



Management's Discussion and Analysis

Three months ended March 31, 2010

May 14, 2010

Strategic Oil & Gas Ltd. ("Strategic" or the "Corporation") was incorporated under the laws of the Province of British Columbia on December 30, 1987. 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.

ADVISORIES

Management's discussion and analysis ("MD&A") of the consolidated financial conditions and results of operations should be read in conjunction with the consolidated financial statements for the three months ended March 31, 2010, and MD&A and audited consolidated financial statements for the year ended December 31, 2009. The calculation of barrels ("bbl") of oil equivalent ("boe") is based on a relative energy content conversion of six thousand cubic feet ("mcf") of natural gas to one equivalent barrel of oil (6 mcf=1bbl) when measured at burner tip and does not represent a value equivalency at the wellhead. Production volumes reported are the Corporation's interest before royalties, unless otherwise stated, and all amounts are expressed in Canadian dollars, unless otherwise stated.

The financial data presented has been prepared in accordance with Canadian Generally Accepted Accounting principles (GAAP), except for the terms "funds from operations" and "netback". Funds from operations and funds from operation per share are presented for information purposes only, and should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined by GAAP. Strategic determines funds from operations to be the cash flow before changes in non-cash working capital. Management believes that in addition to net earnings, funds from operations is a useful supplemental measure to assess the financial performance and the ability of Strategic to finance future growth through capital investment. In addition, management uses Netback to analyze operating performance and leverage. Netback equals total revenue less royalties, operating costs and transportation costs calculated on a per boe basis.

Forward-looking information

Certain information set forth in this document, including management's assessment of future plans and operations, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, many of which are beyond management's control. Those risks include, without limitation, the effect of general economic conditions, risks associated with oil and gas exploration, development, production, marketing and transportation, loss of markets, the fact that Strategic does not operate all of its properties, industry conditions and competition, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the ability to access qualified personnel and oilfield services, decisions by regulators and the ability to access sufficient capital from internal and external sources. Readers are cautioned not to place undue reliance on the forward-looking statements as the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and actual results, performance or achievements could materially differ from those expressed or implied in such forward-looking statements and accordingly, no assurance can be given that any of the events anticipated by forward looking statements will transpire or occur, or if any of them do so, what benefit Strategic will derive therefrom.

Specific forward-looking statements include the following:

Taber and Conrad drill program of 5 wells and increased production of up to 400 boed. Specific risks include the allocation of capital to the program and successful results. Although the Corporation currently has available funds for these wells, there is no assurance that competing projects may require a re-allocation of funds. The success of these wells and achievement of the projected production is subject to the geologic and operational risks associated with any well.

Maxhamish program. Specific risks include the geologic and operational risks associated with any well. In addition, the area is subject to winter access only and there are facilities required to handle significant production. In addition, as the Corporation is not the operator, it is bound by the decisions of the operator in respect to future development programs, the timing of the same and the requirement of having to raise capital in order to participate. The corporation also faces the risk of not being able to raise sufficient capital in a timely manner due to the status of the capital markets at such time.

OVERVIEW OF PERFORMANCE AND DISCUSSION OF OUTLOOK

The three months ended March 31, 2010 showed an increase in volumes over the comparable period of 2009. Average daily sales volumes increased by 56% to 315 boe/d in 2010 versus 202 boe/d in 2009. Revenues also increased by 167% to \$1,689,641 for 2010 versus \$633,129 in 2009. The increase was the result of the acquisition of the Taber and Conrad areas in 2009, as well as a significant recovery in crude oil prices over the first quarter of 2009. Natural gas prices remain depressed and at similar levels to 2009. The Corporation received an average price of \$59.44 per boe versus \$34.65 in 2009 which is an increase of 72%.

For the three months ended March 31, 2010 average daily production was 315 boe/d versus 237 boe/d for the fourth quarter of 2009. Revenues for the first quarter of 2010 were \$1,689,641 versus \$1,081,829 in the fourth quarter of 2009. The increase in production and revenues is the result of a full three months of production included from the Taber and Conrad acquisition in the current quarter, and oil prices improving over the quarter. The Corporation received an average price of \$59.44 per boe in the first quarter of 2010 versus \$49.72 per boe in the fourth quarter of 2009, a 20% increase.

