dropped \$0.2 million and general and administrative (“G&A”) costs for the current period were reduced by \$0.1 million compared to the first quarter of 2016. These reductions were partially offset

by higher transportation costs due to increased natural gas production and oil trucking charges caused by a temporary shutdown of the Rainbow pipeline.

- The Company issued \$3.7 million of additional convertible debentures as payment in kind of interest payable on February 28, 2017 to preserve cash while pursuing its capital program. At March 31, 2017, the Company had \$42.4 million in cash and \$38.6 million in working capital.
- Operating netbacks increased to \$17.91/boe for the three months ended March 31, 2017 compared to (\$0.32)/boe for the first quarter of 2016 primarily due to higher commodity prices and production levels, combined with lower operating expenses. As new oil volumes come on line from the five-well drilling program, fixed costs will be spread over a larger production base and Strategic anticipates that netbacks will continue to increase.

RESULTS OF OPERATIONS

Production

Average daily production volumes	Three months ended March 31	
	2017	2016
Oil & NGL (bbl/d)	1,628	1,546
Natural gas (mcf/d)	3,872	2,534
Total (boe/d)	2,273	1,968

Average daily oil & NGL production for the three months ended March 31, 2017 increased by 15% from the comparative period in 2016, due to a the 14-35 well coming on production. Natural gas production volumes for the three months ended March 31, 2017 increased 53% from the comparative period in 2016 due to 14-35 well coming on production.

Revenue

(\$thousands, except where noted)	Three months ended March 31	
	2017	2016
Sales		
Oil & NGL	7,893	4,253
Natural gas	995	452
Oil and natural gas sales	8,888	4,705
Average prices		
Oil & NGL (\$/bbl)	53.86	30.22
Natural gas (\$/mcf)	2.86	1.96
Reference prices		
Oil – WTI (\$US/bbl)	51.91	33.45
Edmonton par (\$/bbl)	63.98	40.80
Natural gas – AECO Daily Index (\$/MMBtu)	2.68	1.83

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 rallied late in 2016 as a result of a decision by OPEC to cut production levels, and have fluctuated between US\$45-55/bbl in 2017. Strategic’s average realized oil price for the first quarter of 2017 increased by 78% from the corresponding period in 2016 due to higher 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 first quarter of 2017 increased by 46% from the corresponding period

in 2016 due to higher 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 sales increased to \$8.8 million for the three months ended March 31, 2017 from \$4.7 million for the respective period in 2016. The increase was due to an increase in commodity prices and higher production levels stemming from drilling and completion activities in the second half of 2016.

Royalties

(\$thousands, except where noted)	Three months ended March 31	
	2017	2016
Crown royalties	1,049	562
Freehold and overriding royalties	83	51
Total royalties	1,132	613
Per boe	5.53	3.42
Percentage of oil and natural gas sales	12.7%	13.0%

Royalties increased to \$1.1 million for the three months ended March 31, 2017 from \$0.6 million for the comparative period in 2016 due to higher oil and gas revenues. The royalty rate for the three months ended March 31, 2017 was comparable to the royalty rate for the first quarter of 2016.

Effective January 1, 2017 the Modern Royalty Framework ("MRF") announced by the Alberta government in January 2016 replaced the previous royalty regime for all wells drilled after the effective date. 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 rates 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

(\$thousands, except per boe amounts)	Three months ended March 31	
	2017	2016
Operating costs	3,800	4,020
Transportation costs	294	129
	4,094	4,149
Per boe		
Operating	18.57	22.44
Transportation	1.43	0.72
	20.00	23.16

Operating costs for the three months ended March 31, 2017 were \$0.2 million lower than the first quarter of 2016 despite increased production levels, due primarily to lower chemicals usage. Unit operating costs decreased 17% on a quarter over quarter basis due to higher production volumes in the current period. A significant portion of costs at Marlowe relate to operation of the Company-owned facilities and are primarily fixed in nature, therefore unit costs are expected to decrease in future periods as production volumes rise.

