



Management's Discussion and Analysis Three and nine months ended September 30, 2017

November 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 nine months ended September 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 nine months ended September 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

Financial (\$thousands, except per share amounts)	Three months ended September 30			Nine months ended September 30		
	2017	2016	% change	2017	2016	% change
Oil and natural gas sales	8,271	5,478	51	27,471	16,157	70
Funds from (used in) operations ⁽¹⁾	(333)	(140)	135	5,043	(1,881)	-
Per share basic ^{(1) (3)}	(0.01)	(0.01)	-	0.11	(0.07)	-
Cash provided by (used in) operating activities	2,149	2,245	(4)	4,029	4,589	(12)
Per share basic ⁽³⁾	0.05	0.08	(38)	0.09	0.17	(47)
Net loss ⁽²⁾	(36,779)	(5,985)	515	(48,237)	(15,268)	216
Per share basic ⁽³⁾	(0.79)	(0.22)	256	(1.05)	(0.56)	88
Net capital expenditures	13,991	10,812	29	44,840	20,261	121
Adjusted working capital (comparative figure is as of December 31, 2016) ⁽¹⁾	13,331	49,956	(73)	13,331	49,956	(73)
Net debt (comparative figure is as of December 31, 2016) ⁽¹⁾	93,418	51,141	83	93,418	51,141	83
Operating						
Average daily production						
Crude oil (bbl per day)	1,806	1,231	47	1,793	1,390	29
Natural gas (mcf per day)	3,472	2,074	67	3,886	2,401	62
Barrels of oil equivalent (boe per day)	2,384	1,577	51	2,440	1,791	36
Average prices						
Oil & NGL (\$ per bbl)	46.63	44.23	5	50.62	39.07	30
Natural gas (\$ per mcf)	1.64	2.46	(33)	2.54	1.93	32
Operating netback (\$ per boe) ⁽¹⁾						
Oil and natural gas sales	37.70	37.77	-	41.24	32.93	25
Royalties	(3.94)	(6.42)	(39)	(4.67)	(4.60)	2
Operating expenses	(25.65)	(22.97)	12	(21.08)	(22.26)	(5)
Transportation expenses	(1.41)	(0.87)	62	(1.25)	(0.79)	58
Operating Netback ⁽¹⁾	6.70	7.51	(11)	14.24	5.28	170
Common Shares ⁽³⁾ (thousands)						
Common shares outstanding, end of period	46,391	27,121	71	46,391	27,121	71
Weighted average common shares (basic & diluted)	46,391	27,120	71	46,111	27,120	71

⁽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 nine months ended September 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:

(\$thousands)	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Cash provided by operating activities	2,149	2,245	4,029	4,589
Expenditures on decommissioning liabilities	106	188	2,232	715
Changes in non-cash working capital	(2,588)	(2,573)	(1,218)	(7,185)
Funds from (used in) operations	(333)	(140)	5,043	(1,881)

“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)	September 30, 2017	December 31, 2016
Current assets	28,716	59,157
Current liabilities	(16,082)	(11,834)
Working capital	12,634	47,323
Accrued interest on convertible debentures	697	2,633
Adjusted working capital	13,331	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 third quarter, Strategic continued to execute its Muskeg summer drilling program. The Company drilled one horizontal Muskeg well at west Marlowe (10-9) and one at North Marlowe (15-34). Both wells were drilled with a 1,900 metre lateral section; the 10-9 well was completed with 20 stages while the 15-34 well was completed with 40 stages. Initial production rates from these new wells on a producing day basis are as follows:

Well	IP30			IP60		
	Oil (bbl/d)	Total (boe/d)	% oil	Oil (bbl/d)	Total (boe/d)	% oil
15-34	186	189	98%	194	203	96%
10-9	144	144	100%	191	202	95%

These results demonstrate the significant potential of the Muskeg light oil play at Marlowe. Strategic also drilled a Slave Point horizontal well which was recently tied in and is on clean up.