For the three months ended March 31, 2010, the Corporation had a net loss of \$661,490 or \$0.01 per share basic and diluted as compared to a net loss of \$782,412 of \$0.03 per share for the three months ended March 31, 2009. The loss in 2010 arises from the stock-based compensation expense of \$726,964 as a result of the issuance of stock options in the quarter. Funds from operations for the three months ended March 31, 2010 was \$66,793 as compared to a negative funds from operations of \$206,870 for the three months ended March 31, 2009. The Corporation's increased production now provides for positive funds from operations.

Strategic is now well positioned to move forward and grow in 2010. Production in March 2010 is in excess of 320 boe/d and with an increase in crude oil prices, now generates positive funds from operations. Strategic plans to drill up to 5 wells in the Taber and Conrad areas commencing in the second quarter, with the opportunity to increase production by up to 400 boe/d.

In addition, the Corporation, with its partner, are evaluating the potential of the light oil resource play at Maxhamish.

Strategic is in a unique position for a junior/emerging oil and gas company as it is now:

- i) well financed with cash and nominal debt after raising \$14.5 million in the fourth quarter of 2009,
- ii) evaluating the potential of a significant light oil resource play in Western Canada (Maxhamish), and
- iii) able to significantly increase oil production in the short term as a result of the acquisition, drilling and optimization work at its new Taber and Conrad property.

Maxhamish

The Corporation and its partner are in the early stages of evaluating the light oil resource play on these lands. Drilling of the two wells was completed by mid-March and the wells were then fracture stimulated using multi-stage fracs. The results of these wells are being assessed and future plans will be determined

accordingly. Success in these early wells could potentially open up an extensive regional oil development project, with over 100 drilling locations being possible.

In order to meet its commitment under the Farmout Agreement, Strategic and its partner drilled the two wells described above and also undertook the optimization program on the existing wells that will help in understanding the nature of the sands and the extent of the Chinkeh sand. Subject to its contractual partners' confirmation, the Company is of the opinion that the March 2010 commitments under the Farmout Agreement have been met.

Taber and Conrad

With the Taber and Conrad properties, Strategic acquired oil properties producing 140 bbls/d, which at current prices can provide annual cash flow of up to \$2.0 million. Strategic's technical team, with its strong sub-surface technical abilities, combined with its past success at adding incremental reserves in mature oil properties, believes there are significant incremental reserves to be recovered. Based on preliminary studies, the Corporation believes there is by-passed pay at Taber from areas that have not been drained by the current well configuration that can be attained by selective drilling. Incremental oil production is expected to be added at Conrad from workovers, pump changes, selective drilling and enhanced recovery methods. Additional seismic and reservoir modeling will determine the locations, but it is anticipated that the drilling up to five wells at Taber and Conrad, combined with workovers may add over 400 bbls/d of production in the near term. In addition, Strategic has signed a Letter of Intent in the first quarter to bring in a partner to assist in drilling at Taber. The terms of this agreement have the partner paying \$1.6 million to drill two or three wells and earn a 25% interest in the property. This allows Strategic to accelerate the drilling of up to three wells at Taber with the potential to add over 300 bbls/d of production (net), and to maintain its cash for an acceleration of the Maxhamish development program.. These Taber wells are planned for the second quarter of 2010.

Strategic has moved quickly to increase its land position in the Conrad area. Strategic has acquired 4,900 acres of land for an average price of \$65.00/acre. This will provide over 10 drilling locations. A horizontal well has been planned for the second quarter of 2010 that can add over 80 bbls/day of production and will lead to additional drilling locations.

The Taber/Conrad acquisition fits well with Strategic's Maxhamish, northeast British Columbia horizontal oil resource play. Maxhamish is currently a winter access only area, so Taber and Conrad, with all year round access will allow for a balanced capital program. In addition, the current cash flow and low risk opportunities to significantly grow production and cash flow will be positive for Strategic.

IMPACT OF CURRENT ECONOMIC VOLATILITY AND UNCERTAINTY

Crude oil prices have increased through the early months on 2010, and the Corporation was able to raise over \$14,500,000 equity in the previous year. Strategic is therefore in a position to undertake its planned capital expenditures program. The Corporation will continue to monitor its funds from operations and available credit facilities to ensure its ability to meet its planned capital program for 2010.

