Strategic Oil & Gas Ltd.

Condensed Interim Consolidated Financial Statements

For the three months ended

March 31, 2011 and 2010

Strategic Oil & Gas Ltd.

Condensed interim consolidated balance sheets (unaudited)

	March 31, 2011 **$**	December 31, 2010 $	January 1, 2010 $
Assets		*(Note 18)*	*(Note 18)*
Current assets:			
Cash and cash equivalents	**19,470,145**	30,974,764	3,043,351
Short-term investments	**-**	-	4,001,380
Trade and other receivables	**4,811,031**	3,863,732	801,594
	24,281,176	34,838,496	7,846,325
Property, plant, and equipment, net (*Note 5*)	**56,744,745**	48,663,681	13,816,704
Exploration and evaluation assets *(Note 4)*	**7,859,993**	5,245,316	-
Goodwill (*Note 6*)	**643,357**	643,357	643,357
	89,529,271	89,390,850	22,306,386
Liabilities and Shareholders' Equity			
Current Liabilities:			
Accounts payable and accrued liabilities	**10,950,713**	6,127,032	1,789,427
Bank loan (*Note 7*)	**-**	-	1,500,000
Deferred price premium on flow-through shares *(Note 8)*	**-**	1,046,500	-
Debentures *(Note 9)*	**3,425,225**	3,425,225	-
	14,375,938	10,598,757	3,289,427
Long Term Liabilities:			
Decommissioning liabilities (*Note 10*)	**9,898,863**	11,298,520	3,273,293
	24,274,801	21,897,277	6,562,720
Shareholders' Equity	**65,254,470**	67,493,573	15,743,666
	89,529,271	89,390,850	22,306,386

Commitments (*Note 17*)
Effects of adoption of IFRS *(Note 18)*

Approved by the Board of Directors

Signed: - "Arn Schoch"

Signed:- "Rick Skeith"

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

Strategic Oil & Gas Ltd.

Condensed interim consolidated statement of loss and comprehensive loss (unaudited)

	Three months ended March 31, 2011 $	Three months ended March 31, 2010 $
		(Note 18)
Revenues		
Petroleum and natural gas sales	**4,613,897**	1,686,607
Royalties	**(1,276,554)**	(212,071)
	3,337,343	1,474,536
Other income	**54,497**	3,034
Revenues, net of royalties	**3,391,840**	1,477,570
Expenses		
Operating costs	**3,305,131**	648,706
Transportation	**146,369**	59,763
Exploration and evaluation *(Note 4)*	**181,395**	-
General and administrative	**1,173,326**	690,606
Finance costs *(Note 12)*	**107,012**	72,516
Stock based compensation *(Note 11(c))*	**2,657,400**	727,237
Foreign exchange (gain) loss	**228**	(411)
Depletion, depreciation, and amortization	**1,758,578**	504,754
	9,329,439	2,703,171
Loss before income taxes	**(5,937,599)**	(1,225,601)
Deferred tax recovery (*Note 8*)	**1,046,500**	-
Net loss and comprehensive loss for the period	**(4,891,099)**	(1,225,601)
Deficit - beginning of the period	**(19,647,691)**	(19,308,779)
Deficit - end of the period	**(24,538,790)**	(20,534,380)
Net loss per weighted average share		
Basic and diluted *(Note 11(e))*	**$(0.04)**	$(0.02)

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

Strategic Oil & Gas Ltd.

Condensed interim consolidated statement of changes in shareholders' equity (unaudited)

	Three months ended March 31, 2011 $	Three months ended March 31, 2010 $
		(Note 18)
Share capital ***(Note 11)***		
Balance, beginning of period	**83,374,222**	24,913,168
Share issue costs	**(5,404)**	(8,234)
Balance, end of period	**83,368,818**	24,904,934
Contributed surplus ***(Note 11(f))***	**3,767,042**	10,139,277
Balance, beginning of period	**2,657,400**	727,237
Stock-based compensation		
Balance, end of period	**6,424,442**	10,866,514
Deficit		
Balance, beginning of period	**(19,647,691)**	(19,308,779)
Net loss	**(4,891,099)**	(1,225,601)
Balance, end of period	**(24,538,790)**	(20,534,380)
Total shareholders' equity	**65,254,470**	15,237,068

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

Strategic Oil & Gas Ltd.

