



## **Consolidated Financial Statements**

**For the three and six months ended**

**June 30, 2010 and 2009**

**The accompanying unaudited interim consolidated financial statements for the three and six months ended June 30, 2010 have been prepared by management and approved by the Board of Directors of the Corporation.**

# Strategic Oil & Gas Ltd.

## Consolidated balance sheets

	June 30, 2010 (unaudited)	December 31, 2009
<b>Assets</b>		
Current assets:		
Cash	\$ 925,205	\$ 3,043,351
Short term investments	4,007,340	4,001,380
Accounts receivable	644,093	608,672
Prepaid expenses and deposits	183,270	192,922
	<b>5,759,908</b>	7,846,325
Oil and gas properties and equipment (note 3)	<b>20,221,682</b>	17,913,620
Goodwill	<b>643,357</b>	643,357
	<b>\$ 26,624,947</b>	<b>\$ 26,403,302</b>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 2,986,447	\$ 1,713,510
Bank loan (note 4)	1,500,000	1,500,000
Deferred lease inducement (note 5)	19,383	19,383
	<b>4,505,830</b>	3,232,893
Deferred lease inducement (note 5)	<b>46,842</b>	56,534
Asset retirement obligations (note 6)	<b>2,253,921</b>	2,188,449
	<b>6,806,593</b>	5,477,876
Shareholders' Equity		
Share capital (note 7)	24,618,700	24,385,762
Contributed surplus (note 8)	10,612,188	10,141,849
Deficit	(15,412,534)	(13,602,185)
	<b>19,818,354</b>	20,925,426
	<b>\$ 26,624,947</b>	<b>\$ 26,403,302</b>

Commitments (note 13)

Subsequent events (note 7(a)(iii) and 7(d))

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 and six months ended June 30, 2010 and 2009

	<b>Three months ended June 30, 2010 (unaudited)</b>	Three months ended June 30, 2009 (unaudited)	<b>Six months ended June 30, 2010 (unaudited)</b>	Six months ended June 30, 2009 (unaudited)
<b>Revenues</b>				
Petroleum and natural gas sales	\$ 1,298,172	\$ 668,590	\$ 2,987,813	\$ 1,301,719
Royalties	(123,080)	(101,834)	(335,151)	(249,689)
	<b>1,175,092</b>	566,756	<b>2,652,662</b>	1,052,030
<b>Expenses</b>				
Operating costs	789,063	201,521	1,403,637	428,995
Transportation	50,182	21,327	109,945	45,939
General and administrative	790,617	582,084	1,481,223	988,829
Stock-based compensation	7,207	24,383	734,171	147,453
Interest expense	24,862	19,737	64,330	39,077
Foreign exchange gain	296	2,381	(115)	1,384
Depletion, depreciation, and accretion	661,724	453,139	1,416,733	951,851
	<b>2,323,951</b>	1,304,572	<b>5,209,924</b>	2,603,528
<b>Loss and comprehensive loss before income taxes</b>	<b>(1,148,859)</b>	(737,816)	<b>(2,557,262)</b>	(1,551,498)
Future income tax recovery (note 7(a)(ii))	-	(62,545)	746,913	(31,275)
<b>Net loss and comprehensive loss for the period</b>	<b>(1,148,859)</b>	(800,361)	<b>(1,810,349)</b>	(1,582,773)
<b>Deficit - beginning of the period</b>	<b>(14,263,675)</b>	(10,495,279)	<b>(13,602,185)</b>	(9,712,867)
<b>Deficit - end of the period</b>	<b>\$ (15,412,534)</b>	\$ (11,295,640)	<b>\$ (15,412,534)</b>	\$ (11,295,640)
<b>Loss per weighted average share</b>				
Basic and diluted	\$(0.02)	\$(0.02)	\$(0.03)	\$(0.05)
<b>Weighted average shares outstanding</b>	<b>69,478,497</b>	35,082,965	<b>69,087,967</b>	33,176,888