RISK FACTORS

Additional risk factors may be found on page 10 of this Management Discussion and Analysis under "Financial Instruments".

Exploration, Development and Production Risks

Oil and natural gas exploration involves a high degree of risk, which even with a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that expenditures made on future exploration by the Corporation will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing a drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that the Corporation will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Corporation may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, cratering, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

Recent economic risks

Improving oil prices in early 2010 have improved financial markets somewhat, however volatility still remains. Energy producers will still encounter difficult times, while natural gas prices remain low, in accessing new equity capital, while their credit conditions and availability may tighten despite low interest rates.

Access to capital

The Corporation is dependent on access to equity or debt financing to fund working capital requirements and capital expansion programs when operating cash flows are not sufficient to do so. To date, sufficient capital has been obtained to meet the Corporation's working capital and capital expansion requirements. Additional working capital requirements or further capital expansion that cannot be funded through operating cash flows or current cash on hand will require external financing, the availability of which is dependent on, for example, credit availability, economic conditions, and commodity prices.

RESULTS OF OPERATIONS

Production

Three months ended March 31	2010	2009
Oil, condensate, & ngl's – bbls/d	226	87
Natural gas – mcf/d	535	691
Boe/d	315	202

Production for 2010 increased by 56% on a boe per day ("boe/d") basis mainly as a result of acquiring the Taber and Conrad properties in November, 2009.

Revenue

Three months ended March 31	2010	2009
Sales		
Oil, condensate, and ngl's	\$ 1,443,063	\$ 303,665
Natural gas	246,578	329,464
Total sales	\$ 1,689,641	\$633,129

Average prices		
Oil and ngls (\$/bbl)	\$ 70.75	\$ 38.46
Natural gas (\$/mcf)	\$ 5.12	\$ 5.30
Oil equivalent (\$/boe)	\$ 59.44	\$ 34.65

The average price received for oil, condensate and ngls was \$70.75 per bbl as compared to \$38.46 per bbl reflecting a 84% price increase. The first quarter of 2010 gas price was \$5.12 per mcf as compared to \$5.30 per mcf in the first quarter of 2009. Overall, the combined price in the first quarter of 2010 of \$59.44 per boe is 72% higher than the combined price of \$34.65 per boe in the first quarter of 2009. The acquisition of the Taber and Conrad, both oil-producing areas, and the improvement in the oil price has contributed to the increased in revenues over the previous quarter. Subsequent to the quarter end, natural gas prices have declined significantly to \$4.00 per mcf, which will result in reduced revenues from the natural gas assets.

Royalties

Three months ended March 31	2010	2009
Crown royalties	\$ 162,465	\$ 101,063
Freehold royalties	20,462	30,160
Overriding royalties	29,144	16,632
Net royalties	\$ 212,071	\$ 147,855
Per boe	\$ 7.47	\$ 8.12
Percentage of revenues	12.6%	23.4%

For 2010, the decrease in the royalty rate over 2009 was due to the acquisition of the Taber and Conrad areas, which are mature, and as a result attract an average royalty of less than 5%.

Operating and transportation costs

Three months ended March 31	2010	2009
Operating costs	\$ 614,574	\$ 227,474
Transportation costs	59,763	24,612
	\$ 674,337	\$ 252,086
Per boe		
Operating costs	\$ 21.66	\$ 12.49
Transportation costs	2.11	1.35
	\$ 23.76	\$ 13.84

The operating and transportation costs averaged \$23.76 per boe for the first three months of 2010 compared to \$13.84 per boe for the similar time frame in 2009. Operating costs per boe were higher due to Taber and Conrad, which have higher operating cost per boe as they are a medium to heavy oil with a high water cut.

Operating netbacks

Three months ended March 31	2010	2009
Per boe		
Revenues	\$ 59.44	\$ 34.65
Royalties	(7.47)	(8.12)
Operating costs	(21.66)	(12.49)
Transportation costs	(2.11)	(1.35)
Netback per boe	\$28.20	\$12.69

The acquisition of the Taber and Conrad oil-producing, low-royalty properties have improved the netback from \$12.69 per boe for the first quarter of 2009 to \$28.20 per boe for the same time period in 2010, representing a 122% increase.

