



Management's Discussion and Analysis

Three and nine months ended September 30, 2013

November 13, 2013

Strategic Oil & Gas Ltd. ("Strategic" or the "Corporation") 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 nine months ended September 30, 2013, as well as information concerning the Corporation's future outlook based on currently available information. This MD&A should be read in conjunction with the Corporation's interim condensed consolidated financial statements for the three and nine months ended September 30, 2013 and 2012, together with the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

FINANCIAL AND OPERATIONAL SUMMARY

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Financial (\$thousands, except per share amounts)				
Oil and natural gas sales	22,628	12,520	64,285	40,649
Funds from operations ⁽¹⁾	4,853	4,349	17,483	16,443
Per share basic	0.02	0.02	0.09	0.09
Net income (loss)	(6,759)	(718)	(12,464)	1,129
Per share basic & diluted	(0.03)	(0.00)	(0.06)	0.01
Capital expenditures (excluding acquisitions)	24,617	14,082	89,667	47,144
Net debt ⁽¹⁾	81,566	12,094	81,566	12,094
Operating				
Average daily production				
Crude oil (bbl per day)	2,387	1,734	2,491	1,791
Natural gas (mcf per day)	6,743	1,178	5,532	1,537
Barrels of oil equivalent (Boe per day)	3,510	1,930	3,413	2,047
Average prices				
Oil & NGL, before risk management (\$ per bbl)	95.70	76.84	87.53	80.92
Oil & NGL, including risk management (\$ per bbl)	84.01	76.84	84.33	80.92
Natural gas (\$ per mcf)	2.61	2.45	3.15	2.21
Netback (\$ per Boe) ⁽¹⁾				
Oil and natural gas sales	70.07	70.52	68.99	72.46
Realized loss on risk management contracts	(7.95)	-	(2.33)	-
Royalties	(16.15)	(10.69)	(15.23)	(10.96)
Operating expenses	(20.00)	(14.39)	(21.06)	(15.45)
Transportation expenses	(3.89)	(8.31)	(4.52)	(7.95)
Operating Netback	22.08	37.13	25.85	38.10
Common Shares (thousands)				
Common shares outstanding, end of period	230,599	186,140	230,599	186,140
Weighted average common shares (basic)	211,282	186,884	203,882	186,996
Weighted average common shares (diluted)	211,282	186,884	203,882	187,761

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

SUMMARY

- Strategic's focus in the third quarter was on continuing with the Corporation's Muskeg Stack drilling program and ongoing activity with respect to facility reconfiguration and expansion projects at Steen River. Strategic drilled and multi-stage-fracture completed two prolific Muskeg Stack horizontal wells with lateral lengths of approximately 1,500 meters during the third quarter. Horizontal well 4-33 produced approximately 12,000 barrels of oil over the first 30 days of production and horizontal well 16-29 produced approximately 2,000 barrels of oil over the first five days prior to being shut in for plant turn around in November. The following table lists the cumulative production and producing days from the horizontal Muskeg Stack wells drilled in 2013 prior to wells being shut down during the plant turn around.

Well	Horizontal Length(meters)	Cumulative Production (BOE)	Producing Days
4-33 (Q3 2013)	1,598	12,000 (97% oil)	30
16-29 (Q3 2013)	1,493	2,000 (97% oil)	5
13-28 (Q2 2013)	905	21,600 (60% oil)	150
14-13 (Q2 2013)	875	21,500 (60% oil)	90

During the recent plant turnaround completed in October 2013, Strategic drilled out the frac balls and ports in three of the four Muskeg Stack horizontal wells and the wells have been placed back on production. The work over on the fourth well is ongoing and will be completed shortly. This work was done to understand the best completion techniques to be used in future wells.

Strategic is encouraged by the post drill-out production rates from the Muskeg wells. The increase in production post drill-out is due to a combination of better wellbore contribution and flush production due to the two week shut-in. Flush production rates are as high as 400 Boed. Strategic will provide a further update on the Muskeg Stack wells in early December once production has stabilized.

- Average daily production increased by 82 percent from 1,930 Boed for the third quarter of 2012 to 3,510 Boed for the current quarter. Production for the period decreased 10 percent from the second quarter of 2013 as Strategic was impacted by two weather-related outages in the current period. The Marlowe 1-28 facility as well as the Bistcho facility suffered downtime as a result of power surges caused by two lightning strikes, affecting both oil and gas production. Strategic improved its facility grounding and as of September 9, 2013 both plants were fully operational. Sales volumes were also affected by the shutdown of activity at the third-party operated Rainbow oil terminal for three days the end of the quarter. This resulted in oil trucked to the terminal being included in inventory rather than recorded as sales for the period.
- The Corporation's operating netback decreased from \$37.13/boe for the third quarter of 2012 and \$29.92/boe for the second quarter of 2013 to \$22.08/boe for the three months ended September 30, 2013. Several factors had a negative impact on the operating netback for the current period:
 - A realized risk management loss of \$7.95/boe (\$2.6 million total) related to financial risk management contracts tied to WTI oil prices. Excluding the realized risk management loss the operating netback was \$30.02/boe. The operated netback at Steen River prior to risk management losses was \$37.98/boe for the current three month period.
 - A production mix of 68% oil for the current quarter, as compared to 90% oil for the third quarter of 2012 and 71% oil for the three months ended June 30, 2013, due to weather-related plant outages at Marlowe and the temporary shutdown of activity at the Rainbow oil terminal. Strategic expects the oil weighting to increase to over 70% as it brings more new production on stream from the recently drilled horizontal wells.

- An increase in corporate royalty rates to \$16.15/boe from \$10.69/boe for the third quarter of 2012 and \$13.46/boe for the three months ended June 30, 2013. Strategic expects to reduce the royalty rate by \$3-4/boe in future quarters as new production volumes come onstream, which benefit from a 5 percent first-year royalty rate.
 - The Corporation intends to improve corporate netbacks by reducing operating and transportation costs by approximately \$6/boe in 2014, with the plant expansion completed and the Bistcho oil pipeline tie-in during the first quarter of 2014.
- On September 17, 2013 the Corporation entered into agreements to issue a total of 20.2 million common shares at a price of \$0.95 per common share via a private placement financing, and 12.7 million common shares at a price of \$0.95 per common share and 15.4 million flow-through common shares (“Flow-Through Shares”) at a price of \$1.10 per Flow-Through share through a bought deal financing with a syndicate of underwriters. The common share portion of the bought deal financing was subsequently increased to 14.5 million common shares. Gross proceeds from the offerings totaled \$50.1 million. Net proceeds after commissions and offering costs are approximately \$48.1 million.
 - On September 26, 2013, Strategic closed the private placement for net proceeds of \$19.1 million, while the bought deal financing closed on October 7, 2013.

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 Corporation'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 Corporation 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 Corporation 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:

(\$thousands)	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Cash provided by operating activities	6,409	8,344	16,372	17,061
Expenditures on decommissioning liabilities	14	130	659	130
Changes in non-cash working capital	(1,570)	(4,125)	452	(748)
Funds from operations	4,853	4,349	17,483	16,443

“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 including realized 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 Corporation’s credit facility, and is calculated as current assets less current liabilities, excluding bank debt 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.

