Management's Discussion and Analysis

Three and six months ended June 30, 2015

Strategic Oil & Gas Ltd. ("Strategic" or the "Company") is a publicly-traded oil and gas exploration and production company, with operations focused on light oil development in northern Alberta. The following is management's discussion and analysis ("MD&A") of Strategic's consolidated operating and financial results for the three and six months ended June 30, 2015, as well as information concerning the Company's future outlook based on currently available information. The MD&A was approved and authorized for issue by Strategic's board of directors on August 13, 2015. 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, 2015 and 2014, 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		
	2015	2014	% change	**2015**	2014	% change
Financial ($thousands, except per share amounts)						
Oil and natural gas sales [(1)]	**10,942**	23,384	(53)	**21,364**	44,754	(52)
Funds from operations [(2)]	**3,455**	3,541	(2)	**4,895**	4,526	8
Per share basic & diluted [(2)]	**0.01**	0.01	-	**0.01**	0.01	-
Cash provided by (used in) operating activities	**1,444**	(5,627)	-	**(2,153)**	4,476	-
Per share basic & diluted	**0.00**	(0.02)	-	**(0.00)**	0.01	-
Net loss	**(5,797)**	(2,717)	(113)	**(14,407)**	(12,379)	(16)
Per share basic & diluted	**(0.01)**	(0.01)	-	**(0.03)**	(0.04)	-
Capital expenditures (excluding acquisitions)	**547**	13,540	(96)	**8,073**	51,993	(84)
Net acqusitions (dispositions)	**-**	(3,478)	(100)	**-**	(3,821)	(100)
Bank debt (comparative figure is as of December 31, 2014)	**51,500**	29,016	77	**51,500**	29,016	77
Net debt (comparative figure is as of December 31, 2014) [(2)]	**53,222**	48,399	10	**53,222**	48,399	10
Operating						
Average daily sales						
Crude oil (bbl per day)	**1,917**	2,294	(16)	**2,154**	2,327	(7)
Natural gas (mcf per day)	**3,377**	7,461	(55)	**4,302**	6,098	(29)
Barrels of oil equivalent (boe per day)	**2,480**	3,538	(30)	**2,871**	3,343	(14)
Average prices						
Oil & NGL, before risk management ($ per bbl)	**57.58**	96.62	(40)	**48.96**	93.02	(47)
Oil & NGL, including risk management ($ per bbl)	**65.00**	83.35	(22)	**57.45**	81.05	(29)
Natural gas, before risk management ($ per mcf)	**2.92**	4.75	(39)	**2.92**	5.05	(42)
Natural gas, including risk management ($ per mcf)	**2.94**	4.53	(35)	**2.93**	4.65	(37)
Netback ($ per boe) [(2)]						
Oil and natural gas sales [(1)]	**48.49**	72.66	(33)	**41.11**	73.95	(44)
Royalties	**(2.33)**	(16.26)	(86)	**(3.89)**	(16.07)	(76)
Operating expenses	**(25.21)**	(24.53)	3	**(23.05)**	(28.92)	20
Transportation expenses [(1)]	**(1.19)**	(3.62)	(67)	**(1.30)**	(3.81)	(66)
Operating Netback	**19.76**	28.25	(30)	**12.87**	25.15	(49)
Common Shares (thousands)						
Common shares outstanding, end of period	**542,319**	361,001	50	**542,319**	361,001	50
Weighted average common shares (basic)	**542,319**	360,959	50	**542,319**	311,646	74
Weighted average common shares (diluted)	**542,319**	360,959	50	**542,319**	311,646	74

(1) In 2015, revenues are presented net of pipeline tariffs on oil sales which occur after title to the product has passed to the customer. Prior period amounts for revenue and transportation have been reclassified to conform to the current period presentation

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

SUMMARY

- Funds from operations was $3.5 million, consistent with the second quarter of 2014 as significantly lower commodity prices were offset by lower operating costs, royalty rates, transportation costs and a realized gain on risk management contracts of $1.3 million.

- Operating netbacks decreased 30 percent to $19.76/boe for the three months ended June 30, 2015 from $28.25/boe for the comparative period in 2014, as the 33% drop in oil & gas revenues per boe was partially mitigated by lower royalty rates and transportation expenses. Current quarter operating costs were negatively impacted by a $0.5 million ($2.21/boe) prior year adjustment related to the Bistcho gas processing facility. The Company has made significant strides in reducing its cost base at Marlowe to limit the effect of low oil prices and reduced production volumes on operating netbacks, which has helped maintain funds from operations. The operating netback at Marlowe for the second quarter of 2015 was $25.98/boe.

- Capital expenditures of $0.5 million for the second quarter of 2015 represented a 96% decrease from the second quarter of 2014, reflecting Strategic's commitment to capital discipline in a low commodity price environment. Current period expenditures were directed towards well equipping costs.

