



Consolidated Financial Statements

For the first quarter ended

March 31, 2010 and 2009

The accompanying unaudited interim consolidated financial statements for the three months ended March 31, 2010 have been prepared by management and approved by the Board of Directors of the Corporation. These financial statements have not been reviewed by the Corporation's auditors.

Strategic Oil & Gas Ltd.

Consolidated balance sheets

	March 31, 2010 (unaudited)	December 31, 2009
Assets		
Current assets:		
Cash	\$ 1,341,350	\$ 3,043,351
Short term investments	4,004,340	4,001,380
Accounts receivable	857,193	608,672
Prepaid expenses and deposits	233,221	192,922
	6,436,104	7,846,325
Oil and gas properties and equipment (note 3)	19,412,614	17,913,620
Goodwill	643,357	643,357
	\$ 26,492,075	\$ 26,403,302
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 2,417,861	\$ 1,713,510
Bank loan (note 4)	1,550,000	1,500,000
Deferred lease inducement (note 5)	19,383	19,383
	3,987,244	3,232,893
Deferred lease inducement (note 5)	51,688	56,534
Asset retirement obligations (note 6)	2,217,390	2,188,449
	6,256,322	5,477,876
Shareholders' Equity		
Share capital (note 7)	23,630,615	24,385,762
Contributed surplus (note 8)	10,868,813	10,141,849
Deficit	(14,263,675)	(13,602,185)
	20,235,753	20,925,426
	\$ 26,492,075	\$ 26,403,302

Commitments (note 13)

Approved by the Board of Directors

Signed: "Arn Schoch"

Signed: "Rick Skeith"

Strategic Oil & Gas Ltd.

Consolidated statements of loss, comprehensive loss, and deficit
For the three months ended March 31, 2010 and 2009

	Three months ended March 31, 2010 <i>(unaudited)</i>	Three months ended March 31, 2009 <i>(unaudited)</i>
Revenues		
Petroleum and natural gas sales	\$ 1,689,641	\$ 633,129
Royalties	(212,071)	(147,855)
	1,477,570	485,274
Expenses		
Operating costs	614,574	227,474
Transportation	59,763	24,612
General and administrative	690,606	406,745
Stock-based compensation (note 7bi)	726,964	123,070
Interest expense	39,468	19,340
Foreign exchange gain	(411)	(997)
Depletion, depreciation, and accretion	755,009	498,712
	2,885,973	1,298,956
Loss and comprehensive loss before income taxes	(1,408,403)	(813,682)
Future income tax recovery	746,913	31,270
Net loss and comprehensive loss for the period	(661,490)	(782,412)
Deficit - beginning of the period	(13,602,185)	(9,712,867)
Deficit - end of the period	\$ (14,263,675)	\$ (10,495,279)
Loss per weighted average share		
Basic and diluted	\$ (0.01)	\$ (0.03)
Weighted average shares outstanding	68,693,099	31,249,032

Strategic Oil & Gas Ltd.

Consolidated statements of cash flows

For the three months ended March 31, 2010 and 2009

	Three months ended March 31, 2010 (<i>unaudited</i>)	Three months ended March 31, 2009 (<i>unaudited</i>)
Operating activities:		
Net loss for the period	\$ (661,490)	\$ (782,412)
Items not affecting cash		
Depletion, depreciation, and accretion	755,009	498,712
Non-cash lease inducement recovery	(4,846)	(4,846)
Stock-based compensation	726,964	123,070
Future income taxes recovery	(746,913)	(31,270)
Abandonment expenditures	(1,931)	(10,124)
	<u>66,793</u>	<u>(206,870)</u>
Changes in non-cash working capital items	(471,717)	(420,737)
	<u>(404,924)</u>	<u>(627,607)</u>
Financing activities:		
Issue of common shares for cash, net of share issuance costs	(8,234)	(4,833)
Proceeds of bank loan	50,000	950,000
	<u>41,766</u>	<u>945,167</u>
Investing activities:		
Expenditures on oil and gas properties and equipment	(2,223,131)	(1,616,593)
Cash acquired with ZinMac acquisition	-	191,229
Changes in non-cash working capital items	884,288	398,483
	<u>(1,338,843)</u>	<u>(1,026,881)</u>
Increase (decrease) in cash during the period	(1,702,001)	(709,321)
Cash and cash equivalents, beginning of the period	3,043,351	941,189
Cash and cash equivalents, end of the period	\$ 1,341,350	\$ 231,868

Supplemental cash flow information (note 9)

Strategic Oil & Gas Ltd.