Condensed interim consolidated statement of cash flows (unaudited)

	Three months ended March 31, 2011 $	Three months ended March 31, 2010 $
Operating activities:		
Net (loss) for the period	**(4,891,099)**	(1,225,601)
Non-cash items:		
Depletion, depreciation, and amortization	**1,758,578**	504,754
Accretion of decommissioning liabilities	**51,317**	33,048
Exploration and evaluation *(Note 4)*	**181,395**	-
Deferred tax recovery	**(1,046,500)**	-
Stock based compensation	**2,657,400**	727,237
Other	**(5,891)**	(1,577)
	(1,294,800)	37,861
Expenditures on decommissioning liabilities *(Note 10)*	**(2,163,849)**	(1,931)
Net changes in other assets and liabilities *(Note 13)*	**111,869**	(471,717)
	(3,346,780)	(435,787)
Financing activities:		
Share issuance costs	**(5,404)**	(8,234)
Advances from (repayments against) bank loan	**-**	50,000
	(5,404)	41,766
Investing activities:		
Expenditures – property, plant, and equipment *(Note 5)*	**(8,477,786)**	(635,903)
Expenditures – exploration and evaluation assets *(Note 4)*	**(3,444,008)**	(1,556,365)
Purchase of short term investments	**-**	(2,960)
Net changes in non-cash working capital items *(Note 13)*	**3,769,359**	887,248
	(8,152,435)	(1,307,980)
Decrease in cash and cash equivalents during the period	**(11,504,619)**	(1,702,001)
Cash and cash equivalents, beginning of the period	**30,974,764**	3,043,351
Cash and cash equivalents, end of the period	**19,470,145**	1,341,350

Supplemental cash flow information (*Note 13*)

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

1. Corporate information

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 on March 10, 2009, and Steen River Oil & Gas Ltd. ("Steen River"), a private oil and gas exploration and production company, was acquired on December 22, 2010 by Strategic.

Strategic Oil & Gas Ltd. is a publicly listed company with shares listed on the TSX Venture Exchange. Its shares are listed on the TSX Venture Exchange. The Corporation, together with its subsidiaries, (collectively referred to as the "Corporation") is engaged in the exploration for and development of petroleum and natural gas reserves in Western Canada with minor operations in the Western United States. The Corporation is headquartered in Canada at Suite 1800, 510 – 5th Street SW, Calgary, Alberta T2P 3S2.

2. Basis of preparation

a) Statement of compliance

The Canadian Accounting Standards Board (AcSB) has confirmed in February 2008 that the use of the International Financial Reporting Standards ("IFRS") is required for publicly accountable profit-oriented enterprises, and these are the Corporation's first IFRS condensed interim consolidated financial statements. The transition from the previous Canadian Generally Accepted Accounting Principles ("GAAP"), under which the Corporation prepared its consolidated annual financial statements, to IFRS resulted in selected changes to the Corporation's accounting policies, which are disclosed in *Notes 3 and 18*. *Note 18* also includes reconciliations presenting the impact of these changes in accounting policies, as well as disclosure regarding permitted exemptions for alternative treatment under IFRS 1, applied consistently throughout the comparative periods as at January 1, 2010, as at and for the three months ending March 31, 2010, and as at and for the year ending December 31, 2010.

These condensed interim consolidated financial statements of the Corporation have been prepared in accordance with IAS 34 Interim Financial Reporting of the International Financial Reporting Standards as issued by the International Accounting Standards Board "IASB". IFRS 1 First Time Adoption of International Financial Reporting Standards has been applied. The condensed interim consolidated financial statements do not contain all of the information required for full annual consolidated financial statements.