- Average daily production totaled 2,480 boe/d for the three months ended June 30, 2015 compared to 3,538 boe/d for the second quarter of 2014 and 3,267 boe/d for the first three months of 2015 due to the temporary shut-in of 700 boe/d of production at Bistcho and Cameron Hills in February 2015, as well as a lack of drilling activity and workover expenditures in the current period. Average daily production of 2,871 boe/d for the first six months of 2015 was 4% below Strategic's earlier guidance of 3,000 boe/d as the Company elected to preserve capital rather than conduct workover operations on certain low productivity wells at Marlowe.

- Strategic's net debt at June 30, 2015 was $53.2 million compared to a maximum borrowing capacity of $58.5 million less letters of credit outstanding, or $54.1 million. Strategic was in compliance with all covenants under its credit facility as at June 30, 2015. The credit facility has a review date of July 1, 2015. The Company is working with its lender to determine a shorter time frame for repayment of the $18.5 million non-revolving portion of the facility, which is currently being reduced at a rate of $0.5 million per month. The Company anticipates the facility will be renewed once the repayment schedule is finalized. Strategic is evaluating alternatives to repay this amount including asset dispositions and other financing sources, including equity issuances.

Going Concern

Strategic's interim condensed consolidated financial statements as at and for the three and six months ended June 30, 2015 have been prepared using the going concern basis of presentation, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. For the quarter ended June 30, 2015, the Company reported a net loss of $5.8 million. At June 30, 2015, the Company had negative working capital of $53.1 million and an accumulated deficit of $215.4 million. The Company's credit facility has not yet been renewed, as Strategic is working with its lender to determine a shorter time frame for repayment of the $18.5 million non-revolving portion of the facility, which is currently being reduced at a rate of $0.5 million per month. Strategic's cash flows and compliance with debt covenants are highly dependent on realized oil prices in 2015. Sustained low commodity prices will significantly reduce the Company's cash flows, resulting in significant doubt upon the Company's ability to continue as a going concern.

The interim condensed consolidated financial statements do not reflect adjustments that would be necessary if the going concern basis was not appropriate. The appropriateness of the going concern basis is dependent upon, among other things, the ability to obtain debt or equity financing, a joint venture or a sale of assets in order to have sufficient funds to meet its obligations that enables the Company to continue as a going concern, the ability to generate sufficient cash from operations and future profitable operations.

OUTLOOK

Strategic curtailed drilling activities in early 2015 and is maintaining capital discipline during the current low commodity price environment, but continues to believe in the potential profitability of its conventional Muskeg light oil resource at Marlowe. Strategic is focused on streamlining operations and is encouraged by continued strong netbacks at Marlowe in 2015 ($25.98/boe for the second quarter and $19.89/boe for the first six months) despite low oil prices. Due to the high fixed-cost nature of the Marlowe asset, operating netbacks trend upwards with additional production volumes, and the Company has a substantial drilling inventory on its extensive land base in the area. Strategic is evaluating alternatives to obtain additional capital to recommence the Muskeg development in a way that provides the greatest benefit to shareholders.

The Company is working proactively with its lenders to manage the repayment of the $18.5 million non-revolving portion of the Company's credit facility. Strategic intends to repay this amount through asset dispositions, funds from operations and equity or other alternative financing as required.

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.

RESULTS OF OPERATIONS

Production

	Three months ended June 30		Six months ended June 30	
Average daily production volumes	**2015**	2014	**2015**	2014
Oil & NGL (bbl/d)	**1,917**	2,294	**2,154**	2,327
Natural gas (mcf/d)	**3,377**	7,461	**4,302**	6,098
Total (boe/d)	**2,480**	3,538	**2,871**	3,343

Average daily oil & NGL production for the three and six months ended June 30, 2015 decreased 16% and 7% respectively from the comparative periods in 2014, as a result of the shut-in of 180 bbl/d of oil production at Cameron Hills in February 2015, the sale of 40 bbl/d of NGL production in central Alberta in June 2014 and a lack of drilling activity in the current year to replace production declines at Marlowe.

Natural gas sales volumes for the three and six months ended June 30, 2015 decreased 55% and 29%, respectively from the second quarter and first six months of 2014 primarily due to the shut-in of 3 MMcf/d natural gas volumes at Bistcho and Cameron Hills in February 2015, partially offset by higher gas production at Marlowe due to Muskeg wells drilled in the second half of 2014.

