Management's Discussion and Analysis
Three and six months ended June 30, 2017

August 14, 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 and six months ended June 30, 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 and six months ended June 30, 2017 and 2016, together with the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

FINANCIAL AND OPERATIONAL SUMMARY

	Three months ended June 30			Six months ended June 30		
Financial ($thousands, except per share amounts)	**2017**	2016	% change	**2017**	2016	% change
Oil and natural gas sales	**10,312**	5,974	73	**19,200**	10,679	80
Funds from (used in) operations [1]	**2,991**	440	580	**5,374**	(1,740)	-
Per share basic [1] [3]	**0.06**	0.02	200	**0.12**	(0.06)	-
Cash provided by (used in) operating activities	**1,828**	3,820	(52)	**1,879**	2,345	(20)
Per share basic [3]	**0.04**	0.14	(71)	**0.04**	0.09	(67)
Net loss [2]	**(7,020)**	(5,800)	21	**(11,460)**	(9,283)	23
Per share basic [3]	**(0.15)**	(0.21)	(29)	**(0.25)**	(0.34)	(26)
Net capital expenditures	**12,784**	1,152	1,010	**30,851**	9,449	227
Adjusted working capital (comparative figure is as of December 31, 2016) [1]	**29,045**	49,956	(42)	**29,045**	49,956	(42)
Net debt (comparative figure is as of December 31, 2016) [1]	**75,875**	51,141	48	**75,875**	51,141	48
Operating						
Average daily production						
Crude oil (bbl per day)	**1,942**	1,396	39	**1,786**	1,471	21
Natural gas (mcf per day)	**4,317**	2,598	66	**4,096**	2,566	60
Barrels of oil equivalent (boe per day)	**2,661**	1,829	46	**2,468**	1,899	30
Average prices						
Oil & NGL ($ per bbl)	**51.69**	44.27	17	**52.68**	36.89	43
Natural gas ($ per mcf)	**3.00**	1.48	103	**2.93**	1.72	70
Operating netback ($ per boe) [1]						
Oil and natural gas sales	**42.58**	35.89	19	**42.97**	30.90	39
Royalties	**(4.61)**	(4.27)	8	**(5.03)**	(3.83)	31
Operating expenses	**(19.05)**	(21.45)	(11)	**(18.83)**	(21.96)	(14)
Transportation expenses	**(0.94)**	(0.78)	21	**(1.17)**	(0.75)	56
Operating Netback [1]	**17.98**	9.39	92	**17.94**	4.36	311
Common Shares [3] (thousands)						
Common shares outstanding, end of period	**46,388**	27,116	71	**46,388**	27,116	71
Weighted average common shares (basic & diluted)	**46,384**	27,116	71	**45,969**	27,116	70

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

(2) The comparative condensed statement of loss for the six months ended June 30, 2016 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 announced on March 6, 2017.

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 including related decommissioning obligations, 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 operating activities:

	Three months ended June 30		Six months ended June 30	
($thousands)	**2017**	2016	**2017**	2016
Cash provided by operating activities	**1,828**	3,820	**1,879**	2,345
Expenditures on decommissioning liabilities	**458**	38	**2,126**	527
Changes in non-cash working capital	**705**	(3,418)	**1,369**	(4,612)
Funds from (used in) operations	**2,991**	440	**5,374**	(1,740)

"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.

"Adjusted working capital" is used to assess capital on hand for funding development and sustaining operations. Adjusted working capital is equal to working capital excluding accrued interest on convertible debentures, as this interest is currently being paid in additional debentures as opposed to cash. The following table reconciles adjusted working capital to working capital:

($thousands)	**June 30, 2017**	December 31, 2016
Current assets	**38,879**	59,157
Current liabilities	**(12,566)**	(11,834)
Working capital	**26,313**	47,323
Accrued interest on convertible debentures	**2,732**	2,633
Adjusted working capital	**29,045**	49,956

"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, measured at principal amount outstanding, less working capital or plus working capital deficiency.

PERFORMANCE OVERVIEW, STRATEGY AND OUTLOOK

During the second quarter, Strategic continued to execute its first half capital program which included drilling six horizontal Muskeg wells and the construction of a four kilometre pipeline to tie-in the 14-35 Muskeg well. The Company spent $30.9 million to drill six and complete five wells during the first half as compared to the budget of $30 million to drill and complete six wells. Five of the six wells drilled during the first quarter were fracture stimulated and tied-in midway through the second quarter and the sixth well was completed in the third quarter.