Corporate production volumes were 2,384 boe/d for the quarter, which is consistent with the Company’s earlier estimate of 2,400 boe/d. Corporate production was curtailed for a portion of the third quarter due to third party restrictions driven by sales pipeline maintenance and a 9-day plant turnaround at Marlowe. Initial production once all wells were brought back online was approximately 2,926 boe/d for the last 9 days of September compared to corporate guidance of 3,500 boe/d, with the shortfall attributable to a longer than expected cleanup period for the 10-9 well and continued underperformance from four of the Muskeg wells drilled in the first quarter of 2017.

In planning the first quarter 2017 drilling program, the Company made several adjustments to the well placement targeting lower in the pay zone to achieve a faster drilling pace. Strategic management has completed a detailed review of the drilling and production techniques used in this program and believes that certain adjustments made may have limited the productivity of those Muskeg wells drilled. As a result of the shortfall in production on the early 2017 wells and higher than expected costs per well, Strategic recorded an asset impairment charge of \$30.4 million in the current quarter. The Company does not believe that recent results are reflective of the potential of the Muskeg play. Strategic intends to apply the knowledge obtained from this capital program to improve well design, reduce costs and restore well productivity in future drilling activities.

Capital spending for the quarter was estimated to be \$16 million but totaled only \$14.0 million due to delays in completion and well equipping projects. Currently all wells drilled in 2017 are equipped and on production.

QUARTERLY SUMMARY

- Capital expenditures of \$14.0 million were incurred in the quarter, primarily related to the summer drilling program, a plant turnaround at the 9-17 processing facility and the installation of new production systems on certain Muskeg wells.
- Average daily production increased 51% from the third quarter of 2016 to 2,384 boe/d for the three months ended September 30, 2017, primarily due to new production from the winter Muskeg drilling program. Average production decrease 10% from 2,661 boe/d for the second quarter of 2017 due to production restrictions driven by third party pipeline maintenance and a plant turnaround during the current period.
- Despite higher production levels, funds used in operations increased to \$0.3 million for the quarter from \$0.1 million for the three months ended September 30, 2016. Funds used in operations for the current period were impacted by \$1.0 million in isolated environmental remediation costs in the Marlowe area, as well as severance costs related to executive departures of \$0.7 million.
- Strategic maintained capital discipline with its summer drilling program, reducing capital expenditures from the original budget of \$24 million by removing two development wells from the program. At September 30, 2017, the Company had \$20.5 million in cash and \$13.3 million in adjusted working capital.
- The Company issued \$3.9 million of additional convertible debentures as payment in kind of interest payable on August 31, 2017 to preserve cash while pursuing its capital spending program. The additional debentures have the same terms as the original debentures except that they are convertible into common shares of the Company at a price of \$2.03 per share.

RESULTS OF OPERATIONS

Production

Average daily production volumes	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Oil & NGL (bbl/d)	1,806	1,231	1,793	1,390
Natural gas (mcf/d)	3,472	2,074	3,886	2,401
Total (boe/d)	2,384	1,577	2,440	1,791

Average daily oil & NGL production for the three and nine months ended September 30, 2017 increased by 47% and 29% from the comparative periods in 2016, due to wells drilled in late 2016 and 2017 coming on production. Natural gas production volumes for the three and nine months ended September 30, 2017 increased 67% and 62% from the comparative periods in 2016 due to Muskeg drilling activities.

Revenue

(\$thousands, except where noted)	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Sales				
Oil & NGL	7,747	5,010	24,774	14,886
Natural gas	524	468	2,697	1,271
Oil and natural gas sales	8,271	5,478	27,471	16,157
Average prices				
Oil & NGL (\$/bbl)	46.63	44.23	50.62	39.07
Natural gas (\$/mcf)	1.64	2.46	2.54	1.93
Reference prices				
Oil – WTI (\$US/bbl)	48.21	44.94	49.47	41.33
Edmonton par (\$/bbl)	56.78	54.80	60.88	50.13
Natural gas – AECO Daily Index (\$/MMBtu)	1.45	2.32	2.30	1.85

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 third quarter of 2017 increased by 5% from the corresponding period in 2016 due to higher WTI oil prices, partially offset by a stronger Canadian dollar.