Revenue

($thousands, except where noted)	Three months ended June 30		Six months ended June 30	
	2015	2014	**2015**	2014
Sales				
Oil & NGL [1]	**10,045**	20,162	**19,088**	39,183
Natural gas	**897**	3,222	**2,276**	5,571
Oil and natural gas sales	**10,942**	23,384	**21,364**	44,754
Unrealized gain (loss) on risk management contracts	**(1,688)**	663	**(3,331)**	(2,597)
Realized gain (loss) on risk management contracts	**1,300**	(2,918)	**3,318**	(5,482)
	10,554	21,129	**21,351**	36,675
Average prices [2]				
Oil & NGL, before realized gain (loss) on risk management contracts ($/bbl)	**57.58**	96.62	**48.96**	93.02
Oil & NGL, including realized gain (loss) on risk management contracts ($/bbl)	**65.00**	83.35	**57.45**	81.05
Natural gas, before realized gain (loss) on risk management contracts ($/mcf)	**2.92**	4.75	**2.92**	5.05
Natural gas, including realized gain (loss) on risk management contracts ($/mcf)	**2.94**	4.53	**2.93**	4.65
Price per boe before realized gain (loss) on risk Management contracts ($/boe)	**48.49**	72.66	**41.11**	73.95
Reference prices				
Oil – WTI ($US/bbl)	**57.94**	102.99	**53.29**	100.84
Natural gas – AECO Daily Index ($/MMBtu)	**2.64**	4.68	**2.69**	5.20

[1] In 2015, revenues are presented net of pipeline tariffs on oil sales which occur after title to the product has passed to the customer. Prior period amounts for revenue and transportation have been reclassified to conform to the current period presentation.
[2] Average prices do not include unrealized losses on risk management contracts.

Average oil prices received are a function of the benchmark West Texas Intermediate ("WTI") oil price, less foreign exchange, transportation and quality differentials to arrive at Canadian dollar price received at delivery points in northern Alberta. WTI oil prices strengthened in the second quarter of 2015 relative to the first quarter, but remain well below 2014 prices as a result of elevated U.S. oil production and inventory levels and global economic uncertainty. Strategic's average oil price for the second quarter of 2015 decreased by 40% from the corresponding period in 2014 due to a 44% decrease in WTI oil prices, partially mitigated by a higher CDN/US foreign exchange rate. 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 prices for the second quarter of 2015 decreased by 39% from the corresponding period in 2014 due to primarily to lower AECO Daily Index prices, partially offset by a higher heat content for Muskeg natural gas production at Marlowe.

The Company's oil and natural gas revenues decreased to $10.9 million and $21.4 million for the three and six months ended June 30, 2015 from $23.4 million and $44.8 million for the respective comparative periods in 2014 due to a substantial decrease in commodity prices and lower production levels.

Risk management contracts

The Company's net income and funds from operations are exposed to fluctuations in commodity prices, interest rates and foreign exchange rates. As part of its risk management program, Strategic may enter into financial commodity price management contracts for up to 60 percent of expected production levels, depending on current commodity prices, price volatility and the size and nature of the Company's capital spending programs.

Strategic's risk management program resulted in realized gains on oil and natural gas contracts of $1.3 million or $5.76/boe for the current quarter and $3.3 million or $6.38/boe for the first six months of 2015 (three and six months ended June 30, 2014- $2.9 million and $5.5 million realized losses, respectively). A summary of Strategic's commodity price risk management contracts as at June 30, 2015 is as follows:

Financial WTI crude oil contracts

Term		Contract Type	Volume (bbl/d)	Fixed Price (Cdn$/bbl)	Index
01-Jul-2015	31-Dec-2015	Option [1]	250	$90.00	WTI – NYMEX
01-Jul-2015	31-Dec-2015	Swap	500	USD $61.65	WTI – NYMEX

[1] Counterparty has an option to convert into a swap at the fixed price indicated. The 250 bbl/d option expires monthly during the contract term.

Financial AECO gas contracts

Term		Contract Type	Volume (GJ/d)	Fixed Price ($/GJ)	Index
01-Apr-2015	31-Oct-2015	Swap	300	2.70	AECO Daily
01-Jun-2015	31-Oct-2015	Swap	200	2.70	AECO Daily

Unrealized gains and losses on risk management contracts are related to changes in the unrealized portion of the Company's risk management position, as well as fluctuations in the forward price curves for oil and natural gas. Strategic recorded unrealized losses on risk management contracts of $1.7 million and $3.3 million for the three and six months ended June 30, 2015 (gain of $0.7 million and a loss of $2.6 million for the three and six months ended June 30, 2014, respectively). Strategic employs risk management contracts in order to mitigate commodity price volatility and protect cash flows. Although Strategic believes its risk management program provides an effective hedge against WTI and AECO price volatility, the Company does not follow hedge accounting for these contracts. As a result, the contracts are marked to market at each reporting date, with the change in market value included in net income (loss) for the period.