OVERVIEW AND OUTLOOK

Strategic continued its drilling program into the fourth quarter, drilling the first Keg River horizontal well in the Corporation’s history and one Muskeg Stack horizontal well. The Keg River horizontal targeted the tighter Upper Keg River zone which has not been developed in this area. The Keg horizontal is a conventional well completed with an open-hole section of approximately 400 m and has no fracture treatment. The Keg River horizontal well production tested at rates of 130 Boed (99% oil). Strategic plans to further acid stimulate the horizontal section. The Corporation was encouraged to find a virgin oil zone in the Upper Keg River with an approximately 25 meter oil column above the water oil contact. This zone represents a significant increase in the original oil in place in the Old Marlowe Keg River pool and will add to the overall hydrocarbon resource in the area.

Completion operations are underway on the latest Muskeg Stack horizontal well 15-24 and an update will be provided along with the existing Muskeg Stack wells in early December. The Corporation expects to drill up to a total of 4 wells in the fourth quarter of 2013.

On November 1, 2013 Strategic announced the completion of the expansion project that doubled its oil and total fluid handling capacity at the Steen River battery, bringing total oil handling capability to 8,500 bbl/d from the Corporation’s two facilities in this area. The completion of the expansion will result in a reduction in unit operating costs in future quarters due to more efficient operations. The plant expansion was a key part of the Corporation’s growth plans, and helps ensure the bulk of capital expenditures in the foreseeable future will be allocated to internal growth via the drill bit.

The 9-17 battery was shut down for approximately 19 days in the fourth quarter while the expansion and a plant turnaround was completed. The Corporation is bringing all of its wells back online and is working to optimize their production to take full advantage of the expansion. The Corporation is on target to achieve its exit rate guidance of 5,000 Boed by year-end.

Strategic has initiated scoping and planning of its 2014 budget, which will be announced in December 2013. The Corporation intends to focus on continued development and expansion of the Muskeg Stack and Keg River oil plays and to pipeline connect the Steen River facilities such that it can deliver up to 4,000 bbl/d of sales oil into the Rainbow pipeline. This pipeline connection will enable Strategic to reduce trucking charges and increase netbacks in 2014.

RESULTS OF OPERATIONS

Production

Average daily production	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Oil & NGL (bbl/d)	2,387	1,734	2,491	1,791
Natural gas (mcf/d)	6,743	1,178	5,532	1,537
Total (Boed)	3,510	1,930	3,413	2,047

Oil & NGL production for the three months ended September 30, 2013 increased by 653 bbl/d or 38 percent from the third quarter of 2012, while natural gas production increased 472 percent from the prior period due to winter drilling and recompletion activities at Steen River and the acquisition of the Bistcho/Cameron Hills Assets in February 2013. Production for the nine months ended September 30, 2013 increased by 67 percent to 3,413 Boed from 2,047 Boed for the 2012 period. The oil & NGL weighting of Strategic's production mix dropped to 68 percent oil from 90 percent for the third quarter of 2012 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 2012.

Production volumes continued to be affected by facility and pipeline constraints during the quarter. The 9-17 battery expansion was completed early in the fourth quarter of 2013 and is expected to increase fluid handling capacity and operational efficiency at Steen River.

Revenue

(\$thousands, except where noted)	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Sales				
Oil & NGL	21,010	12,255	59,521	39,717
Natural gas	1,618	265	4,764	932
Oil and natural gas sales	22,628	12,520	64,285	40,649
Unrealized loss on risk management contracts	(3,330)	(215)	(7,032)	(215)
Realized loss on risk management contracts	(2,567)	-	(2,174)	-
Other revenue	2	19	94	91
Total revenue	16,733	12,324	55,173	40,525
Average prices ⁽¹⁾				
Oil & NGL, before risk management settlements (\$/bbl)	95.70	76.84	87.53	80.92
Oil & NGL, including risk management settlements (\$/bbl)	84.01	76.84	84.33	80.92
Natural gas (\$/mcf)	2.61	2.45	3.15	2.21
Oil equivalent (\$/Boe)	62.12	70.52	66.66	72.46
Reference prices				
Oil – WTI (\$US/bbl)	105.82	92.22	98.14	96.21
Natural gas – AECO Daily Index (\$/MMBtu)	2.42	2.27	3.04	2.10

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

The Corporation's oil and natural gas revenues increased to \$22.6 million for the three months ended September 30, 2013 from \$12.5 million for the third quarter of 2012 primarily due to an 82 percent increase in production volumes, as well as higher oil and natural gas prices. Oil and natural gas revenues totaled \$64.3 million for the first nine months of 2013, a 58 percent increase from \$40.6 million for the 2012 period, driven by higher production volumes and commodity 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 25 percent to \$95.70/bbl for the third quarter of 2013 from for the third quarter of 2012, due to higher WTI oil prices and lower differentials for Canadian crude oil compared to the prior period. Canadian light crude differentials widened out significantly at the end of the quarter and will have a negative impact on the Corporation's fourth quarter oil price. Strategic's risk management program resulted in a realized loss on WTI oil contracts of \$2.6 million for the third quarter of 2013. Strategic's average natural gas prices for the third quarter and nine months of 2013 increased by 7 percent and 43 percent, respectively from the corresponding periods in 2012 due to increases in AECO Daily Index prices of 7 and 45 percent, respectively.

Risk management contracts

The Corporation's net income and funds from operations are exposed to fluctuations in commodity prices, interest rates and foreign exchange rates. Strategic's previous credit facility allowed the Corporation to enter into financial commodity price management contracts for up to 60 percent of expected corporate production. For the third quarter the amount hedged was higher than the 60 percent target level, as production volumes were impacted lower by weather-related incidents and fluid handling restrictions at the Corporation's oil processing facilities. In July 2013 the credit facility was amended to limit risk management contracts to 60 percent of production levels by product.

A summary of Strategic's commodity price risk management contracts as at September 30, 2013 is as follows:

Financial WTI Crude Oil Contracts

Term	Contract Type	Volume (bbl/d)	Fixed Price (\$/bbl)	Index	
01-Oct-2013	31-Dec-2013	Swap	200	US\$90.00	WTI - NYMEX
01-Oct-2013	31-Dec-2013	Swap	500	US\$99.00	WTI - NYMEX
01-Oct-2013	31-Dec-2013	Swap	1,850	CAD\$100.12	WTI - NYMEX
Average for Oct-Dec 2013 ⁽²⁾			2,550	CAD\$100.16	
01-Jan-2014	31-Dec-2014	Swap	1,500	CAD\$92.00	WTI - NYMEX
01-Jan-2014	31-Dec-2014	Option ⁽¹⁾	500	US\$99.00	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⁾ The counterparty may elect to convert this option to a swap contract with the Corporation at the fixed price indicated.

⁽²⁾ The contract settles against the average WTI price at NYMEX, converted to Canadian dollars per barrel based on the average exchange rate for the contract period. In calculating the average Canadian dollar swap price, US dollar contracts are converted to Canadian dollars at an average exchange rate of CAD\$1.04 = US\$1.00.

As a result of an increase in the forward price curve for WTI oil, the Corporation recorded unrealized losses on risk management contracts of \$3.3 million and \$7.0 million for the three and nine months ended September 30, 2013 (three and nine months ended September 30, 2012 - \$0.2 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 price volatility, the Corporation 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.

WTI prices decreased subsequent to the reporting date and as of the date of this MD&A the Corporation's 2013 risk management contracts are approximately equivalent to the market oil price. Unrealized gains and losses on risk management activities do not affect Strategic's funds from operations or cash available for capital spending programs.