Transportation costs for the three months ended March 31, 2017 increased to \$0.3 million from \$0.1 million for the comparative period in 2016 due to increased natural gas production and oil trucking charges at Marlowe related to a temporary shutdown of the Rainbow pipeline.

Netbacks

(\$/boe)	Three months ended March 31	
	2017	2016
Revenue	43.44	26.26
Royalties	(5.53)	(3.42)
Operating costs	(18.57)	(22.44)
Transportation costs	(1.43)	(0.72)
Operating netback	17.91	(0.32)

Strategic's operating netback increased \$17.91/boe for the first quarter of 2016 from \$(0.32) /boe for the three months ended March 31, 2016 due to higher oil and gas prices net of royalties and lower unit operating costs, partly offset by an increase in transportation costs.

Strategic's focus area is Marlowe, which is 100% owned and operated by the Company. The Marlowe assets generated a netback of \$22.10/boe in the first quarter of 2017 compared to \$4.27/boe for the first quarter of 2016 as a result of higher commodity prices and increased production levels due to the 14-35 well coming online. 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 is currently shut-in due to low commodity prices. Of the Company's total operating costs in the first quarter of 2017 of \$3.8 million, \$1.0 million relates to non-Marlowe assets which produced only 54 boe/d for the period (first quarter of 2016 - \$0.9 million related to non-Marlowe assets which produced 80 boe/d). As production volumes increase in the Marlowe area Strategic expects the corporate netback to trend towards the operating netback at Marlowe.

G&A expense

(\$thousands, except per boe amounts)	Three months ended March 31	
	2017	2016
Gross general and administrative expense	1,601	1,715
Overhead recoveries	(70)	(90)
Capitalized G&A	(252)	(208)
Net general and administrative expenses	1,279	1,417
Per boe	6.25	7.91

G&A expense reflects all head office costs, a portion of which are charged to operated wells and facilities through overhead recoveries. Costs related to technical office staff that are directly involved in the Company's capital spending programs are capitalized to PP&E. G&A expense for the current quarter decreased 10% to \$1.3 million for the current three month period from \$1.4 million for the first quarter of 2016 due to a lower staff count and reduced rent expense, as well as an increase in capitalized G&A driven by ongoing drilling programs in the first quarter of 2017.

Finance expense

(\$thousands)	Three months ended March 31	
	2017	2016
Interest expense	20	726
Interest expense on convertible debentures	1,898	632
Interest expense on convertible debentures – cash portion	102	-
Accretion of decommissioning liabilities	306	267
Accretion on promissory notes	-	19
Accretion on debentures	683	189
Total	3,009	1,833

Finance expense increased to \$3.0 million for the first three months of 2017 from \$1.8 million for the comparative period in 2016 primarily due to a full quarter of interest on the convertible debentures issued on February 29,

2016, partially offset by lower interest on bank debt. 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 remaining 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 month period in 2017 compared to 2016.

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 quarter of 2017 stock based compensation expense decreased by \$0.2 million from 2016 as there were no new stock options issued in the current period compared to 0.5 million stock options 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.

Depletion, depreciation, amortization and exploration costs

(\$thousands, except per boe amounts)	Three months ended March 31	
	2017	2016
Depreciation, depletion and amortization ("DD&A")	3,961	3,485
Per boe	19.36	19.46

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 increased to \$4.0 million for the three months ended March 31, 2017 from \$3.5 million for the 2016 comparative period as a result of higher production levels. The DD&A rate per boe was affected by an impairment reversal of \$58.8 million at Marlowe, which increased the rate by approximately \$3/boe. This was offset by higher reserves at year-end 2016 compared to year-end 2015, which reduced the DD&A rate by a similar amount.