Royalties

	Three months ended June 30		Six months ended June 30	
($thousands, except where noted)	**2015**	2014	**2015**	2014
Crown royalties	**413**	5,006	**1,814**	9,235
Freehold and overriding royalties	**112**	229	**206**	487
Total royalties	**525**	5,235	**2,020**	9,722
Per boe	**2.33**	16.26	**3.89**	16.07
Percentage of oil and natural gas sales	**4.8%**	22.4%	**9.5%**	21.7%

Royalty expense consists of royalties paid to provincial governments (including the effect of the Crown royalty initiative program), freehold land owners and overriding royalty owners. Royalty expense also includes the impact of gas cost allowance, which is the reduction of natural gas royalties payable to the Government of Alberta to recognize capital and operating expenditures incurred in the gathering and processing of its royalty share of production. Crown royalties on oil production are paid in product, which is taken in kind and marketed separately by the provincial government. Royalty rates in western Canada vary based on volume produced by individual wells, market oil prices and the area the production is derived from. Revenues from newly drilled wells benefit from a crown royalty reduction to five percent for the first year of production, up to a maximum of 500,000 Mcf of natural gas or 50,000 bbls of crude oil for a well up to 2,500 metres of total depth. The time frame and maximum production amounts are increased by six months and 100,000 Mcf or 10,000 bbls for each additional 500 metres of total depth. Strategic's wells are typically from 2,500 to 3,100 metres in total depth.

Royalties decreased to $0.5 million and $2.0 million for the three and six months ended June 30, 2015 from $5.2 million and $9.7 million, respectively for the comparative periods in 2014 due to lower oil pricing used by the provincial government to calculate royalty rates, as well as reduced well productivity for older Keg River production at Marlowe and a higher portion of oil and natural gas sales derived from Muskeg wells drilled in the past 18 months, which benefit from the lower crown royalty rate. Strategic also received a positive crown gas royalty adjustment for $0.2 million in the current period related to 2014 activity.

At current oil and gas prices, crown royalty rates on natural gas are 5-10%, compared to rates of 0-40% for Marlowe oil production, depending on well productivity and vintage.

Operating and transportation costs

	Three months ended June 30		Six months ended June 30	
($thousands, except per boe amounts)	**2015**	2014	**2015**	2014
Operating costs	**5,690**	7,895	**11,976**	17,498
Transportation costs[1]	**268**	1,158	**676**	2,312
	5,958	9,053	**12,652**	19,810
Per boe				
Operating	**25.21**	24.53	**23.05**	28.92
Transportation	**1.19**	3.60	**1.30**	3.81
	26.40	28.13	**24.35**	32.73

(1) In 2015, revenues are presented net of pipeline tariffs on oil sales which occur after title to the product has passed to the customer. Prior period amounts for revenue and transportation have been reclassified to conform to the current period presentation

Operating costs decreased to $5.7 million or $25.21/boe for the three months ended June 30, 2015 from $7.9 million or $24.53/boe for the second quarter of 2014, and to $12.0 million or $23.05/boe for the first six months of 2015 from $17.5 million or $28.92/boe in 2014 as the Company made significant changes to its cost structure in 2015, including shutting in non-economic properties and reducing maintenance expenditures and field staff. The effect of these savings on unit operating costs was partially mitigated by the decline in production volumes caused by the shut-in of Bistcho/Cameron Hills and a lack of drilling activity in 2015. Current quarter operating costs were also negatively impacted by a $0.5 million prior year adjustment related to the Bistcho gas processing facility.

Unit transportation costs decreased from $3.60/boe and $3.81/boe for the three and six months ended June 30, 2014 to $1.19/boe and $1.30/boe for the second quarter and first six months of 2015, respectively due to the elimination of oil sales by rail in January 2015 (and associated trucking costs), shut-in of production at Bistcho/Cameron Hills in February 2015 and completion of the Bistcho pipeline project in 2014, which connected the Company's oil production at Marlowe to the Rainbow pipeline system over a total distance of 115 kilometres and reduced oil trucking costs in the area.

Netbacks

($/boe)	Three months ended June 30 2015	2014	Six months ended June 30 2015	2014
Revenue [(1)]	**48.49**	72.66	**41.11**	73.95
Royalties	**(2.33)**	(16.26)	**(3.89)**	(16.07)
Operating costs	**(25.21)**	(24.53)	**(23.05)**	(28.92)
Transportation costs [(1)]	**(1.19)**	(3.62)	**(1.30)**	(3.81)
Operating netback	**19.76**	28.25	**12.87**	25.15

(1) In 2015, revenues are presented net of pipeline tariffs on oil sales which occur after title to the product has passed to the customer. Prior period amounts for revenue and transportation have been reclassified to conform to the current period presentation.

Strategic's operating netback decreased to $19.76/boe for the current three month period and $12.87/boe for the second quarter and first six months of 2015 from $28.25/boe and $25.15/boe respectively for the comparative periods in 2014. Lower royalty rates and transportation costs helped mitigate the effect of a 44% reduction in oil prices in the second quarter of 2015 relative to the three months ended June 30, 2014 resulting in a decrease of 30% in the Company's operating netback.