Royalties

(\$thousands, except where noted)	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Crown royalties	5,145	1,577	13,595	5,101
Freehold and overriding royalties	73	321	596	1,046
Total royalties	5,218	1,898	14,191	6,147
Per Boe	16.15	10.69	15.23	10.96
Percentage of oil and natural gas sales	23.1%	15.2%	22.1%	15.1%

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 ("GCA"), 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 \$5.2 million or 23.1 percent of revenues in the current period from \$1.9 million or 15.2 percent of revenues for the three months ended September 30, 2012. Royalties for the first nine months of 2013 were 22.1 percent of revenues as compared to 15.1 percent of revenues in 2012. The increase in the royalty rate is a result of wells drilled in early 2012 reaching the first year of production and no longer benefiting from the five percent royalty. In addition, a portion of the production additions for the current quarter were associated with recompletion activity, which does not receive the royalty reduction for the first year of production.

Operating and transportation costs

(\$thousands, except per Boe amounts)	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Operating costs	6,458	2,555	19,624	8,664
Transportation costs	1,256	1,476	4,213	4,462
	7,714	4,031	23,837	13,126
Per Boe				
Operating	20.00	14.39	21.06	15.45
Transportation	3.89	8.31	4.52	7.95
	23.89	22.70	25.58	23.40

Operating costs increased to \$6.5 million and \$19.6 million for the three and nine month periods ended September 30, 2013 from \$2.6 million and \$8.7 million, respectively for 2012 due to increases in the scope of Strategic's activities at the Steen River core area, as well as the acquisition of the Bistcho/Cameron Hills Assets on February 28, 2013. The Corporation incurred expenses on the additional Steen River assets acquired in December 2012 to maintain roads and operate wells and facilities. Operating costs in the current quarter were also affected by workover charges of \$0.4 million and preliminary costs for the 9-17 battery turnaround conducted early in the fourth quarter.

Unit operating costs increased by 39 percent for the third quarter and 36 percent on a year-to-date basis from 2012 levels, due to increased staff levels and activity at Steen River and the acquisition of the Bistcho/Cameron Hills Assets, which have higher costs per Boe than Strategic's pre-existing oil and gas properties. Operating costs for the Bistcho/Cameron Hills Assets totaled \$5.0 million since the acquisition date.

Unit transportation costs decreased from \$8.31/Boe and \$7.95/Boe for the three and nine months ended September 30, 2012 to \$3.89/Boe and \$4.52/Boe, respectively in 2013, as a result of a higher proportion of natural

gas in the Corporation's production mix. The Corporation is also shipping a significant portion of its oil production by rail, which benefits from reduced transportation costs.

Netbacks

(\$/Boe)	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Revenue	70.07	70.52	68.99	72.46
Realized loss on risk management contracts	(7.95)	-	(2.33)	-
Royalties	(16.15)	(10.69)	(15.23)	(10.96)
Operating costs	(20.00)	(14.39)	(21.06)	(15.45)
Transportation costs	(3.89)	(8.31)	(4.52)	(7.95)
Operating netback	22.08	37.13	25.85	38.10

Strategic's operating netback decreased 41 percent to \$22.08/Boe in the third quarter of 2013 from \$37.13/Boe for the comparative quarter in 2012. Operating netbacks have decreased in the 2013 periods, as a result of several factors:

- Realized risk management losses for the three and nine months ended September 30, 2013 of \$7.95/Boe and \$2.33/Boe, respectively;
- Higher royalty rates, as many of the wells drilled in the first quarter of 2012 reached the end of the first year of production and no longer benefited from the 5 percent first-year royalty rate, whereas a portion of the production additions from the winter 2013 capital program were related to recompletions, which do not receive the 5 percent first-year royalty rate;
- Increased operating costs per Boe due to the acquisition of the Bistcho/Cameron Hills Assets and the acquisition of assets at Steen River in December 2012, partially offset by lower unit transportation expenses. A significant portion of Strategic's operating costs at Steen River are fixed in nature, and therefore unit costs will tend to decline as production volumes increase in this area.

Strategic's focus area is Steen River, which continues to generate a competitive netback similar to corporate 2012 netbacks. The Corporation expects the netback at Steen River to continue to improve as production from newly drilled wells is brought onstream, benefiting from the lower royalty rate and adding volumes to offset fixed costs at the company-operated facilities in the area. The breakdown of Strategic's operating netback for the three months ended September 30, 2013 is as follows:

Operating netback (\$/Boe)	Steen River	Bistcho/ Cameron Hills		Other	Corporate	Total
Revenue, before risk management losses	84.78	37.58		48.53	-	70.07
Risk management loss	-	-		-	(7.95)	(7.95)
Royalties	(23.24)	(0.30)		(6.25)	-	(16.15)
Operating costs	(19.02)	(19.04)		(28.30)	-	(20.00)
Transportation costs	(4.54)	(2.89)		(2.01)	-	(3.89)
Operating netback	37.98	15.35		11.97	(7.95)	22.08

General and administrative expense

(\$thousands, except per Boe amounts)	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
General and administrative expense	1,248	2,251	4,651	4,992
Per Boe	3.86	12.68	4.99	8.90

General and administrative (“G&A”) expense decreased to \$3.86/Boe for the third quarter of 2013 from \$12.68/Boe in 2012, as a result of an increase corporate production volumes and increased overhead recoveries due to higher capital spending and a larger operated property base. G&A expense in the third quarter of 2012 was affected by a one-time charge for the settlement of an executive management contract.

G&A expenses decreased \$0.3 million to \$4.7 million for the nine months ended September 30, 2013 from \$5.0 million for the first nine months of 2012, as higher salaries and office rent related to staff additions during the year were more than offset by the charge for the settlement of an executive contract incurred in 2012.

Finance expense

(\$thousands, except per Boe amounts)	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Interest expense	1,021	5	1,966	17
Accretion expense	222	85	619	237
Total	1,243	90	2,585	254
Per Boe	3.85	0.51	2.77	0.45

Interest expense increased to \$1.0 million and \$2.0 million for the three and nine months ended September 30, 2013 from \$0.005 million and \$0.017 million, respectively for 2012. Strategic did not have any bank debt outstanding in the 2012 period, and therefore had minimal interest expense. The average interest rate on Strategic’s credit facility for the current quarter was 5.1%.

Accretion expense is a reflection of an increase in the Corporation’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 Corporation 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 third quarter and first nine months of 2013 the Corporation incurred \$0.4 million and \$1.3 million in stock based compensation expense as compared to \$0.02 million and \$1.0 million for the 2012 periods, due to a higher number of stock options outstanding in the current period. 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 September 30		Nine months ended September 30	
	2013	2012	2013	2012
Depreciation, depletion and amortization ("DD&A")	7,631	4,757	21,072	16,108
Per Boe	23.63	26.79	22.62	28.71

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. DD&A expense increased to \$7.6 million and \$21.1 million for the three and nine months ending September 30, 2013 from \$4.8 million and \$16.1 million, respectively for the 2012 periods due to increases in production partially offset by lower DD&A rates. DD&A expense per Boe in 2013 decreased by 12 percent for the current quarter and 21 percent for the nine month period from 2012 as a result of positive reserve additions from capital expenditures and a low acquisition cost per Boe for the Bistcho/Cameron Hills Assets.