These condensed interim consolidated financial statements for the three months ended March 31, 2011 and including 2010 comparative periods, were authorized for issue in accordance with the resolution of the Board of Directors on June 2, 2011.

b) Basis of presentation

The financial statements have been prepared on the historical cost basis except for certain share-based payment transactions, which are measured at fair value, as explained in the accounting policies set out in *Note 3*. In addition, these condensed interim consolidated financial statements have been prepared on an accrual basis of accounting, except for cash flow information. The comparative figures presented in these condensed interim consolidated financial statements are in accordance with IFRS and have not been audited.

These condensed consolidated interim financial statements are presented in Canadian dollars, the Corporation's functional currency.

3. Summary of significant accounting policies

a) Basis of consolidation

The condensed interim consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries.

Interests in jointly-controlled assets were accounted for using the proportionate consolidated method, so the Corporation has included its proportionate share of revenues, expenses, assets, and liabilities in its accounts.

b) Foreign currencies

A functional currency is the currency of the primary economic environment in which the Corporation operates and is normally the currency in which the entity primarily generates and expends cash. The financial statements of the Corporation's subsidiaries are translated into Canadian dollars, which is the presentation and functional currency of the Corporation. The assets and liabilities of subsidiaries whose functional currencies are other than Canadian dollars are translated into Canadian dollars at the foreign exchange rate at the balance sheet date, while revenues and expenses of such subsidiaries are translated using average monthly foreign exchange rates, which approximate the foreign exchange rates on the dates of the transactions. Foreign exchange differences arising on translation are included in Other Comprehensive Income ("OCI").

c) Significant accounting judgments, estimates, and assumptions

The preparation of the condensed interim consolidated financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses and disclosures regarding contingent assets and liabilities as at the date of the condensed interim consolidated financial statements and for the revenues and expenses during the period. Such estimates primarily apply to unsettled transactions and events at the date of issue. Estimates and judgments are continuously evaluated and are based on management's experience, expectations of future events that are believed to be reasonable under the circumstances, and other factors. Actual results may differ materially from these estimates. The significant judgments made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS financial statements.

In particular, information about significant areas of estimation uncertainty considered by management in preparing the condensed interim consolidated financial statements are included in the following notes:

- Note 4 – valuation of exploration and evaluation
- Note 5 – valuation of property, plant, and equipment, depletion and depreciation
- Note 6 – valuation of goodwill
- Note 10– decommissioning liability and accretion
- Note 11(c) – measurement of stock-based compensation
- Note 15 – valuation of financial instruments

The oil and gas development and production properties are depreciated on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with Society of Petroleum Engineers rules and NI-51-101 Regulations and incorporating the estimated future cost of developing and extracting those reserves. Impairment tests may also be based upon the discounted present value of these reserves. There are numerous uncertainties inherent in estimating oil and gas reserves. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of

3. Summary of significant accounting policies (continued)

commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being restated.

Exploration and evaluation assets are transferred to property, plant, and equipment or expensed based upon management's decisions regarding the technical feasibility and commercial viability of the project. Impairment tests prior to this reclassification are based upon the discounted present value of the reserves estimated to be present at this time. These estimates and assumptions may change as new information becomes available.

Estimates for environmental clean-up and remediation costs associated with the Corporation's drilling and producing operations are based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows, both in timing and in value, can differ from these estimates.

Stock-based compensation expenses are subject to the estimation of the cost to the Corporation using the Black-Scholes model, which requires estimates of stock price volatility, forfeiture rates, dividend yield, and expected exercise date.

Income taxes are estimated using current interpretations, regulations, and legislation in various jurisdictions in which the Corporation operates applied to the reversal of temporary differences based upon estimates of future net income. Management assesses deferred tax balances for the likelihood that they will be realized. To the extent that assumptions used in these assessments change, these balances are subject to measurement uncertainty.

d) Revenue recognition

Revenues associated with the sale of crude oil, natural gas, and natural gas liquids are recognized when title passes from the Corporation to its customer.

e) Transportation

The costs associated with transportation of product to market are recognized when the product is delivered and the services provided.

f) Income taxes

Deferred tax is provided for using the liability method on temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amounts using the enacted or substantively enacted income tax rates expected to apply when these differences reverse. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Corporation does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

g) 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 adjusting the weighted average outstanding shares for in-the-money stock options and warrants as calculated by the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of the in-the-money stock options and warrants are used to repurchase common shares at the market price at the year end.

