Management's Discussion and Analysis

Three months ended March 31, 2014

May 13, 2014

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 months ended March 31, 2014, as well as information concerning the Company's future outlook based on currently available information. This MD&A should be read in conjunction with the Company's interim condensed consolidated financial statements for the three months ended March 31, 2014 and 2013, together with the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). 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.

FINANCIAL AND OPERATIONAL SUMMARY

	Three Months Ended March 31		
	2014	2013	% change
Financial ($thousands, except per share amounts)			
Oil and natural gas sales	**21,759**	17,887	22
Funds from operations [1]	**984**	3,958	(75)
Per share basic & diluted	**0.00**	0.02	(100)
Cash provided by operating activities	**10,101**	2,838	256
Per share basic & diluted	**0.04**	0.01	300
Net loss	**(9,664)**	(3,371)	187
Per share basic & diluted	**(0.04)**	(0.02)	100
Capital expenditures (excluding acquisitions)	**38,454**	50,268	(24)
Acquisitions	-	10,098	(100)
Net debt [1]	**71,804**	74,797	(4)
Operating			
Average daily production			
Crude oil (bbl per day)	**2,361**	2,318	2
Natural gas (mcf per day)	**4,719**	2,874	64
Barrels of oil equivalent (boe per day)	**3,147**	2,797	13
Average prices			
Oil & NGL, before risk management ($ per bbl)	**91.35**	81.71	12
Oil & NGL, including risk management ($ per bbl)	**79.29**	81.96	(3)
Natural gas ($ per mcf)	**5.53**	3.25	70
Netback ($ per boe) [1]			
Oil and natural gas sales	**76.82**	71.05	8
Royalties	**(15.84)**	(16.56)	(4)
Operating expenses	**(33.92)**	(24.83)	37
Transportation expenses	**(5.45)**	(4.96)	10
Operating Netback	**21.61**	24.70	(13)
Common Shares (thousands)			
Common shares outstanding, end of period	**360,734**	210,404	71
Weighted average common shares (basic)	**261,785**	189,724	38
Weighted average common shares (diluted)	**261,785**	189,724	38

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

SUMMARY

- Strategic executed a $38.5 million capital program in the first quarter of 2014. $16 million (42% of the capital program) was spent on drilling three new wells and completing a fourth well which was drilled in the fourth quarter of 2013. $24.5 million (58% of the capital program) was spent on infrastructure projects, plant turnarounds, land acquisitions and recompletions.

- The Company reached a significant milestone in the development of the Steen River oil play with the completion of the Bistcho oil sales pipeline project, which connects the Steen River area to the Rainbow pipeline system over a total distance of 115km. The pipeline was operational prior to the end of the quarter, with first flow of oil down the pipeline occurring on March 29, 2014. Approximately $10 million of the $15 million project budget was spent in the first quarter, with the remaining amount to be incurred on the installation of permanent pumps and ancillary equipment. With the completion of the Bistcho pipeline project, Strategic expects to reduce transportation costs on Steen River oil by $5 per barrel in future quarters.

- The Company improved its completion techniques for the Muskeg Stack wells in 2014. As a result of the new completion techniques all new Muskeg Stack wells have achieved over 95% uptime and are performing at or above the type curve.

- Average daily production increased by 13 percent from 2,797 boed for the first quarter of 2013 to 3,147 boed for the current quarter. Sales volumes for the current period were affected by a longer than anticipated plant turnaround at the Company's Bistcho/Cameron Hills facilities as well as the loss of some oil production at Steen River for the last three days of the quarter as the Company began to fill the Bistcho sales oil pipeline.

- Funds from operations decreased to $1.0 million from $4.0 million for the first quarter of 2013 for the following reasons:
  - Approximately $0.5 million was spent in regulatory compliance costs related to assets acquired over the last two years.
  - The Company identified a surface casing vent flow issue on a well producing 150 bbl/d of oil at Steen River and incurred $0.7 million in operating costs to resolve the issue. The surface casing vent flow issue resulted in a total of $1.2 million of lost cash flow for the first quarter due to repair costs and foregone production. The well was shut in for the majority of the quarter but has since been returned to production.
  - Realized losses on risk management contracts totalled $2.6 million for the current period.