Deferred Taxes

Deferred income taxes arise from differences between accounting and tax basis of assets and liabilities, and are recorded based on the current tax status of the Company, income tax rates and management's best estimate of future events, including development expenditures and cash flows. In the first quarter of 2017 Strategic recorded a \$0.1 million deferred tax liability related to the equity portion of convertible debentures issued during the quarter (first quarter of 2016 - \$3.8 million). As a result, the Company recognized an offsetting amount of previously unrecognized deferred tax assets and a deferred tax recovery of \$0.1 million for 2017 (2016 - \$3.8 million). The Company has approximately \$485 million in tax pools and accumulated losses available to shelter future income, and does not anticipate paying income taxes in the foreseeable future.

Funds from operations and net loss

(\$thousands, except per share amounts)	Three months ended March 31	
	2017	2016
Funds from (used in) operations	2,383	(2,180)
Per share – basic & diluted ⁽¹⁾	0.05	(0.08)
Cash flow provided by (used in) operating activities	50	(1,474)
Per share – basic & diluted ⁽¹⁾	0.00	(0.05)
Net loss for the period ⁽²⁾	(4,440)	(3,483)
Per share – basic & diluted ⁽¹⁾	(0.10)	(0.13)

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

⁽²⁾ The comparative condensed statement of loss has been adjusted to reflect a \$3.8 million adjustment to deferred tax recovery related to the issuance of convertible debentures.

Funds from operations totaled \$2.4 million for the three months ended March 31, 2017 compared to funds used in operations of \$2.2 million for the same period in 2016, primarily due to higher oil revenues and lower operating and G&A expenses. Strategic continues to implement cost-cutting initiatives and implement operational efficiencies to take advantage of improving commodity prices.

Cash flow provided by operating activities totaled \$0.1 million for the three months ended March 31, 2017, compared to cash flow used in operating activities of \$1.5 million for the same period in 2016 due to higher funds from operations, offset by increased expenditures on decommissioning liabilities.

Net loss increased to \$4.4 million for the three months ended March 31, 2017 compared to \$3.5 million for the comparative period in 2016, as the increase in funds from operations was more than offset by increased finance charges and a deferred tax recovery of \$3.8 million recorded in the first quarter of 2016.

Capital expenditures

(\$thousands)	Three months ended March 31	
	2017	2016
Drilling, completions and equipping	15,930	3,428
Pipelines and facilities	2,107	423
	18,037	3,851
Dispositions	-	(15)
Total property, plant and equipment	18,037	3,836
Total exploration and evaluations (“E&E”)	30	4,445
Net capital expenditures	18,067	8,281

Capital expenditures increased to \$18.1 million for the three months ended March 31, 2017 from \$8.3 million for the comparative period in 2016, due to the execution of the five well winter Muskeg horizontal drilling program at Marlowe, pipeline construction to tie in the 14-35 well drilled in the first quarter of 2016 and expenditures to resolve an operational issue on the fourth Muskeg well drilled in the second half of 2016. Prior period capital expenditures included drilling three horizontal and one vertical exploratory Muskeg wells at Marlowe.

Decommissioning liabilities

Decommissioning liabilities decreased to \$52.6 million at March 31, 2017 from \$52.7 million at December 31, 2016 due to expenditures during the year of \$1.7 million, offset by additional liabilities incurred on new wells drilled and a decrease in discount rates and accretion expense. The current portion of the decommissioning liabilities at March 31, 2017 includes \$1.4 million which relates to remediation of the site of a prior year pipeline spill at Marlowe. In 2016, an insurance settlement of \$6.0 million was collected related to the pipeline spill.