Substantially all of the Company’s natural gas is sold at AECO pricing, adjusted for fuel charges. Strategic’s average natural gas price for the third quarter of 2017 decreased by 33% from the corresponding period in 2016 due to lower AECO gas prices. The Company receives a premium to AECO 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 \$8.3 million and \$27.5 million for the three and nine months ended September 30, 2017 from \$5.5 million and \$16.2 million for the respective periods in 2016. The increase was due to an increase in oil prices and higher production levels stemming from drilling and completion activities in late 2016 and 2017.

Royalties

(\$thousands, except where noted)	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Crown royalties	803	859	2,893	2,071
Freehold and overriding royalties	62	73	221	186
Total royalties	865	932	3,114	2,257
Per boe	3.94	6.42	4.67	4.60
Percentage of oil and natural gas sales	10.5%	17.0%	11.3%	14.0%

Royalties were comparable at \$0.9 million for the three months ended September 30, 2017 and 2016 as the increased production came from new wells drilled in 2017 which were on a royalty holiday. Royalties for the nine months ended September 30, 2017 increased to \$3.1 million from \$2.3 million for the comparative period in 2016 due to higher oil and gas revenues partially offset by lower rates. Royalty rates decreased to 10.5% and 11.3% for the three and nine months ended September 30, 2017 from 17.0% and 14.0% 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

(\$thousands, except per boe amounts)	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Operating costs	5,626	3,332	14,039	10,921
Transportation costs	309	126	831	385
	5,935	3,458	14,870	11,306
Per boe				
Operating	25.65	22.97	21.08	22.26
Transportation	1.41	0.87	1.25	0.79
	27.06	23.84	22.33	23.05

Operating costs for the three and nine months ended September 30, 2017 increased to \$5.6 million and \$14.0 million compared to \$3.3 million and \$10.9 million for the comparative periods in 2016. The increase in operating costs in the third quarter was a result of environmental remediation activities (\$1.0 million), plant turnaround costs (\$0.3 million), increased workover expense (\$0.3 million), and higher labor, chemicals and rental charges (\$0.5 million) reflecting the higher operated wellbase and additional field compression installed at west Marlowe. The Company is currently evaluating alternative lift systems to maximize production from new Muskeg wells without additional rental equipment and related supervision. Operating costs per boe for the three and nine months ended September 30, 2017 increased by 12% and decreased by 5% from the comparative periods in 2016 due to spill remediation costs, labor and workover charges, partially offset by higher production levels in the first nine months of 2017.

Transportation costs for the three and nine months ended September 30, 2017 increased to \$0.3 million and \$0.8 million from \$0.1 million and \$0.4 million for the comparative periods in 2016 due to increased trucked volumes in 2017. Oil trucking was required in the third quarter due to a temporary shutdown of a third party sales pipeline. A portion of these costs were recouped by oil trucking rebates from the Alberta government, which were credited to royalties expense. Unit transportation costs for the three and nine months ended September 30, 2017 increased to \$1.41/boe and \$1.25/boe from \$0.87/boe and \$0.79/boe for the comparative periods in 2016.

Netbacks

(\$/boe)	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Revenue	37.70	37.77	41.24	32.93
Royalties	(3.94)	(6.42)	(4.67)	(4.60)
Operating costs	(25.65)	(22.97)	(21.08)	(22.26)
Transportation costs	(1.41)	(0.87)	(1.25)	(0.79)
Operating netback	6.70	7.51	14.24	5.28

Strategic's operating netback decreased to \$6.70/boe for the three months ended September 30, 2017 from \$7.51/boe for the comparative period in 2016 as lower royalties were more than offset by higher operating costs related to plant turnaround, spill remediation and workover expenses. Operating netback for the nine months ended September 30, 2017 increased to \$14.24/boe from \$5.28/boe for the comparative period in 2016 due primarily to higher oil and gas prices.

Strategic's focus area is Marlowe, which is 100% owned and operated by the Company. The operating netback at Marlowe increased to \$17.45/boe for first nine months of 2017 compared to \$10.60/boe for 2016 due to higher

commodity prices. The Marlowe netback for the three months ended September 30, 2017 decreased to \$9.53/boe from \$13.36/boe for the third quarter of 2016 as a result of higher operating costs, partially offset by lower royalty rates. 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 nine months of 2017 of \$14.0 million, \$2.5 million relates to non-Marlowe assets which produced only 55 boe/d for the period (first nine months of 2016 - \$3.0 million related to non-Marlowe assets which produced 68 boe/d).