- The Company's operating netback decreased from $24.70/boe for the first quarter of 2013 to $21.61/boe for the three months ended March 31, 2014. Several factors had a negative impact on the operating netback for the current period:

  - Production mix of 75% oil for the current quarter, as compared to 83% oil for the first quarter of 2013, due to increased natural gas production as a result of the acquisition of gas-weighted assets at Bistcho and Cameron Hills in February 2013 (the "Bistcho/Cameron Hills Assets").
  - Operating costs increased to $33.92/boe due to curtailed production volumes due to the shutdown of the Bistcho/Cameron Hills facilities for 23 days during the turnaround and approximately $0.5 million of regulatory compliance costs in the current period related to assets acquired over the last two years.
  - The Company incurred $0.7 million in operating costs to resolve a surface casing vent flow issue on a well producing 150 bbl/d of oil at Steen River.

- In the first quarter of 2014, the Company issued 100.0 million common shares via a private placement at a price of $0.50 per common share for gross proceeds of $50.0 million (net proceeds of $49.3 million after transaction costs). Of the $50.0 million gross proceeds, $40.0 million (80.0 million common shares) were acquired by entities controlled by a director of the Company and another $0.29 million (0.6 million common shares) were acquired by directors and officers of the Company.

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 flow generated by operating activities:

	Three months ended March 31	
($thousands)	**2014**	2013
Cash provided by operating activities	**10,101**	2,838
Expenditures on decommissioning liabilities	**1,281**	673
Changes in non-cash working capital	**(10,398)**	447
Funds from operations	**984**	3,958

"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, transportation and operating costs.

"Adjusted net working capital" is used to evaluate funds available on the Company's credit facility, and 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 used to assess capital requirements and leverage, and is calculated as bank debt plus adjusted net working capital deficiency, or less adjusted net working capital.

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 Steen River, Alberta.

OVERVIEW AND OUTLOOK

In the first quarter of 2014, Strategic continued to execute on its strategy of growing oil production and developing infrastructure at its 100% owned and operated Steen River property in northern Alberta. The Company drilled three successful Muskeg Stack horizontal wells during the first quarter of 2014. The three Muskeg Stack wells are producing 900 boed which represents approximately 20% of Strategic's corporate production.

Muskeg Stack well 10-24 has been the Company's most successful to date, producing at an average rate of 635 Boed (55% oil) over the first 23 days of production.

On March 31, 2014 Strategic announced that the Bistcho sales oil pipeline was operational and the first flow of oil down the line occurred on March 29, 2014. This project represents the first time oil from Steen River will flow directly to market via pipeline, an important initiative which should save the Company approximately $5/bbl of transportation costs on Steen River oil production. The completion of the pipeline will also result in a reduction in road maintenance expenses. The pipeline has a capacity of 4,000 bbl/d and is a key part of the Company's growth strategy. With the completion of this major infrastructure project the bulk of capital expenditures for the remainder of 2014 and 2015 will be allocated to internal growth via the drill bit.

The Company continued to fill the pipeline in April, as approximately 8,000 barrels were required for line fill. Current production is approximately 4,250 boed.

RESULTS OF OPERATIONS

Production

	Three months ended March 31	
Average daily production	**2014**	2013
Oil & NGL (bbl/d)	**2,361**	2,318
Natural gas (mcf/d)	**4,719**	2,874
Total (boed)	**3,147**	2,797

Oil & NGL production for the three months ended March 31, 2014 increased by 43 bbl/d or two percent from the first quarter of 2013, as drilling and production from new Muskeg Stack wells was offset by natural declines on existing production. Natural gas production increased 64 percent from the prior period due to a full quarter of production from the Bistcho/Cameron Hills Assets, which were acquired in February 2013. Oil and natural gas production for the current period was impacted by a plant turnaround at Bistcho/Cameron Hills, which took 10 days longer than anticipated due to extreme cold weather. The oil & NGL weighting of Strategic's production mix dropped to 75 percent oil from 83 percent for the first quarter of 2013 due to the Bistcho/Cameron Hills acquisition and the higher natural gas content of the Muskeg Stack horizontal oil wells relative to the Keg River wells drilled in previous years.

Revenue

	Three months ended March 31	
($thousands, except where noted)	**2014**	2013
Sales		
Oil & NGL	**19,410**	17,046
Natural gas	**2,349**	841
Oil and natural gas sales	**21,759**	17,887
Unrealized loss on risk management contracts	**(3,259)**	(828)
Realized gain (loss) on risk management contracts	**(2,564)**	52
Other revenue	**3**	70
Total revenue	**15,939**	17,181
Average prices [1]		
Oil & NGL, before realized gain (loss) on risk management contracts ($/bbl)	**91.35**	81.71
Oil & NGL, including realized gain (loss) on risk management contracts ($/bbl)	**79.29**	81.96
Natural gas ($/mcf)	**5.53**	3.25
Oil equivalent ($/boe)	**76.82**	71.05
Reference prices		
Oil – WTI ($US/bbl)	**98.70**	94.37
Natural gas – AECO Daily Index ($/MMBtu)	**5.72**	3.18

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

The Company's oil and natural gas revenues increased to $21.8 million for the three months ended March 31, 2014 from $17.9 million for the first quarter of 2013 primarily due to a 64 percent increase in natural gas production and higher oil and natural gas prices.