Like many operators in western Canada, Strategic was unable to secure frac services in the first quarter of 2017 resulting in significant delays in adding new production volumes during the first half of 2017. Even with the production growth limited to the latter part of the second quarter, the Company did achieve a 17% increase in production from first quarter.

With five of the six wells fracked and tied in production peaked over 4,000 boe/d in the second quarter. Simultaneous flow-back of five new wells increased pipeline pressure, which curtailed the peak rates from the new Muskeg wells and also backed out some existing base production. Further, due to maintenance and upgrades on Alberta's main natural gas sales pipeline, Strategic had to shut in 600 boe/d of production by shutting in certain oil and gas wells for nearly two weeks in June.

The Company is actively developing its asset base in the third quarter and has recently executed a 40 stage completion on the Muskeg well drilled during the second quarter. This well is located in north Marlowe where pipeline pressures are lower compared to west Marlowe. Initial results are encouraging; the well will be tied in and placed on production in August 2017. The Company drilled two other horizontal wells in July, which will also be completed and tied in during the third quarter of 2017.

Corporate production at the end of the second quarter was approximately 3,000 boe/d. The Company has experienced ongoing production curtailments totaling 17 days in July and August. Strategic has been notified of additional third party restrictions due to pipeline maintenance of up to 15 days in September. As a result of these restrictions and a scheduled 8-day plant turnaround, corporate production volumes for the third quarter of 2017 are estimated to be 2,400 boe/d. Production is expected to be 3,500 boe/d once the curtailments have been lifted and all wells are brought back online. Given the external limitations on corporate sales volumes, Strategic elected to defer the last two wells in its summer drilling program and reduced estimated capital spending for the third quarter from $24 million to $16 million.

QUARTERLY SUMMARY

- Capital expenditures of $12.7 million were incurred in the quarter, primarily on completion and related surface equipping costs for five horizontal Muskeg wells and drilling the 15-34 horizontal Muskeg well at north Marlowe.

- Average daily production increased 46% from the second quarter of 2016, and 17% from the first quarter of 2017 to 2,661 for the three months ended June 30, 2017, primarily due to new production from the winter Muskeg drilling program. Average daily production increased 30% from 1,899 boe/d for the six months ended June 30, 2016 to 2,468 boe/d the six months ended June 30, 2017 due to production from the Company's fall 2016 and winter 2017 drilling programs coming online.

- Funds from operations increased significantly to $3.0 million and $5.4 million for the three and six months ended June 30, 2017 from funds from operations of $0.4 million for the second quarter of 2016 and funds used in operations of $1.7 million for the six months ended June 30, 2016, as higher commodity prices and production led to a $4.3 million increase in revenues for the quarter and $8.5 million increase in revenues for the six months ended June 30, 2017.

- New oil volumes coming online from the five-well drilling program contributed to lower operating costs on a per boe basis. Unit operating costs decreased to $19.05/boe and $18.83/boe for the three and six months ended June 30, 2017 from $21.45/boe and $21.96/boe for the comparable periods in 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. Unit G&A costs also decreased to $5.48/boe and $5.83/boe for the three and six months ended June 30, 2017 from $7.09/boe and $7.52/boe for the comparable periods in 2016 due to increased production.

- Strategic maintained capital discipline in the current uncertain oil pricing environment, as capital expenditures approximated guidance for the first half of 2017 despite some escalation in service costs during the period. At June 30, 2017, the Company had $29.7 million in cash and $29.0 million in adjusted working capital.

- Operating netbacks increased to $17.98/boe and $17.94/boe for the three and six months ended June 30, 2017 compared to $9.38/boe and $4.36/boe for the comparable periods in 2016 primarily due to higher commodity prices and production levels, combined with lower unit operating expenses.

RESULTS OF OPERATIONS

Production

	Three months ended June 30		Six months ended June 30	
Average daily production volumes	**2017**	2016	**2017**	2016
Oil & NGL (bbl/d)	**1,942**	1,396	**1,786**	1,471
Natural gas (mcf/d)	**4,317**	2,598	**4,096**	2,566
Total (boe/d)	**2,661**	1,829	**2,468**	1,899

Average daily oil & NGL production for the three and six months ended June 30, 2017 increased by 39% and 21% from the comparative periods in 2016, due to wells drilled and completed in the first six months of 2017 coming on production. Natural gas production volumes for the three and six months ended June 30, 2017 increased 66% and 60% from the comparative periods in 2016 due to various wells coming on production.