G&A expense

(\$thousands, except per boe amounts)	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Gross general and administrative expense	2,034	1,351	5,279	4,529
Overhead recoveries	(64)	(67)	(198)	(233)
Capitalized G&A	(229)	(230)	(735)	(645)
Net G&A expenses	1,741	1,054	4,346	3,651
Per boe	7.94	7.27	6.52	7.44

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 three and nine months ended September 30, 2017 was \$1.7 million and \$4.3 million compared to \$1.1 million and \$3.7 million for the comparative periods in 2016. The increase was due to \$0.7 million in severance costs incurred in the third quarter of 2017. On a units-of-production basis, G&A expenses increased to \$7.94/boe for the three months ended September 30, 2017 compared to \$7.27/boe for the same period in 2016 as increased production was offset by severance costs. G&A expenses decreased to \$6.52/boe for the nine months ended September 30, 2017 from \$7.44/boe for the comparative period in 2016 due to higher production levels.

Finance expense

(\$thousands)	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Interest expense	10	37	45	776
Interest expense on convertible debentures – paid in kind	1,917	1,735	5,743	4,264
Interest expense on convertible debentures – cash portion	136	208	347	208
Accretion of decommissioning liabilities	351	249	963	779
Accretion on promissory notes	-	-	-	19
Accretion on debentures	719	569	2,087	1,337
Total	3,133	2,798	9,185	7,383

Finance expense increased to \$3.1 million for the third quarter of 2017 from \$2.8 million for the three months ended September 30, 2016 due to increased interest and accretion expense on convertible debentures, as a result of an increase in the amount of debentures outstanding. 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 nine months of 2017 increased by \$1.8 million or 24% 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 of decommissioning liabilities is an expense intended to reflect an increase in Strategic's discounted decommissioning liability due to the passage of time. Accretion of decommissioning liabilities increased in 2017

compared to 2016 as discount rates increased and decommissioning estimates increased for certain assets during the current period.

As a result of increasing discount rates the Company recorded non-cash gains on revaluation of decommissioning liabilities of \$1.8 million and \$0.5 million for the three and nine months ended September 30, 2017 in respect of non-core assets which have negligible carrying values.

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.

Stock based compensation expense for the three and nine months ended September 30, 2017 increased by \$0.3 million and \$1.2 million respectively from 2016 levels as there were 1.5 million new stock options issued in the second quarter of 2017 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

(\$thousands, except per boe amounts)	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Depreciation, depletion and amortization ("DD&A")	4,462	3,199	13,013	10,083
Per boe	20.34	22.04	19.53	20.55

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 \$4.5 million and \$13.0 million for the three and nine months ended September 30, 2017 from \$3.2 million and \$10.1 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.

Impairment

The Company's exploration, development and production assets are aggregated into cash generating units ("CGUs") based on their ability to generate largely independent cash flows.

The December 31, 2016 reserve volumes and values were evaluated by the Company's independent reserve evaluators. At September 30, 2017 the decline in the Company's market capitalization compared to December 2016 and well performance from certain wells drilled in 2017 were indicators of potential impairment.

The recoverable values of the Company's CGUs were estimated as the fair value less cost to sell based on the net present value of before tax cash flows (discounted at 12%) from crude oil and natural gas proved plus probable reserves originally estimated by the Company's third party reserve evaluators, internally updated for production and drilling activities since December 31, 2016. It was determined that the carrying value of the Steen/Marlowe CGU exceeded the recoverable value of \$178.5 million and a \$30.4 million impairment was recognized (three and nine months ended September 30, 2016 - \$nil). The impairment recorded reflects the Company's best estimates based on currently available information.

At December 31, 2017, in conjunction with the December reserve report from the independent reserve evaluators, the Company will review the aforementioned estimates to determine any future potential impairment or reversal.