SUMMARY OF QUARTERLY FINANCIAL DATA

The following table summarizes quarterly financial results:

Quarter ended (\$thousands, except where noted)	Mar 31, 2017	Dec 31, 2016	Sept 30, 2016	Jun 30, 2016
Oil and natural gas sales	8,888	7,721	5,478	5,974
Net loss	(4,440)	48,510	(5,985)	(5,800)
Net loss per share – basic ⁽¹⁾	(0.10)	1.69	(0.22)	(0.21)
Net loss per share – diluted ⁽¹⁾	(0.10)	0.62	(0.22)	(0.21)
Average daily production (boed)	2,273	1,859	1,577	1,829
Average price (\$/boe)	43.44	45.13	44.23	35.89

Quarter ended (\$thousands, except where noted)	Mar 31, 2016 (adjusted) ⁽²⁾	Dec 31, 2015	Sept 30, 2015	Jun 30, 2015
Oil and natural gas sales	4,705	7,349	7,783	10,942
Net loss	(3,483)	(31,790)	(63,918)	(5,797)
Net loss per share – basic & diluted	(0.13)	(1.17)	(2.36)	(0.21)
Average daily production (boed)	1,968	2,194	2,113	2,480
Average price (\$/boe)	26.26	36.41	40.04	48.49

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

⁽²⁾ The condensed statement of loss for the three months ended March 31, 2016 has been adjusted to reflect a \$3.8 million adjustment to deferred tax recovery related to the issuance of convertible debentures.

Oil and natural gas sales are a function of average daily production levels, the oil/gas production mix and commodity prices and increased significantly with higher production levels in the first quarter of 2017. Sales were highest in the second quarter of 2015 as the average realized price was slightly below \$50/boe and production reached 2,480 boe/d.

Net loss varies with funds from operations, as well as non-cash expenses incurred such as unrealized losses and gains on risk management contracts, non-cash finance costs, DD&A and impairment. Net income of \$48.5 million for the fourth quarter in 2016 was driven by a net impairment recovery of \$52.7 million. Net losses are highest in the third and fourth quarters of 2015 due to impairment charges of \$60.0 million and \$27.7 million, respectively. Maintaining positive net income on a consistent basis will depend on the Company's ability to increase sales 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, as calculated below:

(\$thousands)	March 31, 2017	December 31, 2016
Current assets	52,176	59,157
Accounts payable and accruals	(11,617)	(8,393)
Current decommissioning liabilities	(1,922)	(3,441)
Working capital	38,637	47,323
Convertible debentures	(88,626)	(84,489)
Net debt	(49,989)	(37,166)

At March 31, 2017, the Company had \$38.7 million in working capital, compared to \$47.3 million at December 31, 2016. Approximately \$5.5 million of the working capital balance is held in term deposits, a portion of which serve as collateral against \$4.7 million in 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 \$1.80 per share, subject to adjustment in certain events.

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

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

In order to preserve cash, Strategic has elected to use the PIK feature available on the Debentures for the first two payments, issuing \$3.6 million in PIK Debentures on August 31, 2016 and another \$3.7 million on February 28, 2017. Of the PIK Debentures issued, \$5.7 million were issued to entities controlled or jointly controlled by directors of the Company and an additional \$0.4 million were issued to directors and officers of the Company. The maturity date and other terms of the PIK Debentures are identical to the Debentures, other than the conversion rate which is \$3.30 per share for the August 31, 2016 PIK Debentures and \$2.70 per share for the February 28, 2017 PIK Debentures.

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

(\$000)	Convertible Debentures Component	Equity Component	Total
Balance at December 31, 2016	\$ 84,489	\$ 9,878	\$ 94,367
Additional debentures issued as payment in kind of interest	3,471	253	3,724
Issuance costs	(17)	(2)	(19)
Deferred tax recovery	-	(68)	(68)
Accretion expense	683	-	683
Balance at March 31, 2017	\$ 88,626	\$ 10,061	\$ 98,687

The liability component of all debentures issued is being accreted to the adjusted face value of \$102.2 million over the term of the debentures.

At current commodity prices and production levels, Strategic's cash on hand and cash from operations is sufficient to fund development of its asset base over the short term. The Company may also access capital through new equity or debt issuances as required to accelerate its capital expenditure plans at Marlowe.