Funds from operations and net income (loss)

(\$thousands, except per Boe amounts)	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Funds from operations	4,853	4,349	17,483	16,443
Per share				
Basic	0.02	0.02	0.09	0.09
Diluted	0.02	0.02	0.09	0.09
Net income (loss)	(6,759)	(718)	(12,464)	1,129
Per share				
Basic	(0.03)	(0.00)	(0.06)	0.01
Diluted	(0.03)	(0.00)	(0.06)	0.01

Funds from operations increased from \$4.3 million and \$16.4 million for three and nine months ended September 30, 2012 to \$4.9 million and \$17.5 million, respectively for the current three and nine month periods, as higher revenues due to increased oil and gas production were partially offset by higher royalties, operating costs and interest expense. Lower G&A expenses also contributed to the increase in funds from operations.

Net loss increased to \$6.8 million (\$0.03 per basic and diluted common share) for the three months ended September 30, 2013 from \$0.07 million (\$nil per basic and diluted common share) in the 2012 period, as a result of higher DD&A expense and an unrealized loss on risk management contracts of \$3.3 million. The net loss for the first nine months of 2013 of \$12.5 million is due to unrealized losses on risk management contracts and higher accretion and DD&A expenses, partially offset by an increase in revenues driven by higher production levels. Net income for the first nine months of 2012 of \$1.1 million benefited from a deferred tax recovery of \$2.3 million.

Capital expenditures

(\$thousands)	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Drilling and completions	10,893	10,995	46,035	33,479
Equipping and facilities	13,354	1,642	36,504	11,053
Other	2	174	248	216
	24,249	12,811	82,787	44,748
Acquisitions	-	-	10,098	-
Total property, plant and equipment	24,249	12,811	92,885	44,748
Land and seismic	368	1,271	6,879	2,396
Total exploration and evaluations	368	1,271	6,879	2,396
Total capital expenditures	24,617	14,082	99,764	47,144

Capital expenditures for the third quarter of 2013 totaled \$24.6 million, as compared to \$14.1 million for the three months ended September 30, 2012. Drilling and completions costs are related to the drilling of two Muskeg Stack horizontal wells and one Keg River directional well during the quarter. Equipping and facilities expenditures were concentrated on the 9-17 battery reconfiguration and expansion project and equipping costs for wells drilled during the year.

Acquisitions

Acquisitions capital spending of \$10.1 million in the current year relates to the acquisition of the Bistcho/Cameron Hills Assets in February 2013 for \$9.7 million including \$0.5 million in oil inventory and the acquisition of a royalty interest in the Steen River area for \$0.4 million.

SUMMARY OF QUARTERLY FINANCIAL DATA

The following table summarizes quarterly financial results:

Quarter ended (\$thousands, except where noted)	Sept 30, 2013	Jun 30, 2013	Mar 31, 2013	Dec 31, 2012
Oil and natural gas sales	22,628	23,770	17,887	15,863
Net loss	(6,759)	(2,338)	(3,371)	(5,917)
Net loss per share – basic	(0.03)	(0.01)	(0.02)	(0.03)
Net loss per share – diluted	(0.03)	(0.01)	(0.02)	(0.03)
Average daily production (Boed)	3,510	3,924	2,797	2,282
Average realized price (\$/Boe)	62.12	67.53	71.05	75.57

Quarter ended (\$thousands, except where noted)	Sept 30, 2012	Jun 30, 2012	Mar 31, 2012	Dec 31, 2011
Oil and natural gas sales	12,520	16,924	11,204	8,606
Net income (loss)	(718)	1,235	611	(16,194)
Net income (loss) per share – basic	(0.00)	0.01	0.00	(0.11)
Net income (loss) per share – diluted	(0.00)	0.01	0.00	(0.11)
Average daily production (Boed)	1,930	2,583	1,631	1,230
Average realized price (\$/Boe)	70.52	72.00	75.50	76.03

Oil and natural gas sales are a function of production levels and realized prices, and have increased significantly with higher production levels in the second and third quarter of 2013 compared to 2012. 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 third quarter of 2013 due to an unrealized loss on risk management of \$3.3 million, as well as the fourth quarters of 2012 and 2011 due to impairment charges in those periods of \$4.0 million and \$12.3 million, respectively. Maintaining positive net income on a consistent basis will depend on the Corporation's ability to increase production and reduce unit operating costs, transportation costs and DD&A.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation considers its capital structure to include shareholders' equity and working capital, including bank debt. The objectives of the Corporation are to maintain a strong balance sheet affording the Corporation financial flexibility to achieve goals of continued growth and access to capital.

In order to maintain or adjust the capital structure, the Corporation may issue new common shares, issue or repay debt, or adjust exploration and development capital expenditures.

The Corporation 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)	September 30, 2013	December 31, 2012
Current assets	10,245	11,661
Current liabilities, excluding bank indebtedness and risk management contracts	(29,754)	(24,839)
Adjusted working capital deficiency	(19,509)	(13,178)
Total line of credit	100,000	48,500
Amount drawn	(62,057)	(34,125)
Authorized letters of credit	(5,142)	(20)
Unutilized line of credit	32,801	14,355
Net available funds	13,292	1,177

The Corporation 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. Drawdowns on the acquisition/development loan may be made with the approval of the lender for property acquisitions or drilling projects. As of September 30, 2013, Strategic had \$52.1 million outstanding under the revolving operating loan and \$7.0 million drawn on the acquisition/development demand loan. Amounts outstanding under the Facility are repayable on demand, and bear interest at a rate of 0.5 percent to 2.5 percent over the bank's prime lending rate for prime loans, or at bankers' acceptance rates plus a stamping fee ranging from 1.75 percent to 3.75 percent, 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. Subsequent to the reporting date the Facility was renewed, with the next review date scheduled for January 1, 2014. As at September 30, 2013, the Corporation was in compliance with all covenants.

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

SHARE CAPITAL

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Weighted average common shares outstanding (thousands)				
Basic	211,282	186,884	203,882	186,996
Diluted	211,282	186,884	203,882	187,761

	September 30, 2013	December 31, 2012
Outstanding securities (thousands)		
Common shares	230,599	186,415
Stock options	12,990	12,483

On March 20, 2013, Strategic issued 23.2 million common shares via a private placement at a price of \$1.25 per common share, for gross proceeds of \$29.0 million (\$28.2 million after transaction costs), of which 15.2 million common shares were acquired by entities that share a common director with the Corporation. Proceeds from the offering were used to fund the acquisition of the Bistcho/Cameron Hills Assets and a portion of first quarter capital expenditures.

On September 26, 2013, Strategic issued 20.2 million common shares via a private placement to an entity controlled by a director of the Corporation at a price of \$0.95 per common share, for net proceeds of \$19.1 million after transaction costs.

Subsequent to quarter-end, Strategic completed its bought deal equity financing. The Corporation issued 12.7 million common shares at a price of \$0.95 per common shares and 15.5 million common shares issued on a “flow-through” basis pursuant to the Income Tax Act (Canada) (the “Flow-Through Shares”) at a price of \$1.10 per Flow-Through Share, for net proceeds of \$29.3 million after deducting related costs. In addition, the underwriters exercised the over-allotment option in full purchasing an additional 1.9 million common shares at a price of \$0.95 per common share for additional gross proceeds of \$1.8 million.