General and administrative expenses

Three months ended March 31	2010	2009
Wages and employee benefits	\$ 314,722	\$ 113,375
Professional fees	9,231	37,193
Consulting fees	132,564	80,587
Public reporting	35,576	30,567
Occupancy costs	85,622	81,597
Travel	28,724	20,952
Miscellaneous general and administrative	84,167	42,474
Total	\$ 690,606	\$ 406,745
Per boe	\$ 25.30	\$ 22.33

General and administrative expenses increased by 13% on a per boe basis for the first quarter of 2010. Total general and administrative costs increased to \$690,606 for the first three months of 2010 from \$406,745 for the same time period in 2009 due mainly to increased costs associated with the increased oil and gas operations and additional salaries.

Depletion, depreciation and accretion

Three months ended March 31	2010	2009
Depreciation, depletion, and accretion	\$ 755,009	\$ 498,712
Per boe	\$ 26.61	\$ 27.38

Depletion, depreciation and accretion charges for 2010 remained at a similar level on a per boe basis of \$26.61 compared to \$27.38 for 2009.

Funds from operations and net income (loss)

Three months ended March 31	2010	2009
Funds (used in) from operations	\$ 66,793	\$ (206,870)
Per share		
basic	\$ 0.00	\$ (0.01)
diluted	\$ 0.00	\$ (0.01)
Net income (loss)	\$ (661,490)	\$ (782,412)
Per share		
basic	\$ (0.01)	\$ (0.03)
diluted	\$ (0.01)	\$ (0.03)

The increase in funds from operations for the first quarter of 2010 is attributable to the increase in the prices received for oil and the additional production from the Taber and Conrad acquisition as compared to the same period in 2009.

Capital Expenditures

Three months ended March 31	2010	2009
Land purchases and maintenance costs	\$ 356,199	\$ 9,614
Geological and geophysical	69,195	-
Drilling and completion	1,556,169	1,431,435
Equipping and facilities	238,737	167,394
Other	2,831	8,150
Total cash expenditures	\$ 2,223,131	\$ 1,616,593

Capital expenditures were \$2,223,131 for the first three months of 2010 compared to \$1,616,593 for the same time period in 2009. Strategic participated in the drilling and completion of two wells in Maxhamish, as well as the well optimization program, and the completion and facilities associated with the Conrad 11-23 well in 2010.

SUMMARY OF QUARTERLY FINANCIAL DATA

The following table summarizes quarterly financial results:

Quarter ended	Mar-10	Dec-09	Sep-09	Jun-09	Mar-09	Dec-08	Sept-08	Jun-08
	\$	\$	\$	\$	\$	\$	\$	\$
Petroleum and natural gas sales	1,689,641	1,081,829	503,983	591,139	633,129	652,096	1,169,425	1,012,046
Income (loss)	(661,490)	(1,585,039)	(721,506)	(800,361)	(782,412)	(316,553)	(163,158)	(34,334)
Income (loss) per share								
Basic	(0.01)	(0.03)	(0.02)	(0.02)	(0.03)	(0.01)	(0.01)	(0.00)
Diluted	(0.01)	(0.03)	(0.02)	(0.02)	(0.03)	(0.01)	(0.01)	(0.00)
Production boed	315	237	171	176	202	177	179	143
Average price/boe	\$59.44	\$49.72	\$32.09	\$36.92	\$34.65	\$40.01	\$71.10	\$77.52

LIQUIDITY AND CAPITAL RESERVES

The Corporation started 2010 with working capital of \$4,613,432 which included a revolving bank operating loan balance of \$1,500,000. During the first quarter of 2010, funds of \$66,793 were generated from operations, \$50,000 of cash was drawn on the loan, and capital of \$2,223,131 was expended. The Corporation has a working capital surplus of \$2,448,860 at March 31, 2010, which includes \$1,341,350 of cash in the bank and \$4,004,340 in short term investments.

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

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 and 2010 funds from operations 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. 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 the current loan.

SHARE DATA

At May 14, 2010 Strategic had 69,717,645 common shares, and 4,630,000 stock options with a weighted average exercise price of \$0.56 per share outstanding. In addition, there are 32,877,512 warrants and broker warrants outstanding, which are exercisable within one year with an exercise price of approximately \$0.60 per share.

