Strategic Oil & Gas Ltd.

Consolidated Financial Statements

For the years ended

December 31, 2010 and 2009

Management's Report

Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the consolidated financial statements, and other financial information presented elsewhere in this annual report.

The consolidated financial statements were prepared by Management in accordance with Canadian generally accepted accounting principles. Since a precise determination of many assets and liabilities is dependent on future events, the timely preparation of financial statements requires that Management make estimates and assumptions and use judgment. When alternative accounting methods exist, Management has chosen those that it deems most appropriate in the circumstances.

Meyers Norris Penny LLP was appointed by the Company's shareholders to express an audit opinion on the consolidated financial statements. Their examination included such tests and procedures as they considered necessary to provide reasonable assurance that the consolidated financial statements are in accordance with Canadian generally accepted accounting principles.

The Board of Directors (Board) is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal control. The Board exercises their responsibility through the Audit Committee. The Audit Committee recommends appointment of the external auditors to the Board, ensures their independence and approves their fees. The Audit Committee meets regularly with Management and the external auditors to ensure that Management's responsibilities are properly discharged, to review the consolidated financial statements and recommend that the consolidated financial statements be presented to the Board for approval. The external auditors have full and unrestricted access to the Audit Committee to discuss their audit and their findings.

Signed: - "Arn Schoch"
President and Chief Executive Officer

Signed: - "Jim Screaton"
Vice-President of Finance and Chief Financial Officer

March 30, 2011

Independent Auditors' Report

To the Shareholders of Strategic Oil & Gas Ltd.:

We have audited the accompanying consolidated financial statements of Strategic Oil & Gas Ltd. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income (loss), comprehensive income (loss) and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Strategic Oil & Gas Ltd. and its subsidiaries as at December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

March 30, 2010
Calgary, AB

Chartered Accountants

Strategic Oil & Gas Ltd.

Consolidated balance sheets as at December 31

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	**$ 30,974,764**	$ 3,043,351
Short-term investments	**-**	4,001,380
Accounts receivable	**3,156,946**	608,672
Prepaid expenses and deposits	**706,786**	192,922
	34,838,496	7,846,325
Oil and gas properties and equipment (*Notes 4 and 5*)	**61,354,523**	17,913,620
Goodwill (*Note 3*)	**643,357**	643,357
	$ 96,836,376	$ 26,403,302
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable and accrued liabilities	**$ 6,070,498**	$ 1,713,510
Bank loan (*Note 6*)	**-**	1,500,000
Deferred lease inducement (*Note 7*)	**19,383**	19,383
Debentures *(Note 8)*	**3,425,225**	-
	9,515,106	3,232,893
Deferred lease inducement (*Note 7*)	**37,151**	56,534
Asset retirement obligations (*Note 9*)	**8,653,663**	2,188,449
	18,205,920	5,477,876
Shareholders' Equity		
Share capital (*Note 10*)	**83,146,404**	24,385,762
Contributed surplus (*Note 11*)	**3,771,669**	10,141,849
Deficit	**(8,287,617)**	(13,602,185)
	78,630,456	20,925,426
	$ 96,836,376	$ 26,403,302

Commitments (*Note 17*)
Subsequent events (*Note 18*)

Approved by the Board of Directors

Signed: - "Arn Schoch"

Signed:- "Rick Skeith"

The accompanying notes to the consolidated financial statements are an integral part of the statements.

Strategic Oil & Gas Ltd.

Consolidated statements of net income (loss), comprehensive income (loss) and deficit
For the years ended December 31

	2010	2009
Revenues		
Petroleum and natural gas sales	**$ 6,124,134**	$ 2,808,080
Royalties	**(510,906)**	(526,133)
	5,613,228	2,281,947
Other income	**73,541**	90,683
	5,686,769	2,372,630
Expenses		
Operating costs	**3,031,594**	1,170,562
Transportation	**235,028**	95,260
General and administrative	**4,053,849**	2,642,091
Stock based compensation	**743,219**	482,942
Interest expense	**110,707**	94,406
Foreign exchange loss	**2,911**	5,293
Depletion, depreciation, and accretion	**3,488,931**	1,941,394
	11,666,239	6,431,948
Loss before other income and income taxes	**(5,979,470)**	(4,059,318)
Gain on acquisition of subsidiary *(Note 3)*	**10,547,125**	-
Income (loss) before income taxes	**4,567,655**	(4,059,318)
Future income tax recovery (*Note 12*)	**746,913**	170,000
Net income (loss) and comprehensive income (loss) for the year	**5,314,568**	(3,889,318)
Deficit - beginning of the year	**(13,602,185)**	(9,712,867)
Deficit - end of the year	**$ (8,287,617)**	$ (13,602,185)
Income (loss) per weighted average share		
Basic and diluted *(Note 10(f))*	**$ 0.06**	$ (0.10)

The accompanying notes to the consolidated financial statements are an integral part of the statements.

Strategic Oil & Gas Ltd.