Proceeds from the offerings were used initially to repay bank debt, and subsequently to fund an increase in the 2013 capital budget to \$105 million, including the drilling of up to 4 wells in the fourth quarter. A portion of the offerings will also be used to fund the 2014 capital expenditure program.

In the first nine months of 2013, 1,480,000 stock options were granted at an average price of \$1.19 per common share, and 788,333 stock options were exercised for common shares of the Corporation, for total proceeds of \$0.7 million.

As of November 1, 2013 there were 260,600,647 common shares outstanding.

TRANSACTIONS WITH RELATED PARTIES

For the nine months ended September 30, 2013, legal fees in the amount of \$0.3 million (September 30, 2012 - \$0.2 million) were incurred to a legal firm of which a director is a partner, and included as general and administrative expenses or share issue costs. Software charges of \$0.2 million (September 30, 2012 - \$0.1 million) were incurred to a company controlled by an officer. Accounts payable and accrued liabilities at September 30, 2013 include \$0.2 million (December 31, 2012 - \$nil) 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 Corporation and the related parties.

COMMITMENTS

The Corporation has lease agreements for office space resulting in the following commitments at September 30, 2013:

Year ended December 31	(\$thousands)
2013	128
2014	338
2015	311
2016	10
Total	787

FUTURE ACCOUNTING PRONOUNCEMENTS

The IASB issued amendments to IAS 36, “Impairment of Assets” that require retrospective application and will be adopted by the Corporation on January 2014. The adoption of this amended standard is not expected to have a material impact on the Corporation’s consolidated financial statements.

These unaudited condensed interim financial statements have been prepared by management following the same accounting policies as disclosed in the notes of financial statements as at and for the year ended December 31, 2012. The Corporation adopted IFRS 11, 12 and 13 including the amendments to IAS 27, IAS 28, and IAS 32 on January 1, 2013; there was no material impact to the Corporation’s financial statements as a result of the adoption of these standards.

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 Corporation's significant accounting policies is contained in *Note 3* to the Corporation's consolidated financial statements for the year ended December 31, 2012. These accounting policies are subject to estimates and key judgments about future events, many of which are beyond the Corporation'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 Corporation's consolidated financial statements is included in Strategic's MD&A for the year ended December 31, 2012.

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 Corporation 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 Corporation's future revenues or reserves decline, the Corporation'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 Corporation. Moreover, future activities may require Strategic to alter its capitalization significantly, and potentially increase the Corporation's debt levels above industry standards. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's financial condition, results of operations or prospects.

Oil and natural gas prices and marketing

The Corporation'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 Corporation. Any decline in oil or natural gas prices could have a material adverse effect on the Corporation's operations, financial condition, proved reserves and the level of expenditures for the development of its oil and natural gas reserves.

The Corporation 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 Corporation 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 Corporation 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 Corporation 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 Corporation's MD&A for the year ended December 31, 2012.

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 Corporation'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 Corporation's Annual Information Form for the year ended December 31, 2012 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 Corporation 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 Corporation can be found on its website at www.sogoil.com and on the SEDAR website: www.sedar.com.



Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2013 and 2012

Strategic Oil & Gas Ltd.

Interim condensed consolidated balance sheets (unaudited)

(\$000)	Note	September 30, 2013	December 31, 2012
Assets			
Current assets			
Cash and cash equivalents		\$ 207	\$ 2,510
Inventory		388	179
Trade and other receivables		9,650	8,972
		10,245	11,661
Property, plant, and equipment, net	6	220,428	136,928
Exploration and evaluation assets	5	15,346	11,129
Total Assets		\$ 246,019	\$ 159,718
Liabilities			
Current Liabilities:			
Accounts payable and accrued liabilities		\$ 29,754	\$ 24,576
Bank indebtedness	7	62,057	34,125
Decommissioning liabilities	8	-	263
Risk management contracts	14	5,097	224
		\$ 96,908	\$ 59,188
Long term Liabilities:			
Risk management contracts	14	\$ 2,159	-
Decommissioning liabilities	8	28,450	18,773
Total Liabilities		\$ 127,517	\$ 77,961
Shareholders' Equity			
Share capital	9	171,362	122,999
Contributed surplus		8,804	7,958
Deficit		(61,664)	(49,200)
		\$ 118,502	\$ 81,757
Total Liabilities and Shareholders' Equity		\$ 246,019	\$ 159,718

See accompanying notes to the Interim Condensed Consolidated Financial Statements

Commitments (Note 16)

Subsequent event (Note 17)

Strategic Oil & Gas Ltd.

Interim condensed consolidated statements of income (loss) and comprehensive income (loss) (unaudited)

(\$000, except per share amounts)	Note	Three months ended September 30,		Nine months ended September 30,	
		2013	2012	2013	2012
Revenue					
Petroleum and natural gas sales		\$ 22,628	\$ 12,520	\$ 64,285	\$ 40,649
Royalties		(5,218)	(1,898)	(14,191)	(6,147)
		17,410	10,622	50,094	34,502
Unrealized loss on risk management contracts	14	(3,330)	(215)	(7,032)	(215)
Net realized loss on risk management contracts	14	(2,567)	-	(2,174)	-
Other income		2	19	94	91
Revenues		\$ 11,515	\$ 10,426	\$ 40,982	\$ 34,378
Expenses					
Operating costs		\$ 6,458	\$ 2,555	\$ 19,624	\$ 8,664
Transportation		1,256	1,476	4,212	4,462
Exploration expenses	5	-	-	-	30
General and administrative		1,248	2,251	4,651	4,992
Finance costs	11	1,243	90	2,585	254
Stock-based compensation	10	438	15	1,302	1,014
Depletion, depreciation and amortization		7,631	4,757	21,072	16,108
		\$ 18,274	\$ 11,144	\$ 53,446	\$ 35,524
Operating income (loss) before taxes		\$ (6,759)	\$ (718)	\$ (12,464)	\$ (1,146)
Deferred tax recovery		-	-	-	2,275
Net income (loss) and comprehensive income (loss) for the period		\$ (6,759)	\$ (718)	\$ (12,464)	\$ 1,129
Net income (loss) per weighted average share					
Basic		\$ (0.03)	\$ -	\$ (0.06)	\$ 0.01
Diluted		\$ (0.03)	\$ -	\$ (0.06)	\$ 0.01
Weighted average shares outstanding - Basic	9(c)	211,282	186,884	203,882	186,996
Weighted average shares outstanding - Diluted	9(c)	211,282	186,884	203,882	187,761

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

Certain comparative figures have been reclassified to conform to the current year's presentation.

Strategic Oil & Gas Ltd.

Interim condensed consolidated statements of changes in shareholders' equity (unaudited)

(\$000)	Note	Share Capital	Contributed Surplus	Deficit	Total equity
Balance January 1, 2013		\$ 122,999	\$ 7,958	\$ (49,200)	\$ 81,757
Issue of shares		48,185	-	-	48,185
Share issue costs	9(b)	(954)	-	-	(954)
Stock options exercised	9(b)	1,132	(455)	-	677
Stock based compensation	9(b)	-	1,301	-	1,301
Net loss		-	-	(12,464)	(12,464)
Balance September 30, 2013		\$ 171,362	\$ 8,804	\$ (61,664)	\$ 118,502

(\$000)	Note	Share Capital	Contributed Surplus	Deficit	Total equity
Balance January 1, 2012		\$ 122,973	\$ 6,310	\$ (44,294)	\$ 84,989
Share issue costs	9	(14)	-	-	(14)
Share repurchases	9(b)	(632)	-	(118)	(750)
Stock options exercised	9(b)	370	(156)	-	214
Stock based compensation	9(b)	-	1,014	-	1,014
Net income		-	-	1,129	1,129
Balance September 30, 2012		\$ 122,697	\$ 7,168	\$ (43,238)	\$ 86,582

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

Strategic Oil & Gas Ltd.