Revenue

($thousands, except where noted)	Three months ended June 30 2017	2016	Six months ended June 30 2017	2016
Sales				
Oil & NGL	**9,134**	5,623	**17,027**	9,876
Natural gas	**1,178**	351	**2,173**	803
Oil and natural gas sales	**10,312**	5,974	**19,200**	10,679
Average prices				
Oil & NGL ($/bbl)	**51.69**	44.27	**52.68**	36.89
Natural gas ($/mcf)	**3.00**	1.48	**2.93**	1.72
Reference prices				
Oil – WTI ($US/bbl)	**48.28**	45.59	**50.10**	39.52
Edmonton par ($/bbl)	**61.92**	54.78	**62.95**	47.79
Natural gas – AECO Daily Index ($/MMBtu)	**2.77**	1.40	**2.73**	1.61

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 second quarter of 2017 increased by 17% from the corresponding period in 2016 due to higher WTI oil prices and a lower transportation differential to western Canada.

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 second quarter of 2017 increased by 103% from the corresponding period in 2016 due to a doubling of 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 $10.3 million and $19.2 million for the three and six months ended June 30, 2017 from $6.0 million and $10.7 million for the respective periods in 2016. The increase was due to an increase in commodity prices and higher production levels stemming from drilling and completion activities in the first half of 2017.

Royalties

($thousands, except where noted)	Three months ended June 30 2017	2016	Six months ended June 30 2017	2016
Crown royalties	**1,041**	650	**2,091**	1,212
Freehold and overriding royalties	**76**	62	**158**	113
Total royalties	**1,117**	712	**2,249**	1,325
Per boe	**4.61**	4.27	**5.03**	3.83
Percentage of oil and natural gas sales	**10.8%**	11.9%	**11.7%**	12.4%

Royalties increased to $1.1 million and $2.2 million for the three and six months ended June 30, 2017 from $0.7 million and $1.3 million for the comparative periods in 2016 due to higher oil and gas revenues. Royalty rates decreased to 10.8% and 11.7% for the three and six months ended June 30, 2017 from 11.9% and 12.4% for the comparative periods in 2016 due to more production coming from recently drilled wells.

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

	Three months ended June 30		Six months ended June 30	
($thousands, except per boe amounts)	**2017**	2016	**2017**	2016
Operating costs	**4,613**	3,569	**8,413**	7,589
Transportation costs	**228**	130	**522**	259
	4,841	3,699	**8,935**	7,848
Per boe				
Operating	**19.05**	21.45	**18.83**	21.96
Transportation	**0.94**	0.78	**1.17**	0.75
	19.99	22.23	**20.00**	22.71

Operating costs for the three and six months ended June 30, 2017 increased to $4.6 million and $8.4 million compared to $3.6 million and $7.6 million for the comparative periods in 2016. The increase in operating costs in the second quarter was a result of increased workover expense ($0.5 million), higher repairs and maintenance ($0.1 million), and an increase in labor, chemicals and rental charges ($0.4 million) reflecting the higher operated wellbase and additional field compression installed at west Marlowe. The Company is currently evaluating alternatives to reduce line pressures and maximize production from new Muskeg wells without additional rental equipment and related supervision.

Operating costs per boe for the three and six months ended June 30, 2017 decreased by 11% and 14% from the comparative periods in 2016 due to higher production levels in the first half of 2017. 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 and six months ended June 30, 2017 increased to $0.2 million and $0.5 million from $0.1 million and $0.3 million for the comparative periods in 2016 due to increased trucked volumes in 2017. Oil trucking was required in the second quarter prior to the new Muskeg wells being tied in and in the first quarter due to a temporary shutdown of a third party sales pipeline. These costs were partially recouped by oil trucking rebates from the Alberta government, which were credited to royalties expense. Unit transportation costs for the three and six months ended June 30, 2017 increased to $1.00/boe and $1.20/boe from $0.78/boe and $0.75/boe for the comparative periods in 2016.