Strategic's focus area is Marlowe, which is 100% owned and operated by the Company. The Marlowe assets generated a netback of $25.98/boe despite low commodity prices in the second quarter. The breakdown of Strategic's operating netback for the three months ended June 30, 2015 is as follows:

Operating netback ($/boe)	Marlowe	Other	Total
Revenue	48.53	47.30	**48.49**
Royalties	(2.34)	(2.02)	**(2.33)**
Operating costs	(19.01)	(213.19)	**(25.21)**
Transportation costs	(1.20)	(0.66)	**(1.19)**
Operating netback	25.98	(168.57)	**19.76**

General and administrative expense

($thousands, except per boe amounts)	Three months ended June 30 2015	2014	Six months ended June 30 2015	2014
General and administrative expense	**1,601**	1,905	**3,833**	3,594
Per boe	**7.09**	5.92	**7.38**	5.94

General and administrative ("G&A") expense for the current quarter decreased to $1.6 million from $1.9 million for the second quarter of 2014 due to a lower staff count, partially offset by a reduction in overhead recoveries related to the shut-in of Bistcho/Cameron Hills in February 2015. For the six months ended June 30, 2015 G&A expense increased to $3.8 million from $3.6 million for the prior year, partially due to lower overhead recoveries and 2015 expenses including a $0.5 million charge for severance costs related to staff reductions in the first quarter.

Finance expense

($thousands, except per boe amounts)	Three months ended June 30 2015	2014	Six months ended June 30 2015	2014
Interest expense	**703**	732	**1,282**	1,620
Accretion expense	**292**	279	**554**	552
Total	**995**	1,011	**1,836**	2,172

Interest expense totaled $0.7 million for the second quarters of 2015 and 2014 as lower bank debt balances were offset by a higher interest rate on the non-revolving portion of the Company's credit facility. For the six months ended June 30, 2015 interest expense decreased to $1.3 million from $1.6 million in 2014 due to a 40% decrease in average bank debt, partially mitigated by higher interest rates.

Accretion expense is a reflection of an increase in Strategic's discounted decommissioning liability due to the passage of time. Accretion expense was largely unchanged from 2014 to 2015 as higher decommissioning liabilities in the current period due to wells drilled over the past year were offset by lower discount rates.

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 second quarter and first six months of 2015 the Company incurred $0.1 million and $0.2 million in stock based compensation expense, a slight decrease from $0.1 million and $0.3 million for the corresponding periods in 2014. There have been no significant issuances of stock options in 2015 to date.

Depletion, depreciation, amortization and impairment

	Three months ended June 30		Six months ended June 30	
($thousands, except per boe amounts)	**2015**	2014	**2015**	2014
Depreciation, depletion and amortization ("DD&A")	**6,095**	8,562	**14,089**	17,116
Per boe	**27.01**	26.59	**27.11**	28.29

DD&A is computed individually for each producing area on a unit of production basis, using proved and probable reserves and including future development expenditures in the cost base subject to depletion. DD&A expense also includes amortization of undeveloped land costs. Major components, such as facilities and pipelines, are separated from oil and gas properties and depreciated on a straight-line basis over their estimated useful lives. DD&A expense decreased to $6.1 million and $14.1 million for the three and six months ending June 30, 2015 from $8.6 million and $17.1 million, respectively for the 2014 periods as a result of lower production levels in 2015.

Deferred taxes

Strategic recorded deferred tax recoveries of $nil and $nil for the three and six months ended June 30, 2015 compared to $0.1 and $1.4 million, respectively for the three and six months ended June 30, 2014. As the Company issues flow-through shares, any related price premiums received are recorded on the balance sheet. As eligible flow-through expenditures are incurred by the Company, the price premium is reduced and a deferred tax recovery is recorded. Strategic issued flow-through shares in 2013 and 2014, and fulfilled all its flow-through commitments prior to December 31, 2014.

Funds from operations and net loss

($thousands, except per share amounts)	Three months ended June 30 2015	2014	Six months ended June 30 2015	2014
Funds from operations	**3,455**	3,541	**4,895**	4,526
Per share – basic & diluted	**0.01**	0.01	**0.01**	0.01
Cash provided by (used in) operating activities	**1,444**	(5,627)	**(2,153)**	4,476
Net loss	**(5,797)**	(2,717)	**(14,407)**	(12,379)
Per share – basic & diluted	**(0.01)**	(0.01)	**(0.03)**	(0.04)

Funds from operations remained comparable at $3.5 million for the three months ended June 30, 2014 and 2015. Funds from operations increased from $4.5 million for the six months ended June 30, 2014 to $4.9 million for the current six month period despite the decline in oil prices as Strategic implemented a series of cost-cutting initiatives in early 2015, including shutting in uneconomic assets, trimming office and field staff and reducing maintenance expenses. Funds from operations also benefited from realized risk management gains of $1.3 million and $3.3 million for the three and six month periods in 2015 compared to risk management losses of $2.9 million and $5.5 million for the second quarter and first six months of 2014, respectively.