Interim condensed consolidated statements of cash flows (unaudited)

(\$000)	Note	Three months ended September 30		Nine months ended September 30	
		2013	2012	2013	2012
Operating activities:					
Net income (loss) for the period		\$ (6,759)	\$ (718)	\$ (12,464)	\$ 1,129
Non-cash items:					
Depletion, depreciation, and amortization		7,631	4,757	21,072	16,108
Accretion of decommissioning liabilities		222	85	619	237
Stock-based compensation		438	15	1,301	1,014
Unrealized loss on risk management contracts	14	3,330	215	7,032	215
Exploration expense		-	-	-	30
Deferred tax recovery		-	-	-	(2,275)
Gain on acquisition		-	-	(61)	-
Other non-cash items		(9)	(5)	(16)	(15)
Funds from operations		\$ 4,853	\$ 4,349	\$ 17,483	\$ 16,443
Expenditures on decommissioning liabilities		(14)	(130)	(659)	(130)
Change in non-cash working capital	12	1,570	4,125	(452)	748
Cash provided by operating activities		\$ 6,409	\$ 8,344	\$ 16,372	\$ 17,061
Financing activities:					
Issue of common shares		\$ 19,185	\$ -	\$ 48,185	\$ -
Increase (decrease) in bank loan		(8,743)	-	27,932	-
Exercise of options		-	-	677	214
Repurchase of own shares		-	(750)	-	(750)
Share issuance costs	9	(103)	-	(954)	(14)
Cash provided by (used in) financing activities		\$ 10,339	\$ (750)	\$ 75,840	\$ (550)
Investing activities:					
Expenditures – property, plant and equipment		\$ (24,249)	\$ (12,811)	\$ (82,789)	\$ (44,748)
Expenditures – exploration and evaluation assets		(368)	(1,271)	(6,878)	(2,396)
Acquisitions		-	-	(10,098)	-
Changes in non-cash working capital	12	6,689	7,469	5,250	1,167
Cash used in investing activities		\$ (17,928)	\$ (6,613)	\$ (94,515)	\$ (45,977)
(Decrease) increase in cash and cash equivalents during the period		\$ (1,180)	\$ 981	\$ (2,303)	\$ (29,466)
Cash and cash equivalents, beginning of the period		1,387	1,361	2,510	31,808
Cash and cash equivalents, end of the period		\$ 207	\$ 2,342	\$ 207	\$ 2,342

1. Corporate information

Strategic Oil & Gas Ltd. (“Strategic”) was incorporated under the laws of the Province of British Columbia on December 30, 1987 and continued as an Alberta corporation on September 9, 2010. On March 29, 2006, Strategic incorporated a United States of America (USA) subsidiary, Strategic Oil & Gas, Inc. (“US Subsidiary”) through which all oil and gas activities in the USA are conducted. ZinMac Inc. (“ZinMac”), a private oil and gas consulting corporation, was acquired on March 10, 2009, and Steen River Oil & Gas Ltd. (“Steen River”), a private oil and gas exploration and production corporation, was acquired on December 22, 2010 by Strategic. ZinMac and Steen River were amalgamated with Strategic on April 1, 2012. On February 28, 2013, Strategic acquired all the outstanding common shares of Strategic Transmission Ltd. in conjunction with the acquisition of oil and gas assets in northwest Alberta and the Northwest Territories (see note 4). Strategic Transmission Ltd. has nominal assets and no liabilities.

Strategic is a publicly traded corporation whose shares are listed on the TSX Venture Exchange. Strategic, together with its subsidiaries, (collectively referred to as the “Corporation”) is engaged in the exploration for and development of petroleum and natural gas reserves in Western Canada with minor operations in the Western United States. The Corporation is headquartered in Canada at Suite 1100, 645 – 7th Avenue SW, Calgary, Alberta.

2. Basis of presentation

a) Statement of compliance:

These interim condensed consolidated financial statements (the “financial statements”) have been prepared in accordance with International Accounting Standard (“IAS” 34 “Interim Financial Reporting” using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Boards (“IASB”). These financial statements are condensed as they do not include all of the information required IFRS for annual financial statements and therefore should be read in conjunction with the Corporation’s audited consolidated financial statements for the year ended December 31, 2012.

All accounting policies and methods of computation followed in the preparation of these financial statements are consistent with those of the audited consolidated financial statements for the year ended December 31, 2012, except as noted in the Note 3 “New accounting policies” in these financial statements.

These financial statements were authorized for issue by the Board of Directors on November 13, 2013.

b) Basis of measurement:

These financial statements have been prepared on the historical cost basis except for cash and cash equivalents, certain stock based compensation transactions and risk management contracts, which are measured at fair value.

c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, the Corporation’s functional currency.

3. New accounting policies

Future accounting policy changes

The IASB issued amendments to IAS 36, “Impairment of Assets” that require retrospective application and will be adopted by the Corporation on January 1, 2014. The adoption of these amended standards is not expected to have a material impact on the Corporation’s consolidated financial statements.

These unaudited condensed interim financial statements have been prepared by management following the same accounting policies as disclosed in the notes of financial statements as at and for the year ended December 31, 2012. The Corporation adopted IFRS 11, 12 and 13 including the amendments to IAS 27, IAS 28, and IAS 32 on January 1, 2013; there was no material impact to the Corporation's financial statements as a result of the adoption of these standards.

4. Acquisition

- a) On February 28, 2013, the Corporation acquired oil and gas assets in northwest Alberta and the Northwest Territories ("Cameron Hills and Bistcho Assets") for a total cash consideration of \$9.7 million.

<u>(\$000)</u>	<u>September 30, 2013</u>
Property, plant and equipment	\$ 23,874
Inventory	490
Decommissioning obligations assumed	(14,580)
Gain on acquisition of assets	(61)
Purchase Price paid in cash	\$ 9,723

- b) On January 28, 2013, the Corporation acquired a royalty interest at Steen River for cash consideration of \$0.4 million.

The purpose of the acquisition was to complement the Corporation's asset portfolio in Northern Alberta and the Northwest Territories, provide additional opportunities for improved operational efficiencies as well as increase drilling flexibility.

The Corporation has allocated the purchase price paid based on management's best estimates of fair values to the various assets acquired. The purchase price allocation to the fair values of the various assets acquired remains subject to final adjustments.

For the nine months ended September 30, 2013, the Corporation recorded total revenues of \$8.1 million and the net income of \$1.3 million in respect of the acquired assets, from the date of acquisition.

The amount of revenue and net income (loss) of the Corporation inclusive of the acquisitions from January 1, 2013 to September 30, 2013, has not been disclosed as the production, revenue and expense information prior to the date of acquisition is not available and cannot be reliably estimated.