3. Summary of significant accounting policies (continued)

h) 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.

i) Pre-exploration costs

Costs incurred prior to obtaining a legal right to explore are expensed in the period in which they are incurred as an exploration expense.

j) Exploration and evaluation ("E&E") assets

Costs associated with acquiring an exploration licence, including costs to acquire acreage and exploration rights, legal and other professional fees and land brokerage fees are capitalized as exploration and evaluation assets. Geological and geophysical costs (including seismic) associated with assessing exploration licences are also capitalized to E&E. Land acquisition costs and expenditures directly associated with exploratory wells are capitalized and remain capitalized until the Corporation has chosen to discontinue all exploration activities in the associated area. Costs directly associated with an exploration well are capitalized as exploration and evaluation assets until the drilling of the well is complete and the results have been evaluated.

Land acquisition costs, related seismic and costs directly associated with exploratory wells with proven reserves are tested for impairment and reclassified to PP&E. If no reserves are found, the capitalized exploration costs are charged to expense as exploration expense, including dry hole costs.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved reserves are determined to exist. A review of each exploration area is carried out, at least annually, to ascertain whether proved reserves have been discovered. Upon determination of proved reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to property, plant, and equipment. E&E assets are assessed for impairment if (i) sufficient data exists to determine the lack of technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation asset are allocated to cash-generating units.

Any gains or losses from the divestiture of E&E assets are recognized in net earnings.

k) Property, plant, and equipment ("PP&E")

Expenditures on the construction, installation or completion of infrastructure facilities for the development of oil and gas reserves which have reached technical feasibility and commercial viability are capitalized within PP&E. These costs may include E&E transfers, proved property acquisitions, seismic and geological analysis of proved reserves, drilling, completion, equipping and tying in of development wells, facility and road construction, and decommissioning costs.

Repairs and maintenance are expensed as incurred. Any gains or losses from the divestiture of PP&E are recognized in net earnings.

3. Summary of significant accounting policies (continued)

l) Depletion and depreciation

The net carrying value of development or production assets is depleted on an area by area basis using the unit of production method and proved and probable reserves, including future development costs. Future development costs are estimated taking into account the development required to bring future reserves into production.

Estimates for proved and probable reserves and future development costs are reviewed by independent reserve engineers at least annually.

Where commercial production has commenced, PP&E is depreciated on a unit-of-production basis over the proved and probable reserves of the field. In the case of significant assets whose useful life is different than the lifetime of the field, the straight-line method is applied. The unit-of-production rate for the amortization of field development costs takes into account expenditures incurred to date, together with future development costs. Changes in factors such as estimates of reserves are not applied retrospectively, but affect the depreciation rate going forward.

m) Other property, plant, and equipment

Office furniture, fixtures, leasehold improvements, information technology, and vehicles are carried at cost, less accumulated depreciation. Depreciation is calculated on a straight-line basis over their estimated useful lives ranging from three to twenty years.

n) Borrowing costs

Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalized and added to the project cost during construction until such time the assets are substantially ready for their intended use, i.e., when they are capable of commercial production. All other borrowing costs are recognized in net earnings in the period in which they are incurred.

o) Impairment of long-lived assets

For the purposes of depletion and impairment testing, the Corporation's assets are allocated to cash-generating units ("CGUs"), which are the smallest group of assets capable of generating largely independent cash inflows. The Corporation assesses at each reporting date whether there are indications of impairment. If indications of impairment exist, or at least annually, the Corporation estimates the asset's recoverable amount, which is the higher of an asset's or CGU's fair value less costs to sell and its value-in-use.

Fair value less costs to sell represents the value for which an asset could be sold in an arm's length transaction, and is presented as a function of the future cash flows of the proved and probable reserves. Value in use is estimated as the discounted present value of the future cash flows expected to arise from the continued use of the asset or CGU.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and the impairment loss is charged to earnings.