# Strategic Oil & Gas Ltd.

Consolidated statements of cash flows

For the three and six months ended June 30, 2010 and 2009

	<b>Three months ended June 30, 2010 (unaudited)</b>	Three months ended June 30, 2009 (unaudited)	<b>Six months ended June 30, 2010 (unaudited)</b>	Six months ended June 30, 2009 (unaudited)
<b>Operating activities:</b>				
Net loss for the year	\$ (1,148,859)	\$ (800,361)	\$ (1,810,349)	\$ (1,582,773)
Items not affecting cash				
Depletion, depreciation, and accretion	661,724	453,139	1,416,733	951,851
Non-cash lease inducement recovery	(4,846)	(4,846)	(9,692)	(9,692)
Stock-based compensation	7,207	24,383	734,171	147,453
Future income taxes expense (recovery)	-	62,545	(746,913)	31,275
Abandonment expenditures	(2,811)	(9,360)	(4,742)	(19,484)
	<b>(487,585)</b>	(274,500)	<b>(420,792)</b>	(481,370)
Changes in non-cash working capital items	<b>133,104</b>	236,371	<b>(338,613)</b>	(184,366)
	<b>(354,481)</b>	(38,129)	<b>(759,405)</b>	(665,736)
<b>Financing activities:</b>				
Issue of common shares for cash, net of share issuance costs	724,253	-	716,019	(4,833)
(Repayments) proceeds of bank loan	(50,000)	225,000	-	1,175,000
	<b>674,253</b>	225,000	<b>716,019</b>	1,170,167
<b>Investing activities:</b>				
Expenditures on oil and gas properties and equipment	(1,431,450)	(206,683)	(3,654,581)	(1,823,276)
Cash acquired with ZinMac acquisition	-	-	-	191,229
Changes in non-cash working capital items	695,533	(157,317)	1,579,821	241,166
	<b>(735,917)</b>	(364,000)	<b>(2,074,760)</b>	(1,390,881)
<b>Decrease in cash during the period</b>	<b>(416,145)</b>	(177,129)	<b>(2,118,146)</b>	(886,450)
<b>Cash and cash equivalents, beginning of the period</b>	<b>1,341,350</b>	231,868	<b>3,043,351</b>	941,189
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 925,205</b>	\$ 54,739	<b>\$ 925,205</b>	\$ 54,739

Supplemental cash flow information (note 9)

# Strategic Oil & Gas Ltd.

Notes to consolidated financial statements at June 30, 2010 and 2009 - unaudited

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## 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 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

<b>June 30, 2010</b>	<b>Cost</b>	<b>Accumulated depletion and depreciation</b>	<b>Net book value</b>
Oil and gas properties - Canada	\$25,510,288	\$5,666,824	\$ 19,843,464
Oil and gas properties - USA	5,700,666	5,556,900	143,766
Leasehold improvements and other office assets	418,077	183,625	234,452
	<b>\$31,629,031</b>	<b>\$11,407,349</b>	<b>\$ 20,221,682</b>

# Strategic Oil & Gas Ltd.

Notes to consolidated financial statements at June 30, 2010 and 2009 - unaudited

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### 3. Oil and gas properties and equipment - continued

During the three and six months ended June 30, 2010, the Corporation did not capitalize any general and administrative expenses. As at June 30, 2010, the depletion calculation excluded \$2,544,066 (June 30, 2009 – \$324,840) relating to undeveloped properties, and included \$803,000 (June 30, 2009 - \$148,489) of future development costs on Canadian properties.

The Corporation has incurred \$1,870,807 of the qualifying expenditures to the end of June, 2010 towards the obligations arising 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 June 30, 2010, the Corporation had drawn down an amount of \$1,500,000 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 June 30, 2010, the lending rate was 4.25% (4.00% at June 30, 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. The loan is subject to an annual review, with the next review scheduled for May 31, 2011.

### 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 and \$9,692 was applied to general and administrative expenses as a reduction of rent during the three and six months ended June 30, 2010 respectively (Three and six months ended June 30, 2009 – \$4,846 and \$9,692). The following schedule summarizes the lease inducement liability to June 30, 2010:

	<b>June 30, 2010</b>
<b>Lease inducement - beginning of period</b>	<b>\$ 75,917</b>
Amortized to general and administrative expense	(9,692)
<b>Balance remaining – end of period</b>	<b>\$ 66,225</b>
Less: Current lease inducement	(19,383)
<b>Long-term lease inducement – end of period</b>	<b>\$ 46,842</b>

### 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 June 30, 2010 were \$5,887,334 (June 30, 2009 - \$665,298). The estimated costs have been discounted at a credit adjusted risk free rate of 7% (June 30, 2009 – 7%) and an inflation rate of 2.0% (June 30, 2009 – 2%).

# Strategic Oil & Gas Ltd.

Notes to consolidated financial statements at June 30, 2010 and 2009 - unaudited

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## 6. Asset retirement obligations - continued

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

	<b>June 30, 2010</b>
<b>Balance - beginning of period</b>	<b>\$ 2,188,449</b>
Adjustments	(5,004)
Obligations satisfied	(4,742)
Accretion	75,218
<b>Balance - end of the period</b>	<b>\$ 2,253,921</b>

## 7. Share capital

### a) Common Shares

#### Authorized:

Unlimited number of common shares without par value

<b>Issued:</b>	<b>Number of shares</b>	<b>\$</b>
<b>Balance, December 31, 2009</b>	<b>68,693,099</b>	<b>\$24,385,762</b>
Warrants exercised (Note 7 (a)(i))	1,203,296	686,753
Options exercised (Note 7 (a)(i))	100,000	37,500
Fair value of options and warrants exercised		263,832
Tax effect of renunciation on flow-through shares (Note 7(a)(ii))		(746,913)
Share issue costs		(8,234)
<b>Balance, June 30, 2010</b>	<b>69,996,395</b>	<b>\$24,618,700</b>

- (i) During the period ending June 30, 2010, 1,203,296 warrants were exercised for proceeds of \$686,753 and 100,000 stock options were exercised for proceeds of \$37,500. The fair value adjustment of these warrants and options of \$263,832 was recorded and deducted from contributed surplus.
- (ii) 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.
- (iii) Subsequent to the quarter end, approximately 300,000 shares were issued upon the exercise of warrants for proceeds of \$180,000.