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. Strategic's average oil & NGL price increased 12 percent to $91.35/bbl for the first quarter of 2014 from $81.71/bbl for the first quarter of 2013, due to higher WTI oil prices and a higher CDN/US exchange rate compared to the prior period. Strategic's average natural gas prices for the first quarter of 2014 increased $2.28/mcf or 70 percent from the corresponding period in 2013 due to an 80 percent increase in AECO Daily Index prices. Substantially all of the Company's natural gas production is sold at the AECO Daily Index price less transportation and fuel charges.

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 a realized loss on WTI oil contracts of $2.6 million or $9.05/boe for the first quarter of 2014 (nil for the three months ended March 31, 2013). A summary of Strategic's commodity price risk management contracts as at March 31, 2014 is as follows:

Financial WTI crude oil contracts

Term		Contract Type	Volume (bbl/d)	Fixed Price ($/bbl)	Index
01-Apr-2014	31-Dec-2014	Swap	1,500	CAD$92.00	WTI - NYMEX
01-Jan-2015	30-Jun-2015	Swap	750	CAD$90.15	WTI – NYMEX
01-Jan-2015	31-Dec-2015	Option [1]	600	CAD$90.00	WTI – NYMEX
01-Jul-2015	31-Dec-2015	Option [1]	250	CAD$90.00	WTI - NYMEX

(1) Counterparty has an option to convert into a swap at the fixed price indicated. The 600 bbl/d option expires on the last business day before the term begins, while 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-2014	31-Dec-2014	Swap	1,500	3.50	AECO Daily
01-Apr-2014	31-Dec-2014	Swap	300	3.75	AECO Daily
01-Apr-2014	31-Oct-2014	Swap	500	4.41	AECO Daily

As a result of an increase in the forward price curve for WTI oil, the Company recorded unrealized losses on risk management contracts of $3.3 million for the three months ended March 31, 2014 (three ended March 31, 2013 - $0.8 million). 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 March 31	
($thousands, except where noted)	**2014**	2013
Crown royalties	**4,230**	3,963
Freehold and overriding royalties	**258**	205
Total royalties	**4,488**	4,168
Per boe	**15.84**	16.56
Percentage of oil and natural gas sales	**20.6%**	23.3%

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. Generally royalty rates in western Canada vary based on volume produced by individual wells, prices received and the area the production is derived from. In 2011 the provincial government amended its royalty framework to reduce the royalty rate on revenues from newly drilled wells 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.

Royalties increased to $4.5 million or 20.6 percent of revenues in the current period from $4.2 million or 23.3 percent of revenues for the three months ended March 31, 2013. The decrease in the royalty rate is primarily due to a higher proportion of natural gas in the Company’s production mix. At current oil and gas prices, crown royalty rates on natural gas are 5-10%, compared to rates of 5-40% for Steen River oil, depending on well productivity and vintage.

Operating and transportation costs

($thousands, except per boe amounts)	Three months ended March 31 2014	2013
Operating costs	**9,607**	6,249
Transportation costs	**1,543**	1,249
	11,150	7,498
Per boe		
Operating	**33.92**	24.83
Transportation	**5.45**	4.96
	39.37	29.79

Operating costs increased to $9.6 million or $33.92/boe for the three months ended March 31, 2014 from $6.2 million or $24.83/boe for the first quarter of 2013 due to a full quarter of operating costs for the Bistcho/Cameron Hills Assets, increased workover expenditures and costs related to regulatory compliance. Due to the number of winter-only access locations in the Company's asset base, workover and maintenance programs and supply purchases are typically highest in the first quarter of the year, and are expected to decrease in subsequent quarters. As the majority of operating costs are fixed in nature, operating costs per boe for the remainder of 2014 will decrease as production volumes are added from capital programs.