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		(746,913)
Share issue costs		(8,234)
Balance, March 31, 2010	68,693,099	\$23,630,615

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.

Subsequent to the quarter end, approximately 1,103,000 shares were issued upon the exercise of warrants for proceeds of \$624,000.

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	1,275,000	\$0.65
Balance – March 31, 2010	4,630,000	\$0.56

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 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

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.

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.

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.

TRANSACTIONS WITH RELATED PARTIES

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.

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.

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

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

CRITICAL ACCOUNTING ESTIMATES

A summary of Strategic's accounting policies are summarized in Note 2 of the audited consolidated financial statements at December 31, 2009. These policies are subject to estimates and judgements about future events, many of which may be beyond the control of management. The following is a discussion of the accounting estimates that are critical to the preparation of the financial statements.

Oil and Gas Accounting

Strategic follows the full-cost accounting guideline to account for its petroleum and natural gas operations. Under this method, all costs associated with exploration for and development of petroleum and natural gas reserves are capitalized in cost centres by country.

Depletion and depreciation expense is based on the amortization of net capitalized costs less unproved property costs plus future development costs for oil and natural gas exploration and development activities using the unit -of-production method. This method of cost amortization is based on the ratio of oil and natural gas sales to estimated proved oil and natural gas reserves. The evaluation of estimated proved oil and natural gas reserves is prepared by independent petroleum consultants and reviewed by the Corporation's Board of Directors. The process of estimating proved reserves involves professional judgment and a significant number of assumptions and decisions based on available geological, geophysical, production and economic data. Reserves estimates and future development costs change over time based on development and production activities and changing economic conditions. Unproved property costs are reviewed by management on a quarterly basis to determine if they should no longer be excluded from the cost base for amortization when proved reserves have been established or if the properties have become impaired. Changes to any of the aforementioned estimates could affect depletion and depreciation expense.

Asset Retirement Obligations

The Corporation's future asset retirement obligation is a fair value determination based upon the present value of estimated costs and anticipated future timing to complete the abandonment and reclamation of Strategic's interest in wells and facilities. Cost estimates associated with abandonment and reclamation require judgment concerning the method, timing and extent of future retirement activities. The present value calculations, which give rise to accretion expense adjustments each quarter of the year, are based on management's estimate of the Corporation's credit -adjusted risk-free interest rate. The future obligation and current accretion expense are subject to revision based on changes in technology, abandonment timing, reclamation costs, discount rates and the regulatory environment.

Impairment of Petroleum and Natural Gas Assets

Companies that use the full-cost method of accounting for oil and natural gas operations are required to perform an impairment test (the "ceiling test") that calculates a limit for the net carrying cost of petroleum and natural gas assets. The net amount at which petroleum and natural gas properties are carried is subject to a cost recovery test. The ceiling test is a two-stage process. The first stage of the test is a recovery test which compares the undiscounted future cash flows from proved reserves at forecast prices plus the cost, less impairment, of unproved properties to the net book value of the petroleum and natural gas assets to determine if the assets are impaired. An impairment loss exists when the net book value of the petroleum and natural gas assets exceeds such undiscounted cash flows. The second stage determines the amount of the impairment loss to be recorded. The impairment is measured as the amount by which the net book value of the petroleum and natural gas assets exceeds the future discounted cash flows from proved plus probable reserves at the forecast prices. If reserve estimates are revised downward, net income could be affected by any additional depletion and depreciation recorded under the ceiling test calculated and could result in a significant accounting expense for a particular period.

Stock-based compensation

Stock options issued under the Corporation's stock option plan are accounted for using the fair value method. Stock-based compensation cost is determined on the date of an option grant using the Black-Scholes option pricing model, which requires the estimation of several variables including volatility in Strategic's share prices, expected life of the option and the risk-free interest rate. Changes to these estimates would alter the valuation of the option granted and its related charge to stock-based compensation expense.

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. IFRS will replace Canada's current GAAP for those enterprises that are responsible to large or diverse groups of stakeholders. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year.

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.