Cash flow provided by operating activities totaled $1.4 million for the current period compared to cash flow used in operating activities of $5.6 million for the second quarter of 2014, due to an increase in payments for production and capital costs in the 2014 quarter, caused by the closing of an equity financing on March 31, 2014. Cash flow provided by (used in) operating activities dropped to $(2.2) million for the first six months of 2015 compared to $4.5 million in 2014 due to $4.5 million in expenditures on decommissioning liabilities to date in 2015, primarily related to the remediation of a prior year pipeline spill at Marlowe.

Net loss increased to $5.8 million ($0.01 per basic and diluted common share) for the three months ended June 30, 2015 from $2.7 million ($0.01 per basic and diluted common share) for the comparative quarter in 2014 due to an unrealized loss on risk management contracts of $1.7 million and a valuation allowance of $1.1 million related to an insurance receivable. The net loss in 2014 also benefited from a gain on asset disposition of $2.0 million. Net loss for the first six months of 2015 increased to $14.4 million ($0.03 per basic and diluted common share) from $12.4 million ($0.04 per basic and diluted common share) in 2014 as a result of gains on asset dispositions and deferred tax recoveries contributing to a lower loss in the prior year.

Capital expenditures

($thousands)	Three months ended June 30 2015	2014	Six months ended June 30 2015	2014
Drilling, completions and equipping	**473**	4,971	**7,596**	23,498
Pipelines and facilities	**-**	8,252	**322**	26,059
	473	13,223	**7,918**	49,557
Acquisitions, net of dispositions	**-**	(3,478)	**-**	(3,821)
Total property, plant and equipment	**473**	9,745	**7,918**	45,736
Total exploration and evaluations	**74**	317	**155**	2,436
Total capital expenditures	**547**	10,062	**8,073**	48,172

Capital expenditures decreased significantly to $0.5 million and $8.1 million for the second quarter and first six months of 2015, respectively from $10.1 million and $48.2 million for the comparative periods in 2014 as the decline in commodity prices restricted Strategic's cash flows and the borrowing base on the Company's credit facility. Current quarter expenditures were limited to minor well equipping costs.

Decommissioning Liabilities

Decommissioning liabilities decreased to $52.2 million at June 30, 2015 from $54.9 million at December 31, 2014 primarily due to $4.5 million in decommissioning expenditures during the first six months of 2015. Approximately $3.1 million of the expenditures relate to remediation of a prior year pipeline spill at Marlowe. This spill was claimed under the Company's insurance coverage, and a receivable of $1.8 million has been recorded in current assets representing the expected payment from the insurer for the expenditures incurred to date. The difference between the current receivable of $1.8 million at June 30, 2015 and the $2.9 million recorded at December 31, 2014 has been charged to valuation allowance as eventual payment by the insurer is uncertain as of the reporting date. The Company estimates that an additional $5.3 million in remediation costs will be incurred to fully restore the affected area to its original condition and has included this estimate in decommissioning liabilities. Whether costs incurred related to the remediation are reimbursed by the Company's insurer will depend on the language and interpretations of such in the Company's insurance policy, as well as the specific activities undertaken. Any insurance receivables that are related to future remediation costs will be recorded as claims are submitted to and approved by the Company's insurer.

SUMMARY OF QUARTERLY FINANCIAL DATA

The following table summarizes quarterly financial results:

Quarter ended ($thousands, except where noted)	**Jun 30, 2015**	Mar 31, 2015	Dec 31, 2014	Sept 30, 2014
Oil and natural gas sales	**10,942**	10,422	18,790	19,394
Net income (loss)	**(5,797)**	(8,610)	(117,321)	213
Net income (loss) per share – basic & diluted	**(0.01)**	(0.02)	(0.22)	0.00
Average daily production (boed)	**2,480**	3,267	3,925	3,234
Average price ($/boe)	**48.49**	35.45	52.04	65.18

Quarter ended ($thousands, except where noted)	Jun 30, 2014	Mar 31, 2014	Dec 31, 2013	Sept 30, 2013
Oil and natural gas sales	23,384	21,370	15,377	22,353
Net income (loss)	(2,717)	(9,664)	(9,852)	(6,759)
Net income (loss) per share – basic & diluted	(0.01)	(0.04)	(0.04)	(0.03)
Average daily production (boed)	3,538	3,147	2,847	3,510
Average price ($/boe)	72.61	73.82	58.72	69.22

Oil and natural gas sales are a function of average daily production levels, the oil/gas production mix and commodity prices and decreased significantly with reduced production levels and lower oil prices in the first and second quarters of 2015. Sales were highest in the second quarter of 2014 as WTI oil prices averaged US $103/bbl for the period.