Consolidated statements of cash flows
For the years ended December 31

	2010	2009
Operating activities:		
Net income (loss) for the year	**$ 5,314,568**	$ (3,889,318)
Items not affecting cash		
Depletion, depreciation and accretion	**3,488,931**	1,941,394
Stock-based compensation expense	**743,219**	482,942
Non-cash lease inducement recovery	**(19,383)**	(19,383)
Future income taxes recovery	**(746,913)**	(170,000)
Gain on acquisition of subsidiary	**(10,547,125)**	-
Abandonment expenditures	**(4,542)**	(30,797)
	(1,771,245)	(1,685,162)
Changes in non-cash working capital items *(Note 13)*	**(433,383)**	463,834
	(2,204,628)	(1,221,328)
Financing activities:		
Issue of shares for cash, net of share issuance costs	**25,923,226**	13,278,175
Exercise of warrants and options	**21,789,391**	-
Repayments against bank loan	**(1,500,000)**	(25,000)
	46,212,617	13,253,175
Investing activities:		
Expenditures on oil and gas properties and equipment	**(13,746,636)**	(6,414,937)
Acquisition of Steen River Oil & Gas Ltd. *(Note 3)*	**(6,349,162)**	-
Transaction costs paid on behalf of subsidiary	**(1,137,893)**	-
Redemption (purchase) of short term investments	**4,001,380**	(4,001,380)
Cash acquired through ZinMac acquisition (*Note 3*)	**-**	191,229
Changes in non-cash working capital items *(Note 13)*	**1,155,735**	295,403
	(16,076,576)	(9,929,685)
Increase in cash and cash equivalents during the year	**27,931,413**	2,102,162
Cash and cash equivalents, beginning of the year	**3,043,351**	941,189
Cash and cash equivalents, end of the year	**$ 30,974,764**	$ 3,043,351

Supplemental cash flow information (*Note 13*)

The accompanying notes to the consolidated financial statements are an integral part of the statements.

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, and continued as an Alberta corporation on September 9, 2010. On March 29, 2006, Strategic incorporated a United States of America (USA) subsidiary, Strategic Oil & Gas, Inc. ("US Subsidiary") through which all oil and gas activities in the USA are conducted. ZinMac Inc.("ZinMac"), a private oil and gas consulting company was acquired by Strategic on March 10, 2009, and Steen River Oil & Gas Ltd. ("Steen River") was acquired on December 22, 2010, both of which are described in Note 3.

2. Significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In management's opinion, the financial statements have been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies summarized below. All dollar amounts are stated in Canadian funds unless otherwise noted. The significant accounting policies adopted by the Corporation are as follows:

Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries as follows:

Subsidiary	Jurisdiction	Nature of operations
Strategic Oil & Gas, Inc.	Wyoming, USA	US oil and gas exploration and operations
ZinMac, Inc.	Alberta	Holding company
Steen River Oil & Gas Ltd.	Alberta	Canadian oil and gas exploration and operations
Jed Oil (USA), Inc.	Wyoming, USA	US holding company

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent. All intra-group balances, income and expenses resulting from intra-group transactions are eliminated in full.

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. For acquisitions on or after January 1, 2008, the Corporation measures goodwill at the acquisition date as the fair value of consideration transferred less the recognized amount (generally fair value) of identifiable assets less the liabilities assumed at the acquisition date. When the excess is negative, the bargain purchase gain is immediately recognized in profit or loss. Specific details regarding current acquisitions of subsidiaries are discussed in Note 3.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit less outstanding cheques, and short-term deposits with a maturity of less than three months.

2. Significant accounting policies (continued)

Oil and natural gas properties and equipment

The Corporation follows the full cost method of accounting for oil and gas properties, whereby all costs associated with the exploration for and the development of, petroleum and natural gas reserves, whether productive or unproductive are capitalized in country by country cost centers. Capitalized costs include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped lands, drilling of productive and non-productive wells, completion and equipping costs and overhead expenses directly related to exploration, development and acquisition activities. Proceeds from the sale of oil and gas properties and equipment are credited to the net book value. Gains and losses are not recognized upon disposition of oil and gas properties unless the disposition would result in a change greater than 20% in the rate of depletion or depreciation.

Capitalized costs are depleted and amortized, on a country by country basis, using the unit-of-production method based on gross proved oil and natural gas reserves as determined by independent engineers. For purposes of the depletion calculation, proved oil and natural gas reserves are converted to a common unit of measurement on the basis of six-thousand cubic feet of natural gas equating to one barrel of oil equivalent (6:1); associated liquids are converted to a barrel of oil equivalent on a one-to-one basis. The carrying value of undeveloped and unproven properties is excluded from the depletion calculation while future development costs are added. When proved reserves are assigned, the costs associated with these properties are included in the depletion calculation. On a country by country basis, the net book value of the properties are compared to the value of proven reserves, and an excess amount indicates impairment. The amount of the impairment is calculated as the excess of the net book value of the properties over the fair value of proved and probable reserves discounted at the risk-free rate, and the impairment amount, if any, is included in earnings.

Office furniture, leasehold improvements and computer software and equipment are recorded at cost and amortized over their useful lives on a straight line basis at rates of 20% to 55%.

Impairment of oil and gas properties and equipment

Oil and gas properties and equipment are evaluated on a country by country basis, at least annually, to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost or market of unproved properties exceed the carrying value of the oil and gas properties and equipment. If the carrying value of the oil and gas properties is not assessed to be recoverable, an impairment loss is recorded to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost or market of unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using the risk-free rate.

Future income taxes

The Corporation follows the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes.

Future income tax assets and liabilities are measured using the substantively enacted tax rates expected to apply to the taxable income in the years in which temporary differences are expected to be recovered or settled. To the extent that the Corporation does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

2. Significant accounting policies (continued)

Joint venture activities

Substantially all of the Corporation's oil and natural gas activities are conducted jointly with others. These consolidated financial statements reflect only the Corporation's proportionate interest in such activities.