# Strategic Oil & Gas Ltd.

Notes to consolidated financial statements at June 30, 2010 and 2009 - unaudited

## 7. Share capital - continued

### b) Stock options

The following table reconciles the changes to the Corporation's stock options for the six months ended June 30, 2010:

	Number of options	Weighted average exercise price
<b>Balance – December 31, 2009</b>	<b>3,355,000</b>	<b>\$0.53</b>
Issued (Note 7(b)(i))	1,275,000	\$0.65
Exercised (Note 7(a)(i))	(100,000)	\$0.38
<b>Balance – June 30, 2010</b>	<b>4,530,000</b>	<b>\$0.56</b>

- (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.

The following table sets out the outstanding options as at June 30, 2010:

All stock options			Exercisable		
Number of options	Exercise price	Weighted Average Life (yrs)	Number of options exercisable	Exercise Price	Weighted Average Life (yrs)
735,000	\$0.25	3.70	735,000	\$0.25	3.70
600,000	\$0.40	0.27	600,000	\$0.40	0.27
1,235,000	\$0.50	4.11	1,235,000	\$0.50	4.11
1,275,000	\$0.65	4.55	1,275,000	\$0.65	4.55
485,000	\$0.75	3.70	-	\$0.75	-
200,000	\$1.60	0.84	200,000	\$1.60	0.84
<b>4,530,000</b>	<b>\$0.56</b>	<b>3.47</b>	<b>4,045,000</b>	<b>\$0.54</b>	<b>3.44</b>

### c) Shares in escrow

Shares issued pursuant to the ZinMac Inc. ("ZinMac") acquisition in 2009 remaining in escrow at June 30, 2010 are detailed below:

<b>Total shares in escrow per ZinMac acquisition</b>	<b>5,000,000</b>
Shares released March 13, 2009 (10%)	(500,000)
Shares released September 10, 2009 (15%)	(750,000)
Shares released March 10, 2010 (15%)	(750,000)
<b>Shares remaining in escrow – June 30, 2010</b>	<b>3,000,000</b>

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.

# Strategic Oil & Gas Ltd.

Notes to consolidated financial statements at June 30, 2010 and 2009 - unaudited

## 7. Share capital - continued

### d) Warrants

The following table reconciles the changes to the Corporation's warrants for the quarter ended June 30, 2010:

	Number of warrants	Exercise price
<b>Opening balance – December 31, 2009</b>	<b>31,428,858</b>	<b>\$0.60</b>
Warrants exercised (Note 7(a)(i))	(953,296)	0.60
Warrants issued (Note 7(e)(i))	250,000	0.60
<b>Closing balance – June 30, 2010</b>	<b>30,725,562</b>	<b>\$0.60</b>

The following table sets out the outstanding warrants as at June 30, 2010:

Number of warrants	Exercise price	Expiry
370,370	\$0.27	May 8, 2011
27,661,896	\$0.60	November/December, 2010
2,693,296	\$0.70	November/December, 2010
30,725,562	\$0.60	

All warrants vested immediately. Subsequent to the quarter end, approximately 50,000 warrants were exercised for proceeds of \$30,000, and 250,000 warrants exercisable at \$0.60 per common share were issued upon exercise of 250,000 broker warrants.

### e) Broker Warrants

The following table reconciles the changes to the Corporation's broker warrants for the quarter ended June 30, 2010:

	Number of warrants	Exercise price
<b>Opening balance – December 31, 2009</b>	<b>2,473,200</b>	<b>\$0.45</b>
Warrants exercised (Note 7(e)(i))	(250,000)	0.45
<b>Closing balance – June 30, 2010</b>	<b>2,223,200</b>	<b>\$0.45</b>

- (i) During the period ending June 30, 2010, 250,000 broker warrants were exercised, resulting in the issuance of 250,000 common shares and 250,000 warrants to acquire common shares at \$0.60 per share expiring November 13, 2010. The fair value of the additional \$0.60 warrants was recognized into contributed surplus in 2009 when the broker warrants were originally issued.