Net income (loss) varies with sales and funds from operations, as well as non-cash expenses incurred such as unrealized losses and gains on risk management contracts, DD&A and impairment. Net loss is highest in the fourth quarter of 2014 due to an impairment charge of $114.0 million. The Company realized net income of $0.2 million for the three months ended September 30, 2014 due to a realized gain on risk management contracts of $6.8 million. Maintaining positive net income on a consistent basis will depend on the Company's ability to increase production and reduce unit production costs and DD&A, as well as on commodity prices.

LIQUIDITY AND CAPITAL RESOURCES

The Company considers its capital structure to include shareholders' equity and working capital, including bank debt. The objectives of the Company are to maintain a strong balance sheet affording the Company financial flexibility to achieve goals of continued growth and access to capital. In order to maintain or adjust the capital structure, the Company 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 (deficiency), as calculated below:

($thousands)	**June 30, 2015**	December 31, 2014
Current assets (excluding risk management contracts)	**9,273**	11,439
Accounts payable and accruals	**(10,995)**	(26,815)
Current decommissioning liabilities	-	(4,007)
Adjusted working capital (deficiency)	**(1,722)**	(19,383)
Bank indebtedness	**(51,500)**	(29,016)
Net debt	**(53,222)**	(48,399)

At June 30, 2015 the Company had a $58.5 million credit facility (the "Facility") with a Canadian chartered bank, comprised of a $40 million revolving operating loan, with the balance being a non-revolving loan. The credit facility has a review date of July 1, 2015. The Company is working with its lender to determine a shorter time frame for repayment of the $18.5 million non-revolving portion of the facility, which is currently being reduced at a rate of $0.5 million per month. The Company anticipates the facility will be renewed once the repayment schedule is finalized. There can be no assurance that the Facility will be renewed at the current amount and terms.

Amounts outstanding under the Facility are repayable on demand, and bear interest at a rate of 0.5% to 2.5% over the bank's prime lending rate for prime loans, or at bankers' acceptance rates plus a stamping fee ranging from 1.75% to 3.75%, depending on Strategic's debt to cash flow ratio. Amounts due under the non-revolving facility bear interest at a rate of 2.00% above the interest rates on the operating loan. The Facility is secured by a general security agreement including a floating charge on all property, plant and equipment. The Facility contains a financial covenant that requires the Company to maintain an adjusted working capital ratio of not less than 1:1, but for the purpose of the calculation the unused portion of the Facility is included in current assets and, the current portion of debt and risk management liabilities are both excluded from current liabilities. Strategic was in compliance with all covenants under the Facility as of the reporting date. In addition to $51.5 million drawn on the Facility at June 30, 2015, the Company has $4.4 million letters of credit outstanding with third parties which reduce the amount of funds available under the Facility.

Bank debt outstanding increased from $29.0 million at December 31, 2014 to $51.5 million at June 30, 2015 due to use of the credit facility to pay invoices related to the winter capital program. Net debt increased to $53.2 million at March 31, 2015 from $48.4 million at December 31, 2014 as capital expenditures and decommissioning costs exceeded funds from operations for the period.

The Company had a working capital deficiency at June 30, 2015 and December 31, 2014 as capital spending has exceeded cash flows from operations for 2014 and the first six months of 2015. In addition, invoices related to capital spending and operating costs are typically paid on 60 to 90 day terms, whereas receivables related to oil and gas production are collected after 25 days, per normal industry terms.

Continued compliance with the Facility covenants will depend on the Company's ability to limit capital expenditures and generate positive cash flows. Going forward, the recommencement of the Muskeg development program at Marlowe will be dependent on sourcing additional financing, a joint venture or a sale of assets.

SHARE CAPITAL

	Three months ended June 30		Six months ended June 30	
	2015	2014	**2015**	2014
Weighted average common shares outstanding (thousands)				
Basic	**542,319**	360,959	**542,319**	311,646
Diluted	**542,319**	360,959	**542,319**	311,646

	June 30, 2015	December 31, 2014
Outstanding securities (thousands)		
Common shares	**542,319**	542,319
Stock options	**11,480**	15,313

During the first six months of 2015, 3.4 million stock options were cancelled and 0.5 million stock options expired. No common shares have been issued or cancelled in 2015.

As of August 10, 2015 there were 542,318,629 common shares outstanding and 11,415,000 stock options outstanding.

TRANSACTIONS WITH RELATED PARTIES

For the six months ended June 30, 2015, legal fees in the amount of $0.11 million (June 30, 2014 - $0.19 million) were incurred with a legal firm of which a director is a partner, and these amounts are included as general and administrative expenses. Software rentals of $0.10 million (June 30, 2014 - $0.10 million) were charged by a company controlled by an officer. Trade and other receivables at June 30, 2015 include $0.02 million (December 31, 2014 - $nil) receivable from related parties. Accounts payable and accrued liabilities at June 30, 2015 include $0.03 million (December 31, 2014 - $0.09 million) due to related parties. The above transactions were conducted in the normal course of operations and were recorded at exchange amounts which were agreed upon between the Company and the related parties.