Notes to consolidated financial statements at March 31, 2010 and 2009 - unaudited

1. Nature of business

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. Strategic Oil & Gas Ltd. ("Strategic" or "the Corporation") was incorporated under the laws of the Province of British Columbia on December 30, 1987. All oil and gas activities in Canada are conducted through this company. 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., a private oil and gas consulting company was acquired by Strategic on March 10, 2009 and is included in these consolidated financial statements.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies as those set out in Note 2 to the consolidated financial statements for the year ended December 31, 2009. The disclosures, which are normally required to be included in the notes to the annual consolidated financial statements, have been condensed or have been omitted. These consolidated financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto for the year ended December 31, 2009. All dollar amounts are stated in Canadian funds unless otherwise noted.

2. Changes in accounting policies

The Canadian Accounting Standards Board (AcSB) has confirmed that the use of the International Financial Reporting Standards ("IFRS") will be required in 2011 for publicly accountable profit-oriented enterprises including corresponding comparative information for 2010. The Corporation has developed a plan to be compliant with this changeover by January 1, 2011. The changeover plan includes an analysis of the differences between IFRS and Canadian GAAP and recognition of the policy choices available. It also includes subsequent discussion of the business process and information system changes necessary, as well as the financial impact of each. There is substantial disclosure required of the accounting policies adopted by the Corporation, including elective exemptions chosen upon conversion. The changeover to IFRS may materially affect the Corporation's reported financial position and reported results of operations.

The changeover to IFRS represents a significant change in accounting standards and the transition from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect the Corporation's reported financial position and reported results of operations. During 2010, the Corporation will complete the implementation of its changeover plan. The Corporation will also monitor standards development as issued by the IASB and the AcSB as well as regulatory developments by the Canadian Securities Administrators (CSA), which may affect the timing, nature, or disclosure of the adoption of IFRS.

3. Oil and gas properties and equipment

March 31, 2010	Cost	Accumulated depletion and depreciation	Net book value
Oil and gas properties - Canada	\$24,089,069	\$5,076,424	\$ 19,012,645
Oil and gas properties - USA	5,700,666	5,545,791	154,875
Leasehold improvements and other office assets	406,346	161,252	245,094
	\$30,196,081	\$10,783,467	\$ 19,412,614

Strategic Oil & Gas Ltd.

Notes to consolidated financial statements at March 31, 2010 and 2009 - unaudited

3. Oil and gas properties and equipment - continued

During the three months ended March 31, 2010, the Corporation did not capitalize any general and administrative expenses. As at March 31, 2010, the depletion calculation excluded \$1,644,447 (March 31, 2009 – \$nil) relating to undeveloped properties, and included \$803,000 (March 31, 2009 - \$200,509) of future development costs on Canadian properties.

The Corporation has incurred \$1,694,220 of the qualifying expenditures to the end of March, 2010 obligating from the November/December 2009 flow-through issue of \$2,987,651. The remaining expenditures are required to be incurred by December 31, 2010.

4. Bank loan

At March 31, 2010, the Corporation had drawn down an amount of \$1,550,000 against a \$5,000,000 revolving operating line of credit. The revolving facility is repayable on demand with monthly interest-only payments, is renewable annually, and bears interest at the rate of 1.75% over the prime lending rate. As at March 31, 2010, the lending rate was 4.00% (3.25% at March 31, 2009). The facility is secured by a general security agreement providing security to the bank over all present and after acquired personal property and a floating charge on all lands. The security agreement is registered in the provinces of Alberta and British Columbia. The Corporation is required to comply with a working capital financial covenant. Currently, the Corporation is in compliance with all covenants. Subsequent to the quarter end, the Corporation has been advised by its financial institution that the loan will be renewed for an additional year under the same terms and conditions as above.