Deferred lease inducements

Lease inducements are accounted for in accordance with EIC Abstract 21, "Accounting for Lease Inducements by the Lessee". Lease inducement benefits are amortized on a straight-line basis over the term of the lease as a reduction to rental expense. Leasehold improvements acquired as part of the lease inducement are amortized over the initial term of the lease.

Measurement uncertainty

The preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates. The most significant estimates made by management relate to amounts recorded for the depreciation of equipment, valuation of warrants issued in conjunction with private placements, depletion of oil and gas properties, measurement of stock-based compensation, the recoverability of oil and gas properties and equipment, the recoverability of future income tax assets, the provision for and accretion of asset retirement obligations, and the estimate of fair values of the assets and liabilities acquired in business combinations. By their nature, these estimates are subject to measurement uncertainty and actual results may differ from those estimates.

Stock-based compensation

The Corporation follows the accounting standard which requires the use of the fair value method for valuing stock option grants. Under this method, compensation costs attributable to all share option grants are measured at fair value at the date granted and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

Flow-through shares

The resource expenditure deductions for income tax purposes relating to exploratory and development activities which are funded by flow-through share arrangements are renounced to the investors in accordance with income tax legislation on the date the Corporation files the renouncement documents. To recognize the foregone tax benefit to the Corporation, the future income tax liability and share capital are adjusted by the estimated costs of the renounced tax deduction at the time the renunciation is made.

Asset retirement obligations

An asset retirement obligation is recorded, on a country by country basis, as a liability in the period in which a legal obligation is incurred as a result of an acquisition, construction or development of a property or facility.

2. Significant accounting policies (continued)

The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depleted and depreciated using the unit of production method over the estimated gross proved reserves. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted to reflect the passage of time, changes in the estimated future cash flows underlying the obligation, and revisions to the original estimate of retirement. Adjustment amount related to the passage of time is recorded as accretion expense in the period, and changes in estimates of the future cash flows and timing of those cash flows is recorded in Oil and Gas Property and Equipment and is included in the depletion calculation.

Revenue recognition

Revenue from the sales of oil and gas are recognized when the risks and rewards of ownership pass to the purchaser, including delivery of the product, the selling price being fixed or determinable and collectibility being reasonably assured. Settlement adjustments, if any, are reflected in the revenue when the amounts are known. Transportation costs related to the delivery of the product are recorded on the date the product is transported and are presented as an expense and included in earnings.

Foreign currency exchange

The Corporation's United States subsidiaries are considered an integrated foreign operation and are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities have been translated at the year-end exchange rate. Non-monetary assets, which comprise oil and gas property and equipment has been translated at the exchange rate prevailing at the date of transaction. Revenues and expenses have been translated at the average rate of exchange during the year, except for amortization, depletion and impairment losses which have been translated at the same rate as the related assets. Exchange gains and losses arising on translation are included in earnings.

Per share amounts

The Corporation calculates its basic earnings per share amounts by dividing net income (loss) by the weighted average outstanding shares, and calculates diluted earnings per share by adding stock options and warrants, calculated by the treasury stock method, to the denominator. The treasury stock method assumes that proceeds received from the exercise of the in-the-money stock options and warrants are used to purchase common shares at the market price at the year end.

Goodwill

The Corporation recorded goodwill as a result of its acquisition of ZinMac Inc. (Note 3). Goodwill is determined as the excess of the acquisition price over the identifiable assets, both tangible and intangible. The goodwill arising from the Zinmac acquisition has an indefinite life, but is tested for impairment at least annually.

Financial instruments

Financial instruments are classified as held for trading, held to maturity, loans and receivables, available for sale, and other liabilities. All of these classifications are measured initially at fair value, with subsequent measurements at amortized cost, except instruments held for trading or available for sale.

2. Significant accounting policies (continued)

Financial instruments are also classified using a three level hierarchy that reflects the significance of the inputs used in making fair value measures. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The Corporation's held for trading financial instruments are classified as a Level 1.

Amortized cost is calculated using the effective interest rate method. Changes in the amortized cost are recognized into income through the amortization process, or when the instrument is derecognized. Any related transactions costs are recognized into net income in the period incurred.

Financial instruments held for trading are subsequently measured at fair value, with gains and losses recognized in net income in the period they arise.

Financial instruments available for sale are subsequently measured at fair value, with gains and losses arising recorded in comprehensive income. These gains and losses are recognized into net income when the instrument is sold, impaired, or derecognized.

Derivatives are recorded on the balance sheet at fair value. The Corporation currently does not have any derivatives.

The Corporation's financial assets and financial liabilities are classified and measured as follows:

Financial instrument per balance sheet	Measurement	Classification
Cash and cash equivalents	Fair value	Held for trading
Short-term investments	Fair value	Held for trading
Accounts receivable	Amortized cost using effective interest method	Loans and receivables
Accounts payable and accrued liabilities	Amortized cost using effective interest method	Other liabilities
Bank loan	Amortized cost using effective interest method	Other liabilities
Debentures	Amortized cost using effective interest method	Other liabilities

Disclosures required regarding financial instruments are described in Note 15.

Changes in accounting policies

Future accounting pronouncements

On January 1, 2011, International Financial Reporting Standards ("IFRS"), as issued by the Accounting Standards Board, will become the generally accepted accounting principles ("GAAP") in Canada. The transition from Canadian GAAP to IFRS will result in significant differences affecting financial position and results of operations. The Corporation will be reporting under IFRS for all periods beginning after January 1, 2011.

3. Business combinations

a) Steen River Oil & Gas Ltd.