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. During the year, Strategic recorded a \$0.1 million deferred tax liability related to the equity portion of convertible debentures issued during the first nine months of the year (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 \$535 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 (used in) operations and net loss

(\$thousands, except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Funds from (used in) operations	(333)	(140)	5,043	(1,881)
Per share – basic ⁽¹⁾	(0.01)	(0.01)	0.11	(0.07)
Per share –diluted ⁽¹⁾	(0.01)	(0.01)	0.05	(0.07)
Cash flow provided by operating activities	2,149	2,245	4,029	4,589
Per share – basic ⁽¹⁾	0.05	0.08	0.09	0.17
Per share –diluted ⁽¹⁾	0.02	0.08	0.04	0.17
Net loss for the period ⁽²⁾	(36,779)	(5,985)	(48,237)	(15,268)
Per share – basic & diluted ⁽¹⁾	(0.79)	(0.22)	(1.05)	(0.56)

⁽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 used in operations increased to \$0.3 million for the three months ended September 30, 2017 compared to \$0.1 million for the same period in 2016, primarily due to higher operating costs due to isolated environmental remediation costs at Marlowe and severance costs. Funds from operations totaled \$5.0 million for the first nine months of 2017 compared to funds used in operations of \$1.9 million in 2016. The increase was primarily due to higher oil and gas prices and production levels during the current period, partially offset by higher operating and G&A expenses.

Cash flow provided by operating activities were comparable at \$2.2 million for the three months ended September 30, 2017 and 2016 as increasing revenues were offset by higher operating costs and severance payments. Cash flow provided by operating activities for the nine months ended September 30, 2017 decreased to \$4.0 million from \$4.6 million for comparative period in 2016 despite higher funds from operations in 2017, as the comparative period benefitted from the collection of a \$6.0 million insurance receivable.

Net loss increased to \$36.8 million for the three months ended September 30, 2017 from \$6.0 million for the same period in 2016 as the increase in revenues and gain on decommissioning liabilities of \$1.8 million were offset by higher operating costs, DD&A, G&A expense and stock-based compensation, as well as an impairment loss of \$30.4 million for the current period. Net loss for the nine months ended September 30, 2017 increased by \$2.4 million from \$15.3 million in 2016 to \$48.2 million in 2017 due to the impairment loss and a decrease in the deferred tax recovery in the current period.

Capital expenditures

(\$thousands)	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Drilling, completions and equipping	11,989	7,201	40,361	11,571
Pipelines and facilities	1,973	3,611	4,381	4,245
	13,962	10,812	44,742	15,816
Dispositions	-	-	-	(15)
Total property, plant and equipment	13,962	10,812	44,742	15,801
Total exploration and evaluations ("E&E")	29	-	98	4,445
Net capital expenditures	13,991	10,812	44,840	20,246

Capital expenditures for the quarter ended September 30, 2017 increased to \$14.0 million compared to \$10.8 million for the third quarter of 2016. Current period projects included drilling two wells, completing 3 wells and a scheduled plant turnaround at Marlowe. The comparative period capital expenditures related to the execution of the 2016 summer drilling program and related road and lease construction.

Capital expenditures increased to \$44.8 million for the nine months ended September 30, 2017 from \$20.2 million for the comparative period in 2016, due to the execution of two horizontal drilling programs at Marlowe including 8 total wells, pipeline construction to tie in the 14-35 well drilled in the first quarter of 2016 and minor recompletions and equipping projects. To date in 2017 drilling and completion costs have exceeded internal estimates due to cost inflation in the field and minor operational issues on two wells, while pipeline projects were completed below the Company's cost estimates due to efficiencies and a lack of weather-related downtime in the first quarter. Prior period capital expenditures included drilling three horizontal and one vertical exploratory Muskeg wells at Marlowe.

Decommissioning liabilities

Decommissioning liabilities decreased to \$51.2 million at September 30, 2017 from \$52.7 million at December 31, 2016 due to an increase in long-term discount rates and decommissioning expenditures during the year of \$2.2 million, offset by 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. The current portion of the decommissioning liabilities at September 30, 2017 includes \$1.8 million related to remediation of the site of a prior year pipeline spill, as well as well abandonment costs that are scheduled for completion in the first quarter of 2018.