5. Exploration and evaluation assets

<u>(\$000)</u>	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Opening balance	\$ 11,129	\$ 9,328
E&E expenditures	6,879	4,430
E&E transfer to D&P	(683)	-
E&E expensed during the period	-	(30)
Amortization	(1,979)	(2,599)
Closing balance	\$ 15,346	\$ 11,129

During the nine months ended September 30, 2013, the Corporation expensed \$nil (2012 - \$0.03 million) related to seismic expenditures on land which is not intended to be developed in the future.

6. Property, plant, and equipment

(\$000)

Carrying value before accumulated depletion and depreciation	D&P assets	Office	Total
As at December 31, 2012	\$ 193,163	\$ 858	\$ 194,021
Additions	82,539	248	82,787
E&E transfer	683	-	683
Acquisitions	24,249	-	24,249
Change in decommissioning costs	(5,125)	-	(5,125)
As at September 30, 2013	\$ 295,509	\$ 1,106	\$ 296,615

(\$000)

Accumulated depletion and depreciation	D&P assets	Office	Total
As at December 31, 2012	\$ 56,582	\$ 511	\$ 57,093
Depreciation and depletion	18,907	187	19,094
As at September 30, 2013	\$ 75,489	\$ 698	\$ 76,187

(\$000)

Net carrying value	D&P assets	Office	Total
As at December 31, 2012	\$ 136,581	\$ 347	\$ 136,928
As at September 30, 2013	\$ 220,020	\$ 408	\$ 220,428

Substantially all of the Corporation's development and production ("D&P") assets are located within Canada. The cost of property, plant and equipment includes amounts in respect of the provision for decommissioning obligations.

Future capital costs of \$62.2 million (September 30, 2012 - \$12.19 million) have been included in the depletable balance as at September 30, 2013. Depletion has been calculated using proved plus probable reserves. Major components account for \$33.1 million (September 30, 2012 - \$8.5 million) and are depreciated and tested for impairment separately.

7. Bank indebtedness

The Corporation 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. As of September 30, 2013 the Corporation had drawn \$7 million of the 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 Corporation 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. Subsequent to the reporting date the Facility was renewed, with the next review date scheduled for January 1, 2014. As at September 30, 2013, the Corporation was in compliance with all covenants.

8. Decommissioning liabilities

Total future decommissioning liabilities are estimated based on the Corporation's net working interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. These costs are expected to be incurred over a range from 2 to 42 years, depending on the estimated reserve life. The undiscounted amount of the estimated costs at September 30, 2013 were \$50.8 million (December 31, 2012 - \$25.1 million). The estimated costs have been discounted at a risk free

rate from 1.21% to 3.09% (December 31, 2012 – 1.12% to 2.37%) and an inflation rate of 2% (December 31, 2012 – 2%) was applied.

The following table reconciles the changes to the Corporation's decommissioning liabilities:

(\$000)	Note	September 30, 2013	December 31, 2012
Balance beginning of the period		\$ 19,036	\$ 12,523
Liabilities incurred during the period		414	1,802
Acquisition of liabilities from asset acquisitions	4	14,579	4,356
Expenditures on existing liabilities		(659)	(202)
Change in estimated future cash flows		(2,116)	(113)
Change in discount rate		(3,423)	343
Accretion		619	327
Balance end of the period		\$ 28,450	\$ 19,036
Current		-	263
Long term		\$ 28,450	\$ 18,773

9. Share capital

a) Authorized

The Corporation is authorized to issue an unlimited number of common shares without par value.

b) Issued and outstanding

(\$000, except for share amounts)	Number of shares	Nine months ended September 30, 2013 Amount
Balance beginning of the period	186,415,268	\$ 122,999
Exercise of options	788,333	1,132
Shares issued	43,395,000	48,185
Share issue costs	-	(954)
Balance end of the period	230,598,601	\$ 171,362

On March 20, 2013, the Corporation issued 23.2 million common shares via a private placement at a price of \$1.25 per common share for gross proceeds of \$29.0 million (net proceeds of \$28.2 million after transaction costs). Of the \$29.0 million gross proceeds, \$18.9 million (15.2 million common shares) were acquired by entities that share a common director with the Corporation.

On September 26, 2013, the Corporation issued 20.2 million common shares via a private placement with an entity that shares a common director with the Corporation at a price of \$0.95 per common share for gross proceeds of \$19.2 million.

c) Weighted average shares

(000)	Three months ended September		Nine months ended September 30	
	2013	2012	2013	2012
Weighted average shares (basic)	211,282	186,884	203,882	186,996
Weighted average shares (diluted)	211,282	186,884	203,882	187,761

10. Stock-based compensation

The Corporation has a stock option plan under which officers, directors, consultants and employees are eligible to receive stock options. The Corporation may reserve for issuance under the plan up to 10% of the issued and

outstanding common shares. Options granted under the plan generally have a term of five years and vest at terms to be determined by the directors. Vesting terms have varied from immediate vesting to a five year vesting period.

For the nine months ended September 30, 2013, the Corporation issued 1,480,000 common share options which will vest over three years.

The outstanding number and weighted average exercise price of stock options are as follows:

	Number of options	Weighted average Exercise Price
Balance at December 31, 2012	12,483,333	\$ 0.96
Issued	1,480,000	1.19
Exercised	(788,333)	0.86
Expired	(185,000)	1.29
Balance at September 30, 2013	12,990,000	\$ 0.99

The following table sets out the outstanding and exercisable options as at September 30, 2013:

Outstanding Options					Exercisable Options	
Number of Options	Options price		Weighted Average Exercise Price	Weighted Average Life Years	Number of Options	Weighted Average Exercise Price
	From	To				
1,245,000	\$ 0.25	0.59	\$ 0.44	0.77	1,245,000	\$ 0.44
1,250,000	0.60	0.79	0.68	1.21	1,216,665	0.68
2,670,000	0.80	0.99	0.89	3.54	2,256,666	0.90
3,095,000	1.00	1.18	1.11	2.89	2,425,014	1.10
4,730,000	\$ 1.19	1.30	1.20	4.17	1,576,654	1.20
12,990,000			\$ 0.99	3.12	8,719,999	\$ 0.91

The fair value of options granted was estimated on the date of grant using a Black-Scholes option pricing model with the following weighted average inputs:

	Nine months ended September 30	
	2013	2012
Assumptions		
Risk free interest rate (%)	1.67	2.56
Expected life (years)	3.80	5.00
Expected volatility (%)	81.94	104.23
Forfeiture rate (%)	6.42	8.17
Weighted average fair value of options granted (\$)	1.05	0.89

Forfeiture rate is calculated based on historical forfeiture data of the Corporation. The weighted average share price at the date of exercise for share options exercised during the nine months ended September 30, 2013 was \$1.27 (year ended December 31, 2012 - \$0.93).