For impairment losses recognized in prior periods, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. Previously recognized impairment loss reversals are limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior periods. Impairment reversals are recognized as an impairment recovery in earnings.

3. Summary of significant accounting policies (continued)

Corporate assets are allocated to the CGUs to which they pertain for testing for impairment. Any impairment loss is recognized in earnings. Impairment losses recognized in prior periods can be reversed where there is a subsequent increase in the recoverable amount. In this event, the carrying value of the assets or CGU is increased to its revised recoverable amount with the impairment reversal recognized in earnings.

p) Business combinations and goodwill

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The Corporation measures goodwill at the acquisition date as the fair value of consideration transferred including the recognized amount of any non-controlling interests in the acquiree, 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 earnings.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Corporation’s CGUs that are expected to benefit from the synergies of the combination.

Goodwill is tested for impairment at least annually. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

q) Deferred lease inducements

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.

r) Flow-through shares

IFRS does not directly address the accounting treatment of flow-through shares, so the Corporation has chosen to follow the Financial Accounting Standards Board (“FASB”) guidance. The premium price of a flow-through share greater than the value of a common share is deemed to be the value of the sale of tax benefits to the flow-through share recipient and is recognized as a flow-through tax liability upon issuance of the flow-through shares.

The deductions for appropriate resource expenditures 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. Upon renunciation, the deferred tax effect is recognized and offset against the flow-through tax liability with the net amount recognized in earnings.

s) Provisions and decommissioning liabilities

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in earnings net of any reimbursement.

Decommissioning liabilities include an estimate of the future costs associated with the abandonment and reclamation of PP&E, discounted to its present value, and is capitalized as part of the cost of that asset. The estimated costs are based on the present value of the expenditure expected to be incurred. Changes in the discount

3. Summary of significant accounting policies (continued)

rate, estimated timing of decommissioning, or cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to PP&E. The accretion on the decommissioning provision is included in finance costs in earnings. Actual expenditures incurred are charged against the decommissioning liability.

t) Stock-based payment transactions

The share option plan allows the Corporation's employees and key consultants to acquire shares of the Corporation. The fair value of options granted is recognized as a stock based compensation with a corresponding increase in equity. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, expected dividends, estimated forfeiture rate, and the risk free interest rate. The fair value is measured at the grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted.

u) Financial instruments

Financial instruments are recognized at fair value on initial recognition of the instrument. Financial assets and liabilities are not offset unless the Corporation has the legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously. Subsequent measurement depends upon the classification of the financial instrument as one of:

- Fair value through profit or loss
- Loans and receivables
- Available for sale
- Held to maturity
- Financial liabilities measured at amortized cost

Financial instruments at "fair value through profit or loss" are further classified as either:

- Held for trading, or
- Designated at fair value through profit or loss

and are adjusted to the fair value at the reporting period with the changes recognized in earnings.

Financial instruments classified as "loans and receivables", "held to maturity", or "financial liabilities measured at amortized cost" are subsequently measured at amortized cost using the effective interest method of amortization.

Financial assets classified as "available for sale" are measured at fair value, with the changes in fair value recognized in other comprehensive income.

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

Financial instrument per balance sheet	Classification	Subsequent measurement
Cash and cash equivalents	Fair value through profit or loss	Fair value
Short-term investments	Fair value through profit or loss	Fair value
Trade and other receivables	Loans and receivables	Amortized cost using effective interest method
Accounts payable and accrued liabilities	Financial liabilities measured at amortized cost	Amortized cost using effective interest method
Bank loan	Financial liabilities measured at amortized cost	Amortized cost using effective interest method
Debentures	Financial liabilities measured at amortized cost	Amortized cost using effective interest method

3. Summary of significant accounting policies (continued)

v) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issuance of shares or options are shown in equity as a deduction, net of tax.

w) Future accounting pronouncements

As of January 1, 2013, the Corporation will be required to adopt IFRS 9, "Financial Instruments" which is the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current classifications and measurement models for financial assets and liabilities with a single model with two classification categories: amortized cost and fair value. It is not likely that the adoption of this standard will a material impact on the Corporation's financial statements.