SUMMARY OF QUARTERLY FINANCIAL DATA

The following table summarizes quarterly financial results:

Quarter ended (\$thousands, except where noted)	Sept 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016
Petroleum and natural gas sales	8,271	10,312	8,888	7,721
Net (loss) income	(36,779)	(7,020)	(4,442)	48,510
Net (loss) income per share – basic ⁽¹⁾	(0.79)	(0.15)	(0.10)	1.69
Net (loss) income per share – diluted ⁽¹⁾	(0.79)	(0.15)	(0.10)	0.62
Average daily production (boed)	2,384	2,661	2,273	1,859
Average price (\$/boe)	46.63	42.58	43.44	45.13

Quarter ended (\$thousands, except where noted)	Sept 30, 2016	Jun 30, 2016	Mar 31, 2016 (adjusted) (2)	Dec 31, 2015
Petroleum and natural gas sales	5,478	5,974	4,705	7,349
Net loss	(5,985)	(5,800)	(3,483)	(31,790)
Net loss per share – basic & diluted	(0.22)	(0.21)	(0.13)	(1.17)
Average daily production (boed)	1,577	1,829	1,968	2,194
Average price (\$/boe)	44.23	35.89	26.26	36.41

⁽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 stock-based compensation, 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 loss is highest in the third quarter of 2017 due to an impairment charge of \$30.4 million. 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)	September 30, 2017	December 31, 2016
Current assets	28,716	59,157
Accounts payable and accrued liabilities	(12,100)	(5,760)
Current decommissioning liabilities	(3,285)	(3,441)
Adjusted working capital	13,331	49,956
Accrued interest on convertible debentures	(697)	(2,633)
Convertible debentures ⁽¹⁾	(106,052)	(98,464)
Net debt	(92,418)	(51,141)

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

Adjusted working capital dropped to \$13.3 million at September 30, 2017 from \$50.0 million at December 31, 2016 due to capital expenditures exceeding funds from operations for the first nine months of 2017. Approximately \$4.5 million of the working capital balance is held in term deposits to collateralize 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 additional convertible 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.

On August 31, 2017, \$3.9 million of additional convertible debentures were issued as payment of interest in kind. Of the \$3.9 million, \$3.0 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 10.40%, 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	7,077	511	7,588
Issuance costs	(44)	(3)	(47)
Deferred tax recovery	-	(138)	(138)
Debentures converted	(4)	(1)	(5)
Accretion expense	2,087	-	2,087
Balance at September 30, 2017	\$ 93,605	\$ 10,247	\$ 103,852

The liability component of all debentures issued is being accreted to the adjusted principal amount of \$106.1 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
August 31, 2017	3,864	2.03
Total	106,052	

The Company intends to pay the February 28, 2018 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 operations in the near term. The Company may also access capital through new equity or debt issuances as required to for its capital expenditure plans at Marlowe.

SHARE CAPITAL

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Weighted average common shares outstanding (thousands)				
Basic & Diluted	46,391	27,120	46,111	27,120
	September 30, 2017		December 31, 2016	
Outstanding securities (thousands)				
Common shares	46,391		43,978	
Stock options	2,490		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 nine months ended September 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 November 10, 2017 there were 46,391,087 common shares outstanding and 2,489,816 stock options outstanding. If all of the outstanding Debentures were converted into common shares, an additional 57,072,039 common shares would be issued.

TRANSACTIONS WITH RELATED PARTIES

For the three and nine month periods ended September 30, 2017, legal fees in the amount of \$0.1 million and \$0.1 million (September 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 general and administrative expenses or share issue costs. Software rental expense of \$0.2 million (September 30, 2016 - \$0.2 million) were incurred with a company controlled by an officer. Accounts payable and accrued liabilities at September 30, 2017 include \$0.1 million (December 31, 2016 - \$0.1 million) due to related parties. Accrued interest on convertible debentures at September 30, 2017 include \$0.6 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	\$ 106	\$ 243
2018	391	454
2019	371	433
2020	1	414
2021	-	367
2022 and thereafter	-	432
	\$ 869	\$ 2,343

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 \$106.1 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 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 will 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 and annual information form 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 and decommissioning costs; (iii) the Company's plans with respect to payment of interest on convertible debentures; (iv) potential profitability and productivity of the Company's 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.