5. Lease inducement liability

The Corporation had entered into an office lease in 2008 that included a lease inducement consisting of \$96,915 of leasehold improvements to be amortized over the five year life of the lease. The amortized value of \$4,846 was applied to general and administrative expenses as a reduction of rent during the three months ended March 31, 2010 (March 31, 2009 – \$4,846). The following schedule summarizes the lease inducement liability to March 31, 2010:

	March 31, 2010
Lease inducement - beginning of period	\$ 75,917
Amortized to general and administrative expense	(4,846)
Balance remaining – end of period	\$ 71,071
Less: Current lease inducement	(19,383)
Long-term lease inducement – end of period	\$ 51,688

6. Asset retirement obligations

Total future asset retirement obligations 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 the future periods. The undiscounted amount of the estimated costs at March 31, 2010 were \$5,887,334 (March 31, 2009 - \$665,298). The estimated costs have been discounted at a credit adjusted risk free rate of 7% (March 31, 2009 – 7%) and an inflation rate of 2.0% (March 31, 2009 – 2%).

Strategic Oil & Gas Ltd.

Notes to consolidated financial statements at March 31, 2010 and 2009 - unaudited

6. Asset retirement obligations - continued

The following table reconciles the changes to the Corporation's asset retirement obligations:

	March 31, 2010
Balance - beginning of period	\$ 2,188,449
Adjustments	(6,504)
Obligations satisfied	(1,931)
Accretion	37,376
Balance - end of the period	\$ 2,217,390

7. Share capital

a) Common Shares

Authorized:

Unlimited number of common shares without par value

Issued:	Number of shares	\$
Balance, December 31, 2009	68,693,099	\$24,385,762
Tax effect of renunciation on flow-through shares (Note 7(a)(i))		(746,913)
Share issue costs		(8,234)
Balance, March 31, 2010	68,693,099	\$23,630,615

- (i) In December, 2009, 5,432,092 flow-through shares were issued for \$0.55 per share for total proceeds of \$2,987,651. The tax effect of the renunciation of expenditures of \$746,913 was recognized in February, 2010.
- (ii) Subsequent to the quarter end, approximately 1,103,000 shares were issued upon the exercise of warrants for proceeds of \$624,000.

b) Stock options

The following table reconciles the changes to the Corporation's stock options for the three months ended March 31, 2010:

	Number of options	Exercise price
Balance - December 31, 2009	3,355,000	\$0.53
Issued (Note 7(b)(i))	1,275,000	\$0.65
Balance - March 31, 2010	4,630,000	\$0.56

- (i) In January, 2010, 1,275,000 common share options were issued with an exercise price of \$0.65 per share expiring in five years from date of issue, and vest immediately. The fair value of the options were calculated using the Black-Scholes model using an expected volatility of 114.3%, interest rate of 2.7%, expected life of 5 years, and no expected dividends resulting in \$707,620 of stock-based compensation.

Strategic Oil & Gas Ltd.

Notes to consolidated financial statements at March 31, 2010 and 2009 - unaudited

7. Share capital - continued

The following table sets out the outstanding options as at March 31, 2010:

All stock options			Exercisable		
Number of options	Exercise price	Weighted Average Life (yrs)	Number of options exercisable	Exercise Price	Weighted Average Life (yrs)
785,000	\$0.25	3.95	785,000	\$0.25	3.95
600,000	\$0.40	0.52	600,000	\$0.40	0.52
1,285,000	\$0.50	4.34	1,285,000	\$0.50	4.34
1,275,000	\$0.65	4.79	1,275,000	\$0.65	4.79
485,000	\$0.75	3.95	-	\$0.75	-
200,000	\$1.60	1.09	200,000	\$1.60	1.09
4,630,000	\$0.56	3.72	4,145,000	\$0.48	3.70

c) Shares in escrow

Shares issued pursuant to the ZinMac Inc. ("ZinMac") acquisition in 2009 remaining in escrow at March 31, 2010 are detailed below:

Total shares in escrow per ZinMac acquisition	5,000,000
Shares released March 13, 2009 (10%)	(500,000)
Shares released September 10, 2009 (15%)	(750,000)
Shares released March 10, 2010 (15%)	(750,000)
Shares remaining in escrow – March 31, 2010	3,000,000

All former shareholders of ZinMac are bound by this escrow agreement that allows for the release of shares in 15% increments over each additional six months.

d) Warrants

The following table reconciles the changes to the Corporation's warrants for the quarter ended March 31, 2010:

	Number of warrants	Exercise price
Opening balance – December 31, 2009	31,428,858	\$0.60
Closing balance – March 31, 2010	31,428,858	\$0.60

The following table sets out the outstanding warrants as at March 31, 2010:

Number of warrants	Exercise price	Expiry
370,370	\$0.27	May 8, 2011
28,342,442	\$0.60	November/December, 2010
2,716,046	\$0.70	November/December, 2010
31,428,858	\$0.60	

All warrants vested immediately. Subsequent to the quarter end, approximately 1,103,000 warrants were exercised for proceeds of \$624,000.

Strategic Oil & Gas Ltd.

Notes to consolidated financial statements at March 31, 2010 and 2009 - unaudited

7. Share capital - continued

e) Broker Warrants

The following table sets out the outstanding broker warrants as at March 31, 2010:

Number of warrants	Exercise price	Expiry
2,473,200	\$0.45	November 2010

All broker warrants vested immediately.

8. Contributed surplus

	March 31, 2010
Balance – beginning of the period	\$ 10,141,849
Stock options (note 7(b)(i))	707,620
Stock-based compensation	19,344
Balance - end of the period	\$ 10,868,813

9. Supplemental cash flow information

	March 31, 2010
Interest paid	\$ 37,376
Taxes paid	-
Changes in non-cash working capital	
Accounts receivable	\$ (251,481)
Prepaid expenses and deposits	(40,299)
Accounts payable	704,351
	\$ 412,571
Operating	\$ (471,717)
Investing	884,288
	\$ 412,571

10. Capital disclosures

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:

	March 31, 2010
	\$
Current assets	6,436,104
Current liabilities (excluding debt)	(2,437,244)
Net working capital surplus	3,998,860
Total line of credit	5,000,000
Year end loan balance	(1,550,000)
Unutilized line of credit	3,450,000
Net available funds	7,448,860

Strategic Oil & Gas Ltd.

Notes to consolidated financial statements at March 31, 2010 and 2009 - unaudited

10. Capital disclosures - continued

The Corporation is currently projecting its remaining 2010 Capital Program to be in the range of \$6.5 – 9.5 million, and expects the current available funds will be able to fund it. There is also approximately \$21.0 million potentially available to the Corporation through the exercise of outstanding warrants with an expiry date of November and December 2010. The Corporation has a significant amount of non-operated properties where it does not have control over choosing the projects or the timing of the expenditures, but is relying on the above sources of cash to fund those projects.

The valuation of the credit facility is based on petroleum and natural gas reserves with certain financial covenants. The credit facility also contains a financial covenant that requires the Corporation to maintain a working capital ratio of not less than 1:1, but for the purposes of the ratio calculation the unused portion of the facility is included in current assets, and the current portion of the debt is excluded from current liabilities. As at March 31, 2010, this ratio was 4.1:1.

11. Financial Instruments

Financial instruments consist of cash, short term investments, accounts receivable, accounts payable and accrued liabilities, and bank loan. All of the Corporation's assets and liabilities are valued as Level 1 financial instruments based on the short term nature of these instruments.