SHARE CAPITAL

	Three months ended March 31	
	2017	2016
Weighted average common shares outstanding (thousands)		
Basic	45,549	27,116
Diluted	45,549	27,116

	March 31, 2017	December 31, 2016
Outstanding securities (thousands)		
Common shares	46,374	43,978
Stock options	991	1,032

On January 31, 2017, the Company issued a total of 2.4 million common shares via a brokered private placement at a price of \$2.40 per common shares for gross proceeds of \$5.7 million (net proceeds of \$5.3 million after transaction costs). Proceeds from the private placement were applied to the execution of the Company's \$30 million capital program for the first half of 2017 and used for general corporate purposes.

There were no new issuances of stock options for the quarter ended March 31, 2017. On April 7, 2017, the Company issued 1.5 million stock options to directors, officers, employees and consultants. Each option entitles the holder to acquire one common share of the Company for a period of five years at a price of \$2.65 per share.

As of May 15, 2017 there were 46,387,709 common shares outstanding and 2,500,166 stock options outstanding. If all of the outstanding Debentures were converted into common shares, an additional 55,170,320 common shares would be issued.

TRANSACTIONS WITH RELATED PARTIES

For the three months ended March 31, 2017, legal fees in the amount of \$0.1 million (March 31, 2016 - \$0.1 million) were incurred with a legal firm of which a director is a partner, and these amounts are included as general and administrative expenses or share issue costs. Software rental of \$0.03 million (March 31, 2016 - \$0.05 million) were incurred with a company controlled by an officer. Accounts payable and accrued liabilities at March 31, 2017 include \$nil (December 31, 2016 - \$0.1 million) due to related parties. The above transactions were conducted in the normal course of operations and were recorded at exchange amounts which were agreed upon between the Company and the related parties.

COMMITMENTS

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

Year	Office (\$000)	Gas transportation (\$000)
2017	\$ 332	\$ 360
2018	391	211
2019	371	95
2020	1	75
2021	-	26
	\$ 1,095	\$ 767

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, 2016.

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, 2016. 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, 2016.

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 \$102.2 million in Debentures outstanding. The Company has been paying interest in kind but the PIK option is only available until February 28, 2018. Strategic will need to increase production levels and cash flows in order to manage the repayment of the Debentures by the maturity date.

Carbon Tax

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

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

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

Environmental Concerns

The operation of oil and natural gas wells involves a number of natural hazards that may result in blowouts, environmental damage or other unexpected or dangerous conditions resulting in liability to the Company and possibly liability to fourth parties. The oil and natural gas industry is subject to extensive environmental regulation that provides for restrictions and prohibitions on releases or emissions of various substances produced in

association with certain oil and natural gas industry operations, and such regulations may be expanded to include regulation of, among other things, emissions of carbon dioxide. In addition, legislation requires that well and facility sites are abandoned and reclaimed to the satisfaction of provincial authorities. A breach of such legislation may result in fines or the issuance of clean-up orders. The Company carries insurance to mitigate the cost of remediating damage from environmental incidents, but there can be no assurance that the insurance will cover all types of incidents or that remediation costs will not exceed the limit of the insurance carried. In addition, the Company will make reasonable provisions for well abandonment, facility decommissioning and site remediation where appropriate, however there can be no assurance that such provisions will be sufficient to satisfy all such obligations. In addition, decommissioning expenditures that are planned for the first 12 months after the reporting date are classified as current liabilities on the balance sheet and affect the Company's working capital and net debt levels.

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.

In the first quarter of 2017 the government of the Northwest Territories issued revised guidelines with respect to well suspension and abandonment. The guidelines include new deadlines for suspending and subsequently abandoning wells that are no longer productive. The guidelines are effective February 1, 2017 and may result in Strategic having to incur suspension and abandonment costs sooner than anticipated for wells drilled in the Northwest Territories. The Company is currently evaluating the impact of these guidelines on its asset base.

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, 2016.

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) availability of current working capital for development and additional 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, 2016 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.

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.