Unit transportation costs increased from $4.96/boe for the three months ended March 31, 2013 to $5.45/boe in 2014 due to an increase in trucking costs at Steen River related to lack of available rail cars. Typically production sold by rail benefits from reduced transportation costs relative to oil trucked to the nearest sales oil terminal. This highlights the importance of the completion of the Bistcho pipeline project to provide reliable low-cost transportation to market for the Company's oil production at Steen River.

Netbacks

($/boe)	Three months ended March 31 2014	2013
Revenue	**76.82**	71.05
Royalties	**(15.84)**	(16.56)
Operating costs	**(33.92)**	(24.83)
Transportation costs	**(5.45)**	(4.96)
Operating netback	**21.61**	24.70

Strategic's operating netback decreased 13 percent to $21.61/boe in the first quarter of 2014 from $24.70/boe for the comparative quarter in 2013. Higher oil and gas prices experienced in the current period increased revenue per boe by $5.77 but this was more than offset by increased unit operating costs due to workovers and regulatory compliance costs, as well as a full quarter of operations from the Bistcho/Cameron Hills Assets, which realize lower netbacks than the Steen River core area.

General and administrative expense

($thousands, except per boe amounts)	Three months ended March 31 2014	2013
General and administrative expense	**1,690**	1,905
Per boe	**5.97**	7.57

General and administrative ("G&A") expense decreased to $1.7 million ($5.97/boe) for the first quarter of 2014 from $1.9 million ($7.57/boe) in 2013, as a result of higher overhead recoveries due to larger operated property base, as well as higher production levels. The size and scope of Strategic's operations has increased significantly over the past 18 months without a corresponding increase in administrative costs.

Finance expense

($thousands, except per boe amounts)	Three months ended March 31 2014	2013
Interest expense	**886**	413
Accretion expense	**275**	190
Total	**1,161**	603
Per boe	**4.10**	2.40

Interest expense increased to $0.9 million for the three months ended March 31, 2014 from $0.4 million for 2013 due to higher average bank debt levels in the current period.

Accretion expense is a reflection of an increase in the Company's discounted decommissioning liability due to the passage of time. Accretion expense and the decommissioning liability have increased from the prior year due to Strategic's expanding asset base as a result of acquisitions and drilling activity over the past year.

Stock based compensation

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

For the first quarter of 2014 the Company incurred $0.2 million in stock based compensation expense as compared to $0.4 million for the corresponding 2013 period, due to a lower number of stock options issued in the current period and a lower fair value per option. A portion of all options granted generally vest immediately, therefore the fair value of the vested options is expensed on the grant date.

Depletion, depreciation and amortization

($thousands, except per boe amounts)	Three months ended March 31 2014	2013
Depreciation, depletion and amortization ("DD&A")	**8,554**	5,966
Per boe	**30.20**	23.70

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 pipeline, are separated from oil and gas properties and depreciated on a straight-line basis over their estimated useful lives. DD&A expense increased to $8.6 million for the three months ending March 31, 2014 from $6.0 million for the 2013 periods due to higher production levels and DD&A rates. DD&A expense per boe in 2014 increased by 27 percent for the current quarter from 2013 as a result of capital expenditures in the first quarter of 2014 directed towards infrastructure projects such as the Bistcho oil sales pipeline. These projects, while critical to improving profitability and executing the Company's growth strategy, do not increase reserves and therefore will increase the DD&A rate per boe at current production levels.

Deferred taxes

Strategic recorded a deferred tax recovery of $1.3 million for the three months ended March 31, 2014 compared to nil in the first quarter of 2013. The Company issued $17.0 million of flow-through common shares in October 2013, with a related price premium of $2.3 million recorded on the balance sheet on the issue date. As eligible flow-through expenditures are incurred by the Company, the price premium is reduced and a deferred tax recovery is recorded. As of March 31, 2014, Strategic has approximately $2.5 million in commitments for flow-through expenditures remaining, and intends to fulfill this commitment prior to December 31, 2014.

Funds from operations and net income (loss)

	Three months ended March 31	
($thousands, except per share amounts)	**2014**	2013
Funds from operations	**984**	3,958
Per share		
Basic & diluted	**0.00**	0.02
Net loss	**(9,664)**	(3,371))
Per share		
Basic & diluted	**(0.04)**	(0.02)

Funds from operations decreased from $4.0 million for three months ended March 31, 2013 to $1.0 million for the current three month periods, as higher revenues due to increased oil and gas prices were more than offset by higher operating costs, interest expense and realized losses on risk management contracts.