On December 22, 2010, Strategic closed an arms-length acquisition of all of the issued and outstanding shares of Steen River, a private oil and gas exploration and production company through a Plan of Arrangement which offered $0.30 cash or 0.33 common shares of the Corporation in exchange for one Steen River share, as well as assuming the outstanding debentures of Steen River. The Corporation acquired the shares in exchange for a total of 4,416,545 common shares valued at the trading price on December 22, 2010 of $1.06 per share, $6,349,162 in cash, and the assumption of secured debentures valued at $3,425,225 (Note 8), for a total consideration of $14,455,925. Due to the consideration offered for Steen River being less than the value of the assets acquired, the Corporation recognized a gain on acquisition of subsidiary of $10,547,125.

Steen River was acquired to gain access to the remaining 95% of the high quality light oil producing properties with a substantial land base and facility structure in northwestern Alberta.

The acquisition was accounted for using the acquisition method of accounting for business combinations using management's best estimates of the fair values at the date of acquisition as follows:

Net assets acquired	
Working capital deficit	$ (1,710,392)
Undeveloped land	2,667,542
Developed oil and gas properties	30,564,878
Capital assets	44,444
Asset retirement obligations	(6,563,422)
	$ 25,003,050
Consideration	
Cash	$ 6,349,162
4,416,545 common shares valued at $1.06 per share	4,681,538
Assumption of debentures	3,425,225
	$ 14,455,925
Gain on acquisition of subsidiary	**$ 10,547,125**

Transaction costs of $256,491 were incurred in relation to the acquisition, and were recorded in general and administrative expenses. Tax pools of approximately $120 million were also acquired resulting in a potential $21.9 million future tax asset. No future tax asset will be recognized at this time since, based upon the historical taxable income of Steen River, it cannot be reasonably estimated if it is more likely than not that some or all of the future tax asset will be realized.

b) ZinMac Inc.

In 2009, Strategic closed an arms-length acquisition of all of the issued and outstanding shares of ZinMac Inc., a private oil and gas consulting company. The Corporation had issued 5,000,000 common shares to the shareholders of ZinMac, as well as 370,370 warrants of Strategic, exercisable at $0.27 per share until May 8, 2011. All of these warrants remain outstanding at December 31, 2010. All shareholders are bound by an escrow agreement that allows for the release of shares of 10% on closing, 15% to be released six months after the date of final approval of the Exchange and then 15% increments over each additional six month time period (Note 10(b)).

3. Business combinations (continued)

The acquisition of ZinMac was accounted for using the acquisition method of accounting for business combinations using management's best estimates of the fair values at the date of acquisition as follows:

Net assets acquired	
Cash and cash equivalents	$ 191,229
Accounts receivable	25,968
Prepaid expenses	4,358
Capital assets	253,328
Accounts payable	(131,659)
	$ 343,224
Consideration	
5,000,000 common shares	$ 950,000
Fair value of replacement warrants	36,581
	$ 986,581
Goodwill	**$ (643,357)**

Transaction costs of $28,187 were incurred in relation to the acquisition, and were recorded in general and administrative expenses in 2009. Tax pools of $1,242,800 were also acquired, but as the potential of future income from the acquisition is less likely than not to use the pools, no future tax asset was recognized.

4. Property acquisitions

During 2010, the Corporation entered into a farm-out agreement in the Maxhamish region of northeast British Columbia, where the Corporation and its partner were required to perform a work optimization program of $1.0 million on five oil wells and drill two new wells in the area by the end of March, 2010. The requirements were met, and the farmor acknowledged the satisfaction of the requirements by June, 2010. In October, 2010, the Corporation, with its partner, purchased the remaining 35% working interest in the Maxhamish area, thus eliminating the terms of the initial farmout agreement, for cash consideration net from the Corporation of $5,005,000.

In 2009, the Corporation completed an acquisition of a property in the Taber and Conrad areas of Southern Alberta for consideration of $4,000,000 cash and 2,444,444 common share units that included one common share valued at the trading price of $0.45 per share and one warrant to purchase a common share at $0.60 that expired one year after issue date. The warrants were valued using the Black-Scholes model with an expected volatility of 130%, a risk-free rate of 1.26%, an expected life of one year, and no expected dividends for a total fair value of $462,259.

5. Oil and gas properties and equipment

December 31, 2010	**Cost**	**Accumulated depletion and depreciation**	**Net book value**
Oil and gas properties - Canada	**$68,589,511**	**$7,579,224**	**$61,010,287**
Oil and gas properties - USA	**5,700,666**	**5,578,979**	**121,687**
Leasehold improvements and other office assets	**465,944**	**243,395**	**222,549**
	$74,756,121	**$13,401,598**	**$61,354,523**

5. Oil and gas properties and equipment (continued)

December 31, 2009	Cost	Accumulated depletion and depreciation	Net book value
Oil and gas properties - Canada	$21,868,769	$4,406,624	$ 17,462,145
Oil and gas properties - USA	5,707,170	5,531,469	175,701
Leasehold improvements and other office assets	403,515	127,741	275,774
	$27,979,454	$10,065,834	$17,913,620

During the years ended December 31, 2010 and 2009, the Corporation did not capitalize any general and administrative expenses. As at December 31, 2010, the depletion calculation excluded $6,719,762 ($424,571l – 2009) relating to Canadian undeveloped properties and included $5,045,000 ($1,049,000 – 2009) of future development costs on Canadian properties.

The Corporation performed a ceiling test as at December 31, 2010. Based on the calculation, the carrying values of the properties are less than the sum of the undiscounted cash flows of proven reserves attributed to the developed properties, and therefore no impairment is recognized.