11. Finance costs

(\$000)	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Interest expense	\$ 1,021	\$ 5	\$ 2,020	\$ 17
Foreign exchange gain realized	-	-	(54)	-
Accretion of decommissioning liabilities	222	85	619	237
	\$ 1,243	\$ 90	\$ 2,585	\$ 254

12. Supplemental cash flow information

(\$000)	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Interest paid	\$ 1,021	\$ 14	\$ 2,020	\$ 17
Taxes paid	-	-	-	-
Total	\$ 1,021	\$ 14	\$ 2,020	\$ 17
Changes in non-cash working capital				
Trade and other receivables	1,918	1,555	(679)	(542)
Inventory	(135)	-	(208)	-
Inventory acquired	-	-	490	-
Accounts payable and accrued liabilities (1)	6,468	10,039	5,179	2,457
	8,251	11,594	\$ 4,782	\$ 1,915
Operating	1,570	4,125	(452)	748
Investing	6,689	7,469	5,250	1,167
	\$ 8,259	11,594	\$ 4,798	\$ 1,915

(1) : included in the accounts payable and accrued liabilities is \$.0008 (2012-\$nil) and \$.0014 (2012-\$nil) of non-cash lease inducements for the three and nine months ended September 30, 2013

13. Transactions with related parties

Legal fees in the amount of \$0.34 million (September 30, 2012 - \$0.15 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 \$0.15 million (September 30, 2012 - \$0.09 million) were charged to a company controlled by an officer. Accounts payable and accrued liabilities at September 30, 2013 include \$0.22 million (December 31, 2012 - \$0.01 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 Corporation and the related parties.

14. Financial instruments and financial risk management

The Corporation's financial instruments include cash and cash equivalents, trade and other receivables, bank debt, accounts payable and accrued liabilities, and risk management contracts. The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and bank debt approximate their fair values due to their relatively short periods to maturity.

The Corporation is required to classify fair value measurements using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is as follows:

- Level 1 - quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for the asset or liability that are not based on observable market data.

The fair value of cash and cash equivalents bank debt is measured at level 1. The fair value of risk management contracts is measured at level 2.

The Corporation's risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Corporation's activities. The Corporation has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments. The following presents information about the Corporation's exposure to each of the above risks and the Corporation's objectives, policies and processes for measuring and managing commodity risks. Further quantitative disclosures are included throughout these financial statements.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

Typically the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. To achieve this objective, the Corporation prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Corporation utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditure. The Corporation also attempts to match its payment cycle with collection of oil and natural gas revenue on the 25th of each month. In addition, the Corporation maintains the appropriate reserves based credit facility to provide access to capital as needed.

Market risk

Market risk consists of interest rate risk, currency risk and commodity price risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Corporation may use both financial derivatives and physical delivery sales contracts to manage market risks.

Commodity price risk

Commodity price risk is the risk that the fair value of assets or liabilities or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar. The Corporation may, in certain circumstances, enter into forward oil or natural gas sales contracts to mitigate commodity price risk.

At September 30, 2013, the following risk management contracts were outstanding with a mark-to-market liability value of \$7.3 million (September 30, 2012 - \$0.22 million).

Financial WTI crude oil contracts

Term		Contract Type	Volume (bbl/d)	Fixed Price (\$/bbl)	Index
01-Oct-2013	31-Dec-2013	Swap	200	US\$90.00	WTI - NYMEX
01-Oct-2013	31-Dec-2013	Swap	500	US\$99.00	WTI - NYMEX
01-Oct-2013	31-Dec-2013	Swap	1,850	CAD\$100.12	WTI - NYMEX
01-Jan-2014	31-Dec-2014	Swap	1,500	CAD\$92.00	WTI - NYMEX
01-Jan-2014	31-Dec-2014	Option ⁽¹⁾	500	US\$99.00	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⁾ The counterparty may elect to convert this option to a swap contract with the Corporation at the fixed price indicated.

The Corporation does not apply hedge accounting to these risk management contracts and they are recorded as fair value with changes in fair value included in the condensed consolidated statement of income (loss). For the

three and nine months ended September 30, 2013, Strategic recorded unrealized losses on risk management contracts of \$3.33 million (September 30 2012 - \$nil) and \$7.03 million (September 30, 2012 - \$nil).

The following table summarizes the fair value as at September 30, 2013 and the change in fair value for the nine months ended September 30, 2013:

(\$000)	September 30, 2013	December 31, 2012
Net derivative liabilities, beginning of period	\$ (224)	\$ -
Unrealized change in fair value	(7,032)	(224)
Net derivative liabilities, end of period	(7,256)	(224)
Derivative assets, end of period	-	380
Gross derivative liabilities, end of period	\$ (7,256)	\$ (604)

Net realized losses on risk management contracts for the three and nine months ended September 30, 2013 were \$2.57 million (September 30, 2012 - \$nil) and \$2.17 million (September 30, 2012 - \$nil) respectively.

Offsetting financial assets and liabilities

The Corporation's risk management contracts are subject to master agreements that create a legally enforceable right to offset by counterparty the related financial assets and financial liabilities simultaneously. The following table summarizes the gross asset and liability positions of the Corporation's risk management contracts that are offset on the balance sheet as at September 30, 2013 and December 31, 2012.

(\$000)	September 30, 2013				
	Gross Amount	Amount Offset	Net Amount Prior to Credit Risk Adjustment	Credit Risk Adjustment	Net Amount
Current asset	\$ -	\$ -	\$ -	\$ -	\$ -
Long term asset	-	-	-	-	-
Current liability	(5,097)	-	(5,097)	-	(5,097)
Long term liability	(2,159)	-	(2,159)	-	(2,159)
Net position	\$(7,256)	\$ -	\$ (7,256)	\$ -	\$ (7,256)

(\$000)	December 31, 2012				
	Gross Amount	Amount Offset	Net Amount Prior to Credit Risk Adjustment	Credit Risk Adjustment	Net Amount
Current asset	\$ 380	\$ (380)	\$ -	\$ -	\$ -
Long term asset	-	-	-	-	-
Current liability	(604)	380	(224)	-	(224)
Long term liability	-	-	-	-	-
Net position	\$ (224)	\$ -	\$ (224)	\$ -	\$ (224)

15. Capital management

Strategic considers its capital structure to include shareholders' equity and working capital including bank debt. The objectives of the Corporation are to maintain a strong balance sheet affording the Corporation financial flexibility to achieve goals of continued growth and access to capital. In order to maintain or adjust the capital structure, the Corporation may issue new common shares, issue new debt, or adjust exploration and development capital expenditures.

The Corporation monitors its capital program based on available funds, which is the combination of working capital (excluding risk management contracts) and remaining unused line of credit, as calculated below:

(\$000)	September 30, 2013	December 31, 2012
Current assets	10,245	11,661
Accounts payable and accrued liabilities	(29,754)	(25,063)
Net working capital deficit	(19,509)	(13,402)
Total line of credit	100,000	48,500
Amount drawn	(62,057)	(34,125)
Authorized Letters of Guarantee	(5,142)	(20)
Unutilized line of credit	32,801	14,355
Net available funds	13,292	953

The Corporation's exploration and development activities are conducted primarily during colder weather, as ground conditions provide improved access to lease and more efficient execution of its capital expenditure activities. Significant expenditures are made during these periods and the related benefit is realized in future periods.

16. Commitments

The Corporation has lease agreements for office space and office equipment resulting in the following commitments:

Year ended	(\$000)	
2013	\$	128
2014	\$	338
2015	\$	311
2016	\$	10
	\$	787

17. Subsequent events

On October 7, 2013, the Corporation completed a bought deal equity financing. The Corporation issued 12.7 million common shares at a price of \$0.95 per common shares and 15.5 million common shares issued on a "flow-through" basis pursuant to the Income Tax Act (Canada) (the "Flow-Through Shares") at a price of \$1.10 per Flow-Through Share, for net proceeds of \$29.3 million after deducting related costs. In addition, the underwriters exercised the over-allotment option in full purchasing an additional 1.9 million common shares at a price of \$0.95 per common share for additional gross proceeds of \$1.8 million.