Net loss increased to $9.7 million ($0.04 per basic and diluted common share) for the three months ended March 31, 2014 from $3.4 million ($0.02 per basic and diluted common share) in the 2013 period, as a result of lower funds from operations, higher DD&A expense and an increase in unrealized losses on risk management contracts of $2.4 million, partially offset by a deferred tax recovery of $1.3 million.

Capital expenditures

	Three months ended March 31	
($thousands)	**2014**	2013
Drilling and completions	**18,526**	30,945
Equipping and facilities	**17,808**	14,577
Other	**-**	159
	36,334	45,681
Acquisitions	**-**	10,098
Total property, plant and equipment	**36,334**	55,779
Land and seismic	**2,120**	4,587
Total exploration and evaluations	**2,120**	4,587
Total capital expenditures	**38,454**	60,366

Total capital expenditures decreased to $38.5 million for the first quarter of 2014 from $60.4 million for the three months ended March 31, 2013, due to a reduction in the number of wells drilled and no acquisitions in the current period.

Drilling and completions costs in the current quarter are related to the drilling of three Muskeg Stack wells and the completion of a well drilled in late 2013. The third well drilled in the first quarter was completed in April 2014. Total costs per well increased in 2014 as the Company drilled longer horizontal legs on each well and completed 14-15 stages, as compared to 4-8 stage completions in the first quarter of 2013. Strategic has steadily advanced its knowledge and expertise in the Muskeg Stack formation over the last year, leading to better well lengths and trajectories and improved completion techniques, which will result in increased production per well.

Equipping and facilities expenditures increased to $17.8 million from $14.6 million in 2013 due to the Bistcho sales oil pipeline project, and equipping costs for wells drilled during the quarter and in late 2013.

Acquisitions decreased to $nil in 2014 from $10.1 million for the first quarter of 2013. The prior year amount represents the acquisition of the Bistcho/Cameron Hills Assets, as well as a royalty interest at Steen River.

Land and seismic expenditures decreased to $2.1 million for the three months ended March 31, 2014 from $4.6 million in the comparative period for 2013. Strategic anticipates that land and seismic expenditures will be minimal for the remainder of 2014 as capital expenditures are focused on drilling and production related activities, to take advantage of the significant infrastructure build undertaken by the Company over the last year.

SUMMARY OF QUARTERLY FINANCIAL DATA

The following table summarizes quarterly financial results:

Quarter ended ($thousands, except where noted)	**Mar 31,2014**	Dec 31, 2013	Sept 30, 2013	Jun 30, 2013
Oil and natural gas sales	**21,759**	15,660	22,628	23,770
Net loss	**(9,664)**	(9,852)	(6,759)	(2,338)
Net loss per share – basic	**(0.04)**	(0.04)	(0.03)	(0.01)
Net loss per share – diluted	**(0.04)**	(0.04)	(0.03)	(0.01)
Average daily production (boed)	**3,147**	2,847	3,510	3,924
Average price ($/boe)	**76.82**	59.80	62.12	67.53

Quarter ended ($thousands, except where noted)	Mar 31,2013	Dec 31, 2012	Sept 30, 2012	Jun 30,2012
Oil and natural gas sales	17,887	15,863	12,520	16,924
Net income (loss)	(3,371)	(5,917)	(718)	1,235
Net income (loss) per share – basic	(0.02)	(0.03)	(0.00)	0.01
Net income (loss) per share – diluted	(0.02)	(0.03)	(0.00)	0.01
Average daily production (boed)	2,797	2,282	1,930	2,583
Average price ($/boe)	71.05	75.57	70.52	72.00

Oil and natural gas sales are a function of average daily production levels, the oil/gas production mix and realized prices, and have increased significantly with higher production levels in the 2013 quarters and higher prices in the first quarter of 2014 compared to the 2012 quarters. The fourth quarter of 2013 is an exception as production volumes were impacted by facility downtime and extremely cold weather in December. Net income (loss) varies with sales and cash flows, as well as non-cash expenses incurred such as unrealized losses on risk management contracts, DD&A and impairment. Net losses are highest in the fourth quarter of 2013 and first quarter of 2014 due to lower cash flows and higher DD&A expenses relative to the other quarters presented. Maintaining positive net income on a consistent basis will depend on the Company's ability to increase production and reserves and reduce unit operating costs, transportation costs and DD&A.