The ceiling test was based on independent engineering reports which incorporated the following benchmark prices:

Year	WTI Oil ($US / bbl)	F/X Rate $US/$CDN	Edmonton Oil $Cdn / bbl	Midwest Gas $US / mmbtu	AECO Gas $Cdn / mmbtu
2011	$ 88.00	$ 0.980	$ 86.22	$ 4.60	$ 4.16
2012	$ 89.00	$ 0.980	$ 89.29	$ 5.25	$ 4.74
2013	$ 90.00	$ 0.980	$ 90.92	$ 5.85	$ 5.31
2014	$ 92.00	$ 0.980	$ 92.96	$ 6.35	$ 5.77
2015	$ 95.17	$ 0.980	$ 96.19	$ 6.85	$ 6.22
2016+	+ 2.0%/yr	$ 0.980	+ 2.0%/yr	+ 2.0%/yr	+ 2.0%/yr

6. Bank loan

At December 31, 2010, the Corporation had no outstanding amount owing (2009 - $1,500,000) against a $5,000,000 (2009 - $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% (2009 – 1.75%) over the prime lending rate. As at December 31, 2010, the lending rate was 4.75% (4.00% at December 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, and currently, the Corporation is in compliance with all covenants. The line of credit is reviewed annually and the next review date will be May 31, 2011.

7. Deferred lease inducement

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. In 2010, the amortized value of $19,383 (2009 - $19,383) was applied to general and administrative expenses as a reduction of rent. The following schedule summarizes the deferred lease inducement to December 31, 2010 and 2009:

		2010		2009
Lease inducement opening balance	**$**	**75,917**	$	95,300
Amortized to general and administrative expense		**(19,383)**		(19,383)
Balance remaining – end of year	**$**	**56,534**	$	75,917
Less: Current deferred lease inducement		**(19,383)**		(19,383)
Long-term deferred lease inducement	**$**	**37,151**	$	56,534

8. Debentures

Secured debentures of $3,425,225 were issued to the subordinate secured creditors of Steen River. These debentures were assumed by Strategic upon acquisition of Steen River (Note 3(a)). The debentures bear interest at 5% per annum, which is compounded and payable monthly, and mature on November 20, 2011. The debentures are secured by a general security agreement over all assets of Steen River.

9. 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. These costs are expected to be incurred over a range of 12 to 22 years, depending on the estimated reserve life. The undiscounted amount of the estimated costs at December 31, 2010 were $15,459,560 ($5,887,334 – 2009). The estimated costs have been discounted at a credit adjusted risk free rate of 7% (2009 – 7%) and an inflation rate of 2% (2009 – 2%).

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

		2010		2009
Balance beginning of the year	**$**	**2,188,449**	$	315,068
Obligations assumed on corporate and property acquisitions		**6,563,422**		1,893,754
Liabilities incurred		**221,999**		14,335
Change in estimate		**(468,832)**		(26,163)
Obligations satisfied		**(4,542)**		(30,797)
Accretion		**153,167**		22,252
Balance end of the year	**$**	**8,653,663**	$	2,188,449

10. Share capital

*a) **Common Shares***

Authorized:
Unlimited number of common shares without par value

Issued:	**Number of shares**	**$**
Balance, December 31, 2008	**30,082,965**	**$15,681,441**
Shares issued re: ZinMac acquisition (v)	5,000,000	950,000
Shares issued re: Taber/Conrad acquisition (vi)	2,444,444	1,100,000
Private placement – common shares (vii)	25,733,598	11,580,119
Less: non-cash value attributed to warrants (vii)		(4,922,223)
Private placement – flow-through shares (vii)	5,432,092	2,987,651
Less: non-cash value attributed to warrants (vii)		(478,561)
Tax effect of renunciation on flow-through shares		(170,000)
Share issue costs		(2,342,665)
Balance, December 31, 2009	**68,693,099**	**$24,385,762**
Warrants exercised (i)	36,004,889	21,503,558
Stock options exercised (i)	733,333	285,833
Non-cash fair value of options and warrants exercised (i)		7,113,399
October 2010 financing – common shares (ii)	18,300,000	16,470,000
October 2010 financing – flow-through shares (ii)	5,232,500	5,755,750
December, 2010 financing – flow-through shares (iii)	5,175,000	5,692,500
Shares issued for Steen River acquisition (iv)	4,416,545	4,681,538
Tax effect of renunciation on flow-through shares (vii)		(746,913)
Share issue costs		(1,995,023)
Balance, December 31, 2010	**138,555,366**	**$83,146,404**

2010 issuances:

(i) During 2010, 36,004,889 warrants were exercised for proceeds of $21,503,558 and 733,333 stock options were exercised for proceeds of $285,833. The fair value adjustment of these warrants and options of $7,113,399 was recorded and deducted from contributed surplus.

(ii) During October, 2010, the Corporation completed a bought deal financing resulting in the issuance of 18,300,000 common shares at $0.90 per common share and 5,232,500 flow-through common shares at $1.10 per common share for gross proceeds of $22,225,750.

(iii) During December, 2010, 5,175,000 flow-through shares were issued for $1.10 per share for total proceeds of $5,692,500.

(iv) On December 22, 2010, 4,416,545 common shares were issued in exchange for the shares of Steen River Oil & Gas Ltd. (Note 3(a)) valued at that day's closing trading price of $1.06 per share for a total value of $4,681,538.

2009 issuances:

(v) The Corporation has issued 5,000,000 common shares to the nine shareholders of ZinMac to acquire the company as described in Note 3(b).