4. Exploration and evaluation assets

	March 31, 2011 **$**	December 31, 2010 $
		-
Opening balance	**5,245,316**	-
E&E expenditures	**3,444,008**	8,233,916
Additional E&E from recognition of farmout	**-**	2,690,664
E&E through acquisition of subsidiary	**-**	2,667,521
Decommissioning liabilities recognized	**-**	94,908
Impairment of E&E expenditures	**-**	(4,492,025)
Transfers to PP&E, net of impairment	**-**	(2,626,600)
E&E expensed during the period	**(181,395)**	(883,276)
Amortization	**(647,936)**	(439,792)
Closing balance	**7,859,993**	5,245,316

E&E assets consist of costs from the Corporation's projects which are pending determination of technical feasibility and commercial viability. All of the Corporation's E&E assets are located within Canada.

During 2010, the Corporation satisfied the requirements of a farmout arrangement and acquired a working interest in a property with proved production, which made the property technically feasible and commercially viable. The Corporation's share of the expenditures made to satisfy the farmout were $2,690,664 and were recognized into E&E assets. The value of the project expenditures of $2,938,574, the related decommissioning liability of $94,908, plus the additional value of the farmout, was tested for impairment prior to being transferred to property, plant, and equipment, and an impairment loss of $3,097,546 was recognized for a net transfer to PP&E of $2,626,600.

During 2010, the Corporation acquired $2,667,522 of undeveloped land with the acquisition of Steen River. Also in 2010, the Corporation had recognized an impairment of $1,394,479 of land it does not intend to explore in the near future. Also, during 2010, the Corporation determined certain E&E costs to be unsuccessful, and derecognized $883,276 as E&E expense in earnings.

For the three months ended March 31, 2011, $181,395 was charged directly to exploration expense ($nil for the three months ended March 31, 2010) for unsuccessful projects.

5. Property, plant, and equipment

Cost	**March 31, 2011** **$**	December 31, 2010 $
Opening balance	**64,937,169**	22,751,382
PP&E expenditures	**8,477,786**	5,411,063
Additional PP&E from recognition of farmout	**-**	450,646
Transfers from E&E (*Note 4*)	**-**	5,724,148
Acquisition of Steen River	**-**	30,609,333
Changes in decommissioning liability	**713,920**	(9,403)
Closing balance	**74,128,875**	64,937,169

In December 2010, Strategic acquired the shares of Steen River, a private oil and gas exploration and production company. The corporation acquired the shares in exchange for a total of 4,416,545 common shares, cash of $6,349,162 and the assumption of secured debentures valued at $3,425,225. The developed oil and gas properties were valued using management's best estimates of the fair value at the date of acquisition of $30,609,333.

Accumulated depreciation, depletion, and amortization	**March 31, 2011** **$**	December 31,2010 $
Opening balance	**16,273,488**	8,934,678
Depreciation, depletion, and amortization	**1,110,642**	2,137,254
Impairments recognized	**-**	3,532,885
Impairments transferred in from E&E (*Note 4*)	**-**	3,097,544
Recoveries of previous impairments	**-**	(1,326,307)
Reduction in accumulated depletion due to farmout	**-**	(102,566)
Closing balance	**17,384,130**	16,273,488

Net book value	**March 31, 2011** **$**	December 31, 2010 $
Opening balance	**48,663,681**	13,816,704
Closing balance	**56,744,745**	48,663,681

All of the Corporation's development and production assets are located within Canada. The gross carrying amounts are measured on a cost basis. The bank loan is secured by a general security agreement including a floating charge on all lands, except the assets of Steen River.

During 2010, the Corporation recognized $3,532,885 of impairments primarily related to unsuccessful drilling in several of the non-core areas. Impairment recoveries of $1,326,307 were also recognized due to additional interests acquired in areas, where the Corporation previously had an interest, obtained through the acquisition of Steen River.

Future capital costs of $14,303,065 have been included in the depletable balance as at March 31, 2011. Depletion has been calculated using proved and probable reserves. The Corporation has recognized individual components in the aggregate value of $6,831,965 (December 31, 2010 - $6,831,