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 program based on available funds, which is the combination of working capital and remaining unused line of credit, as calculated below:

($thousands)	**March 31, 2014**	December 31, 2013
Current assets	**50,317**	9,685
Accounts payable and accruals	**(47,121)**	(28,457)
Adjusted working capital deficiency	**3,196**	(18,772)
Total line of credit	**100,000**	100,000
Amount drawn	**(75,000)**	(63,775))
Authorized letters of credit	**(4,139)**	(4,139)
Unutilized line of credit	**20,861**	32,086
Net available funds	**24,057**	13,314

The Company has a $100 million credit facility (the "Facility") with a Canadian Chartered bank, comprised of an $80 million revolving operating loan and a $20 million acquisition/development demand loan. 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. The Facility is secured by a general security agreement including a floating charge on all lands. 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 revolving operating line is included in current assets and, the current portion of debt and risk management liabilities are both excluded from current liabilities. In addition to the Facility, the Company has $4.1 million letters of credit outstanding with third parties which reduce the amount of funds available under the Facility. The Facility has a renewal date of September 30, 2014. At March 31, 2014, the Company was in compliance with all covenants.

Going forward the Company intends to use funds from operations and equity or other financings to fund capital expenditure programs and acquisitions, as well as drawings on the Facility, as deemed appropriate.

SHARE CAPITAL

	Three months ended March 31	
	2014	2013
Weighted average common shares outstanding (thousands)		
Basic	**261,785**	189,724
Diluted	**261,785**	189,724

	March 31, 2014	December 31, 2013
Outstanding securities (thousands)		
Common shares	**360,734**	260,601
Stock options	**12,917**	13,235

On March 31, 2014, the Company issued 100.0 million common shares via a private placement at a price of $0.50 per common share for gross proceeds of $50.0 million (net proceeds of $49.3 million after transaction costs). Of the $50.0 million gross proceeds, $40.0 million (80.0 million common shares) were acquired by entities controlled by a director of the Company and another $0.29 million (0.6 million common shares) were acquired by directors and officers of the Company. Proceeds from the private placement were primarily used to repay bank debt incurred in executing the first quarter 2014 capital program.

In the first three months of 2014, 60,000 stock options were granted at an average price of $0.57 per common share, and 133,332 stock options were exercised for common shares of the Company, for total proceeds of $0.1 million.

As of May 13, 2014 there were 361,000,646 common shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

Legal fees in the amount of $0.1 million (March 31, 2013 - $0.2 million) were incurred to a legal firm of which a director is a partner, and are included as general and administrative expenses or share issue costs. Software charges of $0.05 million (March 31, 2013 - $0.05 million) were charged to a company controlled by an officer. Trade and other receivables at March 31, 2014 include $0.32 million (December 31, 2013 - $nil) receivable from related parties. Accounts payable and accrued liabilities at March 31, 2014 include $0.1 million (December 31, 2013 - $0.3 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.

In the first quarter of 2014 the Company disposed of a working interest in a minor non-producing property to a company controlled by a director for consideration of $0.3 million, which was the deemed fair value of the property at the sale date. As the property had a $nil carrying value, a $0.3 million gain on disposition of property, plant and equipment was recorded in the period.

COMMITMENTS

The Company has lease agreements for office space resulting in the following commitments at March 31, 2014:

Year ended December 31	**($thousands)**
2014	**169**
2015	**226**
2016	**7**
Total	**402**

CHANGES IN ACCOUNTING POLICIES

As of January 1, 2014, the Company adopted several new IFRS interpretations and amendments in accordance with the transitional provisions of each standard.

- IAS 36 "Impairment of Assets" has been amended to reduce the circumstances in which the recoverable amount of cash generating units ("CGUs") is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The retrospective adoption of these amendments will only impact the Company's disclosures in the notes to the financial statements in periods when an impairment loss or impairment reversal is recognized.
- IAS 39 "Financial Instruments: Recognition and Measurement" has been amended to clarify that there would be no requirement to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The retrospective adoption of the amendments does not have any impact on the Company's financial statements.
- IFRIC 21 "Levies" was developed by the IFRS Interpretations Committee ("IFRIC") and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 "Income Taxes") and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation does not have any impact on the Company's financial statements.

In February 2014, the IASB tentatively decided to require an entity to apply IFRS 9 "Financial Instruments" for annual periods beginning on or after January 1, 2018. IFRS 9 is still available for early adoption. The full impact of the standard on the Company's financial statements will not be known until changes are finalized.

CRITICAL ACCOUNTING ESTIMATES

This MD&A is based on Strategic's 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, 2013. 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 consolidated financial statements is included in Strategic's MD&A for the year ended December 31, 2013.

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.

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. 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 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.

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, 2013.

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 operating 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, 2013 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.