The Corporation has completed its initial assessment of the effects of adopting IFRS, and has identified the following areas as having the most significant potential impact to the consolidated financial statements. This list should not be regarded as a comprehensive list of the changes expected by conversion to IFRS, but is intended to inform the reader of the areas believed to be the most affected.

Property, plant, and equipment

IFRS 6 - Exploration for and Evaluation of Mineral Resources

Implementation of IFRS 6, Exploration for and Evaluation of Mineral Resources represents a departure from Canadian GAAP by segregating pre-production costs from the Property, Plant, and Equipment pool and evaluating and disclosing separately. These pre-production costs must be assessed as pre-exploration, exploration and evaluation assets, and post-exploration assets. Pre-exploration costs are those costs incurred prior to obtaining the right to explore, must be expensed, and post-exploration assets must be evaluated, impaired if necessary, and then transferred to development and production assets. Initially, the Corporation has the option of either expensing or capitalizing Exploration and Evaluation costs prior to being evaluated, and expects that it will choose to capitalize.

IAS 16 - Property, Plant and Equipment

Major components of Property, Plant, and Equipment must be identified and depreciated separately over their useful lives. This differs from Canadian GAAP in that, under full cost accounting, all oil and gas assets are separated as intangible or tangible, but depleted over substantially the same reserve base. Replacements and major overhauls must be recorded by removing old associated components from Property, Plant and Equipment, and capitalizing the new.

Under Canadian GAAP, small dispositions were credited against the full cost pool. Under IFRS, gains and losses must be recognized on all dispositions.

IAS 36 – Impairment of Assets

IAS 36 requires that impairments be assessed at a cash-generating unit (“CGU”) level, as opposed to a full cost pool allowed currently under Canadian GAAP. A CGU is the smallest group assets capable of generating largely independent cash inflows.

Under IFRS, impairment tests must be done at least annually, and the carrying value can be compared to either the “value in use” or “fair value less costs to sell”. Value in use is defined as the present value of expected future cash flows. In the absence of an active market, fair value less costs to sell may also be determined using discounted future cash flows. This differs from Canadian GAAP where impairment testing is a two-step process and compares the carrying value of asset to undiscounted cash flows. The Corporation expects that implementation of this IFRS will result in more frequent impairments of assets due to the lower level of testing against comparatively smaller values of cash flows. However, also under IAS 36, previous impairment losses can be reversed depending upon circumstances, which also represents a departure from Canadian GAAP.

Contingent liabilities and assets, and decommissioning liabilities

IAS 37 – Provisions, Contingent Liabilities, and Contingent Assets

The probability threshold for recognizing contingent liabilities and assets is higher under Canadian GAAP than IFRS, and as such it is possible that some contingent liabilities that may not have met the recognition criteria under Canadian GAAP will be required to be recognized under IFRS. Under IAS 37, a provision must be recognized when:

- a) there is a present obligation as a result of a past transaction or event;
- b) it is probable that an outflow of resources will be required to settle the obligation, and;

- c) a reliable estimate of the obligation can be made.

Regarding asset retirement obligations, Canadian GAAP requires the use of a credit-adjusted risk-free rate to discount the future obligations, whereas IFRS requires the use of a current market-based discount rate. The difference in discount rates is expected to impact the Corporation's asset retirement obligations, although it is not known at this time the extent or direction of the impact.

IFRS 1 – First-time Adoption of International Financial Reporting Standards

IFRS 1 allows for a few alternatives for retrospective applications of certain standards, as well as requiring significant disclosures of accounting policies, and IFRS 1 mandatory and elective exemptions. It is expected that the disclosures for the Corporation will be substantial.

The Corporation may revise its estimate of the policy choices and potential impacts as it works through the conversion as new facts and circumstances arise and decisions are made. Until the majority of these decisions can be made and their impact assessed, the Corporation has not yet completed the quantification of the effects.

Senior management of the Corporation have been reviewing the impact on the Corporation's future financial position and results of operations under IFRS, and reports the results of this review to the Board and Audit Committee on a periodic basis. 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.

DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Corporation's disclosure controls and procedures, have concluded that the design and operation of Strategic's disclosure controls and procedures were adequate to ensure that material information relating to the Corporation and its consolidated subsidiaries would have been known to them and by others within those entities.

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.