Netbacks

	Three months ended June 30		Six months ended June 30	
($/boe)	**2017**	2016	**2017**	2016
Revenue	**42.58**	35.89	**42.97**	30.90
Royalties	**(4.61)**	(4.27)	**(5.03)**	(3.83)
Operating costs	**(19.05)**	(21.45)	**(18.83)**	(21.96)
Transportation costs	**(0.94)**	(0.78)	**(1.17)**	(0.75)
Operating netback	**17.98**	9.39	**17.94**	4.36

Strategic's operating netback increased to $17.98/boe and $17.94/boe for the three and six months ended June 30,2017 from $9.39/boe and $4.36/boe for the comparative periods in 2016 due to higher oil and gas prices and lower unit operating costs, partially offset by a slight increase in transportation costs per boe.

Strategic's focus area is Marlowe, which is 100% owned and operated by the Company. The Marlowe assets generated a netback of $20.70/boe and $21.34/boe for the three and six months ended June 30, 2017 compared to $14.98/boe and $9.43/boe for the comparative periods of 2016 as a result of higher commodity prices. The corporate netback is negatively affected by high fixed operating costs at the Company's minor oil properties in southern Alberta and British Columbia 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 six months of 2017 of $8.4 million, $1.8 million relates to non-Marlowe assets which produced only 53 boe/d for the period (first six months of 2016 - $2.0 million related to non-Marlowe assets which produced 76 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

	Three months ended June 30		Six months ended June 30	
($thousands, except per boe amounts)	**2017**	2016	**2017**	2016
Gross general and administrative expense	**1,646**	1,464	**3,247**	3,178
Overhead recoveries	**(65)**	(76)	**(135)**	(166)
Capitalized G&A	**(255)**	(208)	**(507)**	(415)
Net G&A expenses	**1,326**	1,180	**2,605**	2,597
Per boe	**5.48**	7.09	**5.83**	7.52

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 first six months in 2017 was comparable to the first six months in 2016. G&A expense for the second quarter in 2017 increased to $1.3 million compared to $1.2 million in the second quarter of 2016 due to a charge of $0.1 million related to an uncollectible joint venture receivable. On a units-of-production basis, G&A expenses decreased to $5.48/boe and $5.83/boe for the three and six months ended June 30, 2017 compared to $7.09/boe and $7.52/boe for the same periods in 2016 due to higher production levels.

Finance expense

	Three months ended June 30		Six months ended June 30	
($thousands)	**2017**	2016	**2017**	2016
Interest expense	**15**	13	**36**	739
Interest expense on convertible debentures	**1,928**	1,897	**3,826**	2,529
Interest expense on convertible debentures – cash portion	**112**	-	**212**	-
Accretion of decommissioning liabilities	**305**	262	**611**	529
Accretion on promissory notes	**-**	-	**-**	19
Accretion on debentures	**684**	580	**1,368**	769
Total	**3,044**	2,752	**6,053**	4,585

Finance expense increased to $3.0 million for the second quarter of 2017 from $2.8 million for the three months ended June 30, 2016 due to increased interest and accretion on convertible debentures. 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.

Finance expense for the first six months of 2017 increased by $1.5 million or 32% from 2016 due to having a full period of interest and accretion on convertible debentures, partially offset by lower interest on bank debt. The Company's outstanding bank debt and promissory notes were both repaid in full using proceeds from the debenture issue, which was completed on February 29, 2016.

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 six 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 six months of 2017 stock based compensation expense increased by $0.9 million from 2016 as there were 1.5 million 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

	Three months ended June 30		Six months ended June 30	
($thousands, except per boe amounts)	**2017**	2016	**2017**	2016
Depreciation, depletion and amortization (“DD&A”)	**4,590**	3,399	**8,551**	6,884
Per boe	**18.95**	20.42	**19.14**	19.92

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 $4.6 million and $8.6 million for the three and six months ended June 30, 2017 from $3.4 million and $6.9 million for the 2016 comparative period as a result of higher production levels. DD&A rates per boe decreased slightly from 2016 due to reserves additions, partially offset by the impairment reversal recorded in the fourth quarter of 2016 which increased the Company’s property, plant and equipment balance.