COMMITMENTS

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

Year	Office ($000)	Gas transportation ($000)
2015	$ 142	$ 226
2016	10	451
2017	-	445
2018	-	191
	$ 152	$ 1,313

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-IFRS measurements

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

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

The following table reconciles funds from operations to cash provided by operating activities:

	Three months ended June 30		Six months ended June 30	
($thousands)	**2015**	2014	**2015**	2014
Cash provided by operating activities	**1,444**	(5,627)	**(2,153)**	4,476
Expenditures on decommissioning liabilities	**327**	20	**4,504**	1,301
Changes in non-cash working capital	**1,684**	9,148	**2,544**	(1,251)
Funds from operations	**3,455**	3,541	**4,895**	4,526

"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 net working capital (deficiency)" and "net debt" are used to assess capital requirements and leverage, as well as evaluate funds available on the Company's credit facility. Adjusted net working capital (deficiency) is calculated as current assets less current liabilities, excluding bank debt, deferred price premium on flow through shares and any assets or liabilities related to risk management contracts. Net debt is calculated as bank debt plus adjusted net working capital deficiency, or less adjusted net working capital. A reconciliation of adjusted net working capital and net debt to working capital deficiency is as follows:

($thousands)	**June 30, 2015**	December 31, 2014
Current assets	**9,402**	14,899
Current liabilities	**(62,495)**	(59,838)
Working capital deficiency	**(53,093)**	(44,939)
Add back: risk management contract liability (asset)	**(129)**	(3,460)
Net debt	**(53,222)**	(48,399)
Bank debt	**51,500**	29,016
Adjusted net working capital (deficiency)	**(1,722)**	(19,383)

FUTURE ACCOUNTING PRONOUNCEMENTS

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently evaluation the impact of this standard on its financial statements.

In July 2014, the IASB completed the final elements of IFRS 9 "Financial instruments." The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently evaluating the impact of this standard on its financial statements.

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, 2014. 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, 2014.

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. Strategic's credit facility is in the form of a demand loan, which must be renewed periodically and may be reduced at the option of the lender. The credit facility is also being reduced at a rate of $0.5 million per month. 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.

Based on expected cash flows over the next 12 months management has determined that the Company will need to pursue additional financing in order to complete capital activities and to fund liabilities as they come due. The Company is in the process of evaluating various financing arrangements. In the event that adequate funds from these arrangements are not available, the Company may be required to scale back or eliminate certain projects.

Oil and natural gas prices and marketing

The Company's revenues are dependent upon prevailing prices for oil and natural gas. Oil and natural gas prices can be extremely volatile and are affected by the actions of domestic and international markets, foreign governments, international cartels and the Canadian federal and provincial governments. Petroleum prices have fallen precipitously over the last 9 months due to global oversupply, caused primarily by growth in North American oil production and lack of a voluntary production curtailment by the Organization of Petroleum Exporting Countries ("OPEC"). In addition, the marketability of the production depends upon the availability and capacity of gathering systems and pipelines, the effect of federal and provincial regulation (including tax and royalty regimes) on such production and general economic conditions. All of these factors are beyond the control of the Company. Any decline in oil or natural gas prices could have a material adverse effect on the Company's operations, financial condition, proved reserves and the level of expenditures undertaken for the development of its oil and natural gas reserves.

The Company may manage the risk associated with changes in commodity prices and foreign exchange rates by, from time to time, entering into crude oil or natural gas price hedges and forward foreign exchange contracts. To the extent that the Company engages in risk management activities related to commodity prices and foreign exchange rates, it will be subject to credit risks associated with counterparties with which it contracts. The Company may be required to make cash payments to its counterparties in respect of these contracts, and therefore net income and cash flows will be affected by fluctuations in the value of these forward contracts, and the effect could be significant. In addition, a ceiling price on a risk management contract would restrict the Company from obtaining the full benefit of any commodity price appreciation.

Environmental concerns

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

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, 2014.

FORWARD-LOOKING STATEMENTS

This report includes certain information, with management's assessment of Strategic's future plans and operations, and contains forward-looking statements which may include some or all of the following: (i) forecasted capital expenditures and plans; (ii) exploration, drilling and development plans, (iii) prospects and drilling inventory and locations; (iv) anticipated production rates; (v) expected royalty rate; (vi) anticipated production and service costs; (vii) the Company's financial strength; (viii) incremental development opportunities; (ix) reserve life index; (x) total shareholder return; (xi) growth prospects; (xii) asset disposition plans; (xiii) sources of funding, which are provided to allow investors to better understand 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, 2014 and other documents filed with Canadian provincial securities authorities and are available to the public at www.sedar.com. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. The principal assumptions Strategic has made includes security of land interests; drilling cost stability; royalty rate stability; oil and gas prices to remain in their current range; finance and debt markets continuing to be receptive to financing the 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.