(vi) The Corporation has issued 2,444,444 common share units to acquire a property as described in Note 4.

10. Share capital (continued)

(vii) In December, 2009 Strategic completed a private placement by the issue of 25,733,598 common share units at $0.45 per unit. Each common share unit consisted of one common share and one common share purchase warrant entitling the holder to acquire one additional common share for a period of one year from closing for $0.60. In addition, 5,432,092 flow-through units were issued at $0.55 per flow-through unit. Each flow-through unit consists of one flow-through share and one half of a flow-through share warrant, each whole flow-through share warrant entitling the holder to one additional common share for $0.70 for one year from closing. Total gross proceeds from the private placement were $14,567,770. The tax effect of the renunciation of flow-through expenditures of $746,913 was recognized in February, 2010.

b) Shares in escrow

Shares issued pursuant to the ZinMac acquisition (Note 3) remaining in escrow at December 31, 2010 are detailed below:

Total shares in escrow per ZinMac acquisition (*Note 3(b)*)	**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 released September 10, 2010 (15%)	(750,000)
Shares remaining in escrow – December 31, 2010	**2,250,000**

In March, 2011 a further 15% or 750,000 shares were released from escrow.

c) Warrants

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

	Number of warrants	Exercise price
Opening balance – December 31, 2008	**5,793,625**	**$1.09**
Expired	(5,793,625)	$1.09
Issued – per ZinMac acquisition (Note 3(b))	370,370	$0.27
Issued – per Taber/Conrad acquisition (Note 4)	2,444,444	$0.60
Issued – per private placement – common shares units Note 10(a)(vii)	25,733,598	$0.60
Issued – per private placement – flow-through share units Note 10(a)(vii)	2,716,046	$0.70
Issued – warrants for commissions and finders' fees	164,400	$0.60
Closing balance – December 31, 2009	**31,428,858**	**$0.60**
Warrants issued through exercise of broker warrants (Note 10(d))	2,473,200	$0.60
Exercised	(33,531,688)	$0.61
Closing balance – December 31, 2010	**370,370**	**$0.27**

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

Number of warrants	Exercise price	Expiry
370,370	$0.27	May 8, 2011

All warrants vested immediately. Upon exercise, fair value of $5,897,198 was recognized into share capital from contributed surplus for the warrants exercised in during 2010 (2009 - $nil).

10. Share capital (continued)

d) Broker Warrants

The following table reconciles the changes to the Corporation's broker warrants for the year ended December 31, 2010:

	Number of warrants	Exercise price
Opening balance – December 31, 2008	**-**	**-**
Issued – broker warrants for commissions	2,473,200	$0.45
Closing balance – December 31, 2009	**2,473,200**	**$0.45**
Exercised	(2,473,200)	$0.45
Closing balance – December 31, 2010	**-**	**-**

In 2009, an agent was given 2,473,200 broker warrants representing the amount of 10% of the units and flow-through units sold, exercisable for one year from closing. Each broker warrant entitled the holder to acquire one common share unit for $0.45 per unit. Each common share unit consisted of one common share and one common share purchase warrant entitling the holder to acquire one additional common share for a period of one year from closing for $0.60. These warrants were exercised in 2010, and 2,473,200 additional warrants were issued at $0.60 per common share (Note 10(c)) which vested immediately. All warrants were exercised in 2010, so there were no broker warrants outstanding at December 31, 2010. The warrants were valued using the Black-Scholes model with an expected volatility of 126%, a risk-free rate of 1.26%, an expected life of one year, and no expected dividends, and a fair value of $1,018,915 was recorded in share issue costs in 2009. In 2010, when the broker warrants were exercised, the fair value of $1,018,915 was recognized into share capital from contributed surplus.

e) Stock options

The Corporation has a stock option plan under which officers, directors and employees are eligible to receive stock options. The Corporation may reserve for issuance under the plan up to 10% of the issued and outstanding common shares. Options granted under the plan generally have a term of five years and vest at terms to be determined by the directors. As at December 31, 2010, 3,846,667 (2009 - 3,355,000) options were outstanding.

The following table reconciles the changes to the Corporation's stock options for the year ended December 31, 2010:

	Number of options	Average Exercise price
Balance – December 31, 2008	**800,000**	**$0.70**
Issued *(i)*	1,855,000	$0.46
Issued *(ii)*	800,000	$0.50
Expired	(100,000)	$0.50
Balance – December 31, 2009	**3,355,000**	**$0.53**
Issued *(iii)*	1,275,000	$0.65
Exercised *(iv)*	(733,333)	$0.39
Expired	(50,000)	$0.75
Balance – December 31, 2010	**3,846,667**	**$0.59**

10. Share capital (continued)

(i) In March, 2009, 1,855,000 common share options were issued. Of these options, 300,000 options had an exercise price of $0.25 per share expiring in five years from date of issue, and vested immediately. The remaining options vested one-third immediately and are exercisable at $0.25 per share, one-third vest at the first year anniversary date and are exercisable at $0.50 per share, and the final third vest at the second anniversary date and are exercisable of $0.75 per share. These options also expire five years from the date of issue. The fair value of the options were calculated using the Black-Scholes model using an expected volatility of 114.3%, interest rate of 1.9%, expected life of 5 years, and no expected dividends resulting in $245,984 of stock-based compensation recognized over the vesting period.

(ii) In October, 2009, 800,000 common share options were issued with an exercise price of $0.50 per share expiring in five years from date of issue, and were exercisable immediately. The fair value of the options recognized was $291,772 using an expected volatility of 114.3%, interest rate of 2.48%, expected life of 5 years, and no expected dividends.