The following table sets out the outstanding broker warrants as at June 30, 2010:

Number of warrants	Exercise price	Expiry
2,223,200	\$0.45	November 13, 2010

All warrants issuable on exercise of broker warrants vest immediately. Subsequent to the quarter end, approximately 250,000 broker warrants were exercised for proceeds of \$112,500 and resulted in the issuance of 250,000 warrants exercisable at \$0.60.

# Strategic Oil & Gas Ltd.

Notes to consolidated financial statements at June 30, 2010 and 2009 - unaudited

## 8. Contributed surplus

	<b>June 30, 2010</b>
<b>Balance – beginning of the period</b>	<b>\$ 10,141,849</b>
Stock options (Note 7(b)(i))	707,620
Exercise of warrants and options (Note 7(a)(i))	(263,832)
Stock-based compensation	26,551
<b>Balance - end of the period</b>	<b>\$ 10,612,188</b>

## 9. Supplemental cash flow information

	<b>Three months ended June 30, 2010</b>	<b>Six months ended June 30, 2010</b>
Interest paid	\$ 24,862	\$ 64,330
Taxes paid	-	-
<b>Changes in non-cash working capital</b>		
Accounts receivable	\$ 210,100	\$ (41,381)
Prepaid expenses and deposits	49,951	9,652
Accounts payable	568,586	1,272,937
	<b>\$ 828,637</b>	<b>\$ 1,241,208</b>
Operating	\$ 133,104	\$ (338,613)
Investing	695,533	1,579,821
	<b>\$ 828,637</b>	<b>\$ 1,241,208</b>

## 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:

	<b>June 30, 2010</b>
	<b>\$</b>
Current assets	5,759,908
Current liabilities (excluding debt)	(3,005,830)
Net working capital surplus	2,754,078
Total line of credit	5,000,000
Loan balance	(1,500,000)
Unutilized line of credit	3,500,000
<b>Net available funds</b>	<b>6,254,078</b>

The Corporation is currently projecting its remaining 2010 capital program to be in the range of \$4.5 – 7.5 million, and expects the current available funds will be able to fund it. There is also approximately \$20.5 million potentially available to the Corporation through the exercise of outstanding warrants with an expiry date of November and December 2010. For the period ending June 30, 2010, approximately \$687,000 has been collected through the exercise of outstanding warrants. 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.

# Strategic Oil & Gas Ltd.

Notes to consolidated financial statements at June 30, 2010 and 2009 - unaudited

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## 10. Capital disclosures - continued

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 June 30, 2010, this ratio was 3.1:1 (June 30, 2009 – 1.2:1).

## 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 June 30, 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 June 30, 2010, the Corporation had no contracts in place to reduce the foreign exchange risk

### 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.

# Strategic Oil & Gas Ltd.

Notes to consolidated financial statements at June 30, 2010 and 2009 - unaudited

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## 11. Financial Instruments - continued

### 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 June 30, 2010, the Corporation's receivables were as follows:

	<b>June 30, 2010</b>
Joint venture partners	\$ 197,409
Petroleum and natural gas marketers	354,075
Other	92,609
<b>Total accounts receivable</b>	<b>\$ 644,093</b>

As at June 30, 2010, the aging analysis of trade receivables is as follows:

	<b>June 30, 2010</b>
Current	\$ 487,833
30 – 60 days	27,121
60 – 90 days	14,151
Greater than 90 days	114,988
<b>Total</b>	<b>\$ 644,093</b>

As at June 30, 2010, there were no doubtful accounts.

## 12. Related party transactions

Legal fees and expenses in the amount of \$42,013 and \$62,596 for the three and six months ended June 30, 2010 (\$38,380 and \$111,720 – three and six months ended June 30, 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 and \$36,000 for the three and six months ended June 30, 2010 (\$15,000 and \$30,000 – three and six months ended June 30, 2009) were incurred to the Corporate Secretary. Consulting fees in the amount of \$5,249 and \$17,018 for the three and six months ended June 30, 2010 (\$6,825 and \$21,420 – three and six months ended June 30, 2009) were incurred to a director for geophysical consulting services. Accounts payable and accrued liabilities at June 30, 2010 include \$45,921 (\$23,148 – June 30, 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 June 30, 2010 and 2009 - unaudited

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## 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 June 30, 2010 described below:

<u>Year ended</u>	<u>\$</u>
2010	110,914
2011	232,596
2012	232,596
2013	213,213
	<u>789,319</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 (the “Commitment”). 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 entered into a Participation Agreement to bring in a partner in 2009 to assume certain of these commitments and obligations. The Corporation has been advised that the Commitment has been met.
- c) The Corporation has incurred \$1,870,807 of the qualifying expenditures to the end of June, 2010 towards the obligations arising from the November/December 2009 flow-through issues of \$2,987,651. The remaining expenditures are required to be incurred by December 31, 2010.