The Corporation is exposed to a number of different financial risks from normal course business exposures, as well as the Corporation's use of financial instruments. These risk factors include market risk, liquidity risk, and credit risk.

a) Market Risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect the value of the Corporation's financial assets, liabilities and expected future cash flows include commodity price risk, interest rate risk and foreign exchange risk. All of these risks are predominately outside the Corporation's ability to control.

i) Commodity Price Risk

The Corporation's financial performance is closely linked to natural gas and crude oil prices. While the Corporation may employ the use of various financial instruments in the future to manage these price exposures, the Corporation is not currently using any such instruments. The Corporation may, in certain circumstances, enter into oil or natural gas hedging contracts to provide stability of future cash flows by fixing the price of future deliveries of saleable product. As at March 31, 2010, the Corporation had no hedging contracts.

ii) Interest Rate Risk

The Corporation is exposed to interest rate risk as changes in interest rates may affect future cash flows. The Corporation's primary debt facility has a floating interest rate that will fluctuate based on prevailing market conditions. Cash flows are sensitive to changes in interest rates on this instrument

iii) Foreign exchange risk

Although the Corporation's product revenues are denominated in Canadian dollars, the underlying market prices are affected by the exchange rate between the Canadian and United States dollar. As at March 31, 2010, the Corporation had no contracts in place to reduce the foreign exchange risk

Strategic Oil & Gas Ltd.

Notes to consolidated financial statements at March 31, 2010 and 2009 - unaudited

11. Financial Instruments - continued

b) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation believes that it has access to sufficient capital through internally generated cash flows, external equity sources, and undrawn committed borrowing facilities to meet current spending forecasts.

c) Credit Risk

The Corporation's accounts receivable are with customers and joint venture partners in the oil and gas industry and the Government of Canada for GST refunds, and are subject to normal credit risks. The Corporation's production is predominately sold by taking its product in kind and revenues are collected on the 25th day of the month following the month of production. The majority of the remaining balances of account receivable are from joint venture partners which are collected between two and four months after the production month. As at March 31, 2010, the Corporation's receivables were as follows:

	March 31, 2010
Joint venture partners	\$ 239,265
Petroleum and natural gas marketers	423,031
Other	194,897
Total accounts receivable	\$ 857,193

As at March 31, 2010, the aging analysis of trade receivables is as follows:

	March 31, 2010
Current	\$ 591,208
30 – 60 days	64,142
60 – 90 days	179,270
Greater than 90 days	22,573
Total	\$ 857,193

12. Related party transactions

Legal fees and expenses in the amount of \$20,583 (\$73,340 – March 31, 2009) were incurred to a legal firm of which a director is a partner, and included as general and administrative expenses or share issue costs. General administrative fees in the amount of \$18,000 (\$15,000 – March 31, 2009) were incurred to the Corporate Secretary. Consulting fees in the amount of \$11,769 (\$14,595 – March 31, 2009) were incurred to a director for geophysical consulting services. Accounts payable and accrued liabilities at March 31, 2010 include \$24,338 (\$22,904 – March 31, 2009) 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.

Strategic Oil & Gas Ltd.

Notes to consolidated financial statements at March 31, 2010 and 2009 - unaudited

13. Commitments

- a) The Corporation has a lease agreement for office space commencing December 1, 2008 having a five-year term that commits the Corporation to the basic rent as at March 31, 2010 described below:

<u>Year ended</u>	<u>\$</u>
2010	165,832
2011	232,596
2012	232,596
2013	213,213
	<u>844,237</u>

- b) Strategic has entered into a farm-out agreement (“the Agreement”) in the Maxhamish region of Northeast British Columbia, where the Corporation is required to perform a work optimization program of \$1.0 million on the five oil wells and drill two wells in the area by the end of March, 2010. Failure to meet the commitment to drill the two wells will result in the Corporation being required to pay a penalty of \$1.0 million per well in 2010. The Corporation had entered into a Participation Agreement to bring in a partner in 2009 to assume certain of these commitments and obligations and, subject to its contractual partners’ confirmation, the Corporation is of the opinion that these commitments have been met.
- c) The Corporation has incurred \$1,694,220 of the qualifying expenditures to the end of March, 2010 obligating from the November/December 2009 flow-through issues of \$2,987,651. The remaining expenditures are required to be incurred by December 31, 2010.