(iii) 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 vested immediately. The fair value of the options was 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.

(iv) During 2010, 733,333 options were exercised for proceeds of $285,833. Fair value of $197,286 was recognized into share capital from contributed surplus when the options were exercised.

(v) Subsequent to the year end, 3,125,000 stock options were issued with an exercise price of $1.10 per share expiring five years from date of issue and vested immediately.

The following table sets out the outstanding options as at December 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)**
701,667	$0.25	3.19	701,667	$0.25	3.19
1,235,000	$0.50	3.61	1,235,000	$0.50	3.61
1,275,000	$0.65	4.04	1,275,000	$0.65	4.04
435,000	$0.75	3.19	-	$0.75	-
200,000	$1.60	0.33	200,000	$1.60	0.33
3,846,667	**$0.59**	**3.46**	**3,411,667**	**$0.57**	**3.49**

f) ***Weighted average shares***

	2010	2009
Weighted average shares (basic)	**80,239,777**	38,240,750
Options (nil in 2009 – antidilutive)	**1,514,221**	-
Warrants (nil in 2009 – antidilutive)	**260,897**	-
Weighted average shares (diluted)	**82,014,895**	38,240,750

11. Contributed surplus

	2010 **$**	2009 $
Balance – beginning of the year	**10,141,849**	2,706,213
Warrants issued pursuant to ZinMac purchase *(Note 3(b))*	**-**	36,581
Warrants issued pursuant to Taber/Conrad purchase *(Note 4)*	**-**	462,259
Warrants issued pursuant to sale of common share units *(Note 10(a)(vii))*	**-**	4,922,223
Warrants issued pursuant to sale of flow-through share units *(Note 10(a)(vii))*	**-**	478,561
Warrants issued as commissions and fees *(Note 10(a)(vii))*	**-**	34,155
Broker warrants issued as commissions *(Note 10(a)(vii)*	**-**	1,018,915
Warrants and options exercised *(Note 10(a)(i))*	**(7,113,399)**	-
Stock-based compensation	**743,219**	482,942
Balance - end of the year	**3,771,669**	10,141,849

12. Income taxes

The following table reconciles the expected income tax expense (recovery) at the Canadian federal and provincial statutory income tax rates to the amounts recognized in the consolidated statements of income (loss), comprehensive income (loss), and deficit for the years ended December 31, 2010 and 2009.

		2010		2009
Income (loss) before income taxes	**$**	**4,567,655**	$	(4,059,318)
Statutory income tax rates		**28.00%**		29.13%
Expected income tax expense (recovery) computed at statutory rates	**$**	**1,278,943**	$	(1,182,512)
Non deductible expenses		**3,035**		4,651
Non capital losses expiring in the year		**8,507**		21,818
Share issuance costs		**(534,466)**		(624,981)
Changes in tax rates		**473,076**		198,660
Stock-based compensation		**208,811**		140,606
ZinMac acquisition		**-**		(247,368)
Change in valuation allowance		**(2,184,819)**		1,541,425
Other		**-**		(22,299)
Income tax (recovery) expense	**$**	**(746,913)**	$	(170,000)

12. Income taxes (continued)

Details of future income tax assets (liabilities) are as follows:

	2010	2009
Future income tax assets (liabilities)		
Non-capital loss carry forwards	**$ 16,148,325**	$ 1,848,566
Tax value of share issuance costs in excess of book value	**794,978**	588,036
Tax value of oil and gas properties in excess of book value - US	**1,826,633**	1,827,037
Tax value of oil and gas properties in excess of book value	**7,807,014**	-
Book value of oil and gas properties in excess of tax value	**-**	(1,396,755)
Asset retirement obligations	**2,165,191**	552,660
Book value of special shares in excess of tax value	**(5,867,935)**	-
Lease inducement liabilities	**-**	19,095
Tax value of debt issuance costs in excess of book value	**-**	4,226
Other	**277,616**	-
Total gross future income tax assets	**23,151,822**	3,442,865
Less valuation allowance	**(23,151,822)**	(3,442,865)
Net future tax asset (liabilities)	**$ -**	$ -

Based upon the level of historical taxable income, it cannot be reasonably estimated at this time if it is more likely than not that the Corporation will realize the benefits from future income tax assets. The estimated valuation allowance will be adjusted in the period it is determined that it is more likely than not that some portion or all of the future tax assets will be realized.

As at December 31, 2010, the Corporation has non-capital losses of approximately $64,593,296 (2009 - $7,356,094) which may be carried forward to apply against future years' taxable income for Canadian tax purposes, subject to final determination by taxation authorities and expiring as follows:

	2010	2009
2010	**-**	34,024
2014	**90,071**	90,071
2015	**295,664**	295,664
2025	**7,134,163**	-
2026	**26,923,732**	481,463
2027	**15,015,474**	887,004
2028	**1,530,349**	720,845
2029	**7,723,963**	4,847,023
2030	**5,879,880**	-
	$ 64,593,296	$ 7,356,094

13. Supplemental cash flow information

	2010	2009
Interest paid	**$ 110,707**	$ 94,406
Interest received	**73,541**	-
Taxes paid	**-**	-

Non-cash transactions		
Units issued for finders' fees *(Note 10(a)(vii))*	**$ -**	$ 1,053,070
Shares and warrants issued for acquisition of Steen River (2010) and ZinMac (2009) *(Note 3(a))*	**4,681,538**	986,581
Shares and warrants issued for acquisition of property *(Note 4)*	**-**	1,562,259