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 $495 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 June 30 2017	2016	Six months ended June 30 2017	2016
Funds from (used in) operations	**2,991**	440	**5,374**	(1,740)
Per share – basic (1)	**0.06**	0.02	**0.12**	(0.06)
Per share – diluted (1)	**0.03**	0.01	**0.06**	(0.06)
Cash flow provided by operating activities	**1,828**	3,820	**1,879**	2,345
Per share – basic (1)	**0.04**	0.14	**0.04**	0.09
Per share – diluted (1)	**0.02**	0.05	**0.02**	0.04
Net loss for the period (2)	**(7,020)**	(5,800)	**(11,460)**	(13,059)
Per share – basic & diluted (1)	**(0.15)**	(0.21)	**(0.25)**	(0.34)

(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 increased to $3.0 million for the three months ended June 30, 2017 compared to funds from operations of $0.4 million for the same period in 2016, due to higher oil revenues partially offset by increased royalties and operating costs. Funds from operations totaled $5.4 million for the first six months of 2017 compared to funds used in operations of $1.7 million in 2016. The increase was primarily due to higher oil and gas prices and production levels during the current period.

Cash flow provided by operating activities decreased to $1.8 million and $1.9 million respectively for the three and six months ended June 30, 2017 from $3.8 million and $2.3 million for the respective 2016 periods despite higher funds from operations in 2017, as the comparative periods benefitted from the collection of a $6.0 million insurance receivable.

Net loss increased to $7.0 million for the three months ended June 30, 2017 from $5.8 million for the same period in 2016 due to increased DD&A expense on account of increased production, higher stock-based compensation expense and a loss on decommissioning obligations of $1.3 million. Net loss for the six months ended June 30, 2017 decreased by $1.6 million from $13.1 million in 2016 due to higher funds from operations, partially offset by higher DD&A and stock-based compensation expense.

Capital expenditures

($thousands)	Three months ended June 30 2017	2016	Six months ended June 30 2017	2016
Drilling, completions and equipping	**12,442**	842	**28,372**	4,370
Pipelines and facilities	**301**	311	**2,408**	634
	12,743	1,153	**30,780**	5,004
Dispositions	**-**	-	**-**	(15)
Total property, plant and equipment	**12,743**	1,153	**30,780**	4,989
Total exploration and evaluations (“E&E”)	**41**	(1)	**71**	4,445
Net capital expenditures	**12,784**	1,152	**30,851**	9,434

Capital expenditures for the quarter ended June 30, 2017 increased to $12.8 million compared to $1.2 million for the second quarter of 2016 due to completion work done on the 5 wells drilled during the winter Muskeg horizontal drilling program. The comparative period capital expenditures related to well equipping and initial road and lease construction.

Capital expenditures increased to $30.9 million for the six months ended June 30, 2017 from $9.4 million for the comparative period in 2016, due to the execution of the five well winter horizontal drilling program at Marlowe, pipeline construction to tie in the 14-35 well drilled in the first quarter of 2016 and minor recompletions and equipping projects. Prior period capital expenditures included drilling three horizontal and one vertical exploratory Muskeg wells at Marlowe.

Decommissioning liabilities

Decommissioning liabilities increased to $56.5 million at June 30, 2017 from $52.7 million at December 31, 2016 due to a decrease in long-term discount rates, a change in estimated costs of decommissioning liabilities related to plant remediation at Marlowe for $1.5 million, and additional liabilities incurred on new wells drilled, offset by decommissioning expenditures during the year of $2.1 million. The current portion of the decommissioning liabilities at June 30, 2017 includes $0.9 million which relates to remediation of the site of a prior year pipeline spill.

During the second quarter of 2017 the Company recorded a loss on decommissioning liabilities of $1.3 million, related to fluctuations in discount rates. This is a non-cash loss that does not affect Strategic's funds from operations or working capital.

SUMMARY OF QUARTERLY FINANCIAL DATA

The following table summarizes quarterly financial results:

Quarter ended ($thousands, except where noted)	**Jun 30, 2017**	Mar 31, 2017	Dec 31, 2016	Sept 30, 2016
Oil and natural gas sales	**10,312**	8,888	7,721	5,478
Net (loss) income	**(7,020)**	(4,440)	48,510	(5,985)
Net (loss) income per share – basic [(1)]	**(0.15)**	(0.10)	1.69	(0.22)
Net (loss) income per share – diluted [(1)]	**(0.15)**	(0.10)	0.62	(0.22)
Average daily production (boed)	**2,661**	2,273	1,859	1,577
Average price ($/boe)	**42.58**	43.44	45.13	44.23

Quarter ended ($thousands, except where noted)	Jun 30, 2016	Mar 31, 2016 (adjusted) [(2)]	Dec 31, 2015	Sept 30, 2015
Oil and natural gas sales	5,974	4,705	7,349	7,783
Net loss	(5,800)	(3,483)	(31,790)	(63,918)
Net loss per share – basic & diluted	(0.21)	(0.13)	(1.17)	(2.36)
Average daily production (boed)	1,829	1,968	2,194	2,113
Average price ($/boe)	35.89	26.26	36.41	40.04

(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 two quarters of 2017. Sales were highest in the second quarter of 2017 as production was at its highest level at 2,661 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, adjusted 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 adjusted working capital, as calculated below:

($thousands)	**June 30, 2017**	December 31, 2016
Current assets	**38,879**	59,157
Accounts payable and accrued liabilities	**(7,680)**	(5,760)
Current decommissioning liabilities	**(2,154)**	(3,441)
Adjusted working capital	**29,045**	49,956
Accrued interest on convertible debentures	**(2,732)**	(2,633)
Convertible debentures [(1)]	**(102,188)**	(98,464)
Net debt	**(75,875)**	(51,141)

(1) Convertible debentures are measured at principal amount outstanding.

Adjusted working capital dropped to $29.0 million at June 30, 2017 from $50.0 million at December 31, 2016 due to capital expenditures exceeding funds from operations for the first half of 2017. Approximately $4.8 million of the working capital balance is held in term deposits, a portion of which serve as collateral against $4.6 million in outstanding letters of credit.

The Company has senior secured convertible debentures ("Debentures") outstanding. The Debentures mature on Feb 28, 2021 and bear an annual interest rate of 8.0%, payable semi-annually in arrears, with an option for the Company to pay the interest in an equivalent principal amount of debentures ("PIK option") for the first two years. The Debentures are convertible into common shares at various conversion prices, 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 four times the conversion price, or b) anytime in the fifth year of the term. The convertible debentures have been classified as a financial liability, net of issue costs and net of the equity component.

On February 28, 2017, $3.7 million of debentures were issued as payment of interest in kind. Of the $3.7 million, $2.9 million were issued to entities controlled or jointly controlled by directors of the Company and an additional $0.2 million were issued to directors and officers of the Company. The carrying amount of the financial liability of these convertible debentures was determined by discounting the stream of future payments of interest and principal using a rate of 10.15%, the estimated rate for debt with similar terms without conversion features.

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	1,368	-	1,368
Balance at June 30, 2017	$ **89,311**	**$ 10,061**	**$ 99,372**

The liability component of all debentures issued is being accreted to the adjusted principal amount of $102.2 million at maturity. Below is a summary of the debentures issued and the related conversion prices:

Issue Date	Principal Amount ($000)	Conversion Price ($/share)
February 29, 2016	94,847	1.80
August 31, 2016	3,617	3.30
February 28, 2017	3,724	2.70

The Company intends to pay the August 31, 2017 interest payment in an equivalent principal amount of 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 June 30		Six months ended June 30	
	2017	2016	**2017**	2016
Weighted average common shares outstanding (thousands)				
Basic & Diluted	**46,384**	27,116	**45,969**	27,116

	June 30, 2017	December 31, 2016
Outstanding securities (thousands)		
Common shares	**46,388**	43,978
Stock options	**2,499**	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 towards the execution of the Company's capital program for the first half of 2017 and used for general corporate purposes.

For the six months ended June 30, 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 August 14, 2017 there were 46,387,709 common shares outstanding and 2,490,416 stock options outstanding. If all of the outstanding Debentures were converted into common shares, an additional 55,168,098 common shares would be issued.

TRANSACTIONS WITH RELATED PARTIES

For the three and six month periods ended June 30, 2017, legal fees in the amount of $0.1 million and $0.1 million (June 30, 2016 - $0.1 million and $0.2 million), respectively were incurred with a legal firm of which a director is a partner, and these amounts are included as G&A expense or share issue costs. Software rental expenses of $0.1 million (June 30, 2016 - $0.1 million) were incurred with a company controlled by an officer. Accounts payable and accrued liabilities at June 30, 2017 include $0.1 million (December 31, 2016 - $0.1 million) due to related parties. Accrued interest on convertible debentures at June 30, 2017 include $2.3 million (December 31, 2016 - $2.2 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 and equipment and natural gas transportation, resulting in the following commitments:

Year	Office ($000)	Gas transportation ($000)
2017	$ 219	$ 396
2018	391	472
2019	371	450
2020	1	431
2021	-	381
2022 and thereafter	-	448
	$ 982	$ 2,578

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.

Strategic 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 government of Alberta has introduced 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.