Changes in non-cash balances		
Accounts receivable	**$ (767,108)**	$ 197,315
Prepaid expenses and deposits	**66,136**	(89,826)
Accounts payable	**1,423,324**	651,748
	$ 722,352	$ 759,237
Operating	**$ (433,383)**	$ 463,834
Financing	**-**	-
Investing	**1,155,735**	295,403
	$ 722,352	$ 759,237

14. Capital disclosures

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

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:

	2010 **$**	2009 $
Current assets	**34,838,496**	7,846,325
Current liabilities (excluding debt and debentures)	**(6,089,881)**	(1,732,893)
Net working capital surplus	**28,748,615**	6,113,432
Total line of credit	**5,000,000**	5,000,000
Year end loan balance	**-**	(1,500,000)
Unutilized line of credit	**5,000,000**	3,500,000
Net available funds	**33,748,615**	9,613,432

The Corporation is currently projecting its 2011 Capital Program to be $25.0 million, and expects the current available funds plus anticipated cash flow will be able to fund it.

The amount 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 December 31, 2010, this ratio was 6.5:1 (2009- 6.6:1).

15. Financial Instruments

Financial instruments consist of cash and cash equivalents, short term investments, accounts receivable, accounts payable and accrued liabilities, bank loan, and debentures. The carrying value approximates fair value due to the immediate or short term maturity 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.

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 December 31, 2010 and 2009, the Corporation had no hedging contracts. The following table analyzes the Corporation's sensitivity to commodity price changes:

	2010 **$**	2009 $
10% change in oil price	**487,157**	153,698
10% change in gas price	**73,989**	74,497

**Note: change in revenue is in the same direction as change in price*

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. As at December 31, 2010, if interest rates had increased by 1% with all other variables held constant, net income would have decreased by $50,061 (2009 – decrease $4,882). The change in net income for an interest rate that is 1% lower would also increase by $3,636 (2009 – increase $12,140).

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 December 31, 2010 and 2009, the Corporation had no contracts in place to reduce the foreign exchange risk. This effect is currently immaterial.

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. All of the Corporation's liabilities mature in 2011 as the Corporation's accounts payable are due on demand. There was no loan balance at December 31, 2010 (2009 - $1,500,000), so minimal additional liquidity risk.

15. Financial Instruments (continued)

c) Credit Risk

Credit risk is the risk that a customer or counterparty will fail to perform an obligation or fail to pay amounts due causing a financial loss. The Corporation's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal credit risks. The Corporation's production is predominately sold directly after taking its product in kind. Currently, over 75% of the oil and natural gas is being sold through marketing companies and revenues are collected on the 25th day of the month following the month of production. The majority of the remaining accounts receivable are from joint venture partners which is collected between two and four months after the production month.

Collection of the remaining balances can be dependent upon industry factors such as commodity prices, risk of unsuccessful drilling and partner disputes. Otherwise, the Corporation does not typically obtain collateral from joint venture partners, and relies upon industry standard legal remedies for collection. As at December 31, 2010 and 2009, the Corporation's receivables were as follows:

	2010	2009
	$	$
Joint venture partners	**578,761**	125,252
Petroleum and natural gas marketers	**721,117**	354,205
Insurance proceeds receivable	**427,600**	-
Alberta crown royalties receivable	**967,459**	-
GST and HST	**450,448**	129,215
Other	**11,561**	-
Total accounts receivable	**3,156,946**	608,672

As at December 31, 2010 and 2009, the aging analysis of trade receivables is as follows:

	2010	2009
	$	$
Current	**1,878,643**	523,228
30 – 60 days	**108,312**	49,037
60 – 90 days	**47,452**	7,887
Greater than 90 days	**1,122,539**	28,520
Total	**3,156,946**	608,672

At December 31, 2010, the amount receivable of $967,459 for Alberta Crown royalties was acquired with Steen River and greater than 90 days outstanding. Steps are being taken to recover this balance.

Insurance proceeds relate to claims made regarding environmental clean up expenses relating to a pipeline break, which was an obligation that was in existence at Steen River's acquisition date of December 22, 2010. Claims have been submitted for the total of $427,600, and subsequent to the year end, $90,578 has been received by the Corporation.

As at December 31, 2010, there was an allowance for doubtful accounts of $50,000 (2009 - $nil).

16. Related party transactions

Legal fees and expenses in the amount of $477,142 ($228,188 – 2009) were incurred with a legal firm of which a director is a partner, which have been recorded in general and administrative expenses and share issue costs. General administrative fees in the amount of $79,500 ($67,500 – 2009) were charged by the Corporate Secretary. Consulting fees in the amount of $30,755 ($55,230 – 2009) were charged by a director for geophysical consulting services. Software charges of $126,000 ($20,843 – 2009) were charged by a company controlled by an officer. Accounts payable and accrued liabilities at December 31, 2010 includes $307,198 ($101,695 – 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.

17. Commitments

a) Pursuant to the issues of flow through shares in October and December, 2010, the Corporation is committed to incur, prior to December 31, 2011, a total of $11,448,250 on qualifying expenditures. As at December 31, 2010, $342,938 has been incurred towards this commitment.

b) The Corporation has lease agreements for office space resulting in the following commitments:

Year ended	$
2011	292,596
2012	292,596
2013	263,213
	848,405

18. Subsequent events

In January, 2011, 3,125,000 common share options were issued with an exercise price of $1.10 per share expiring in five years from date of issue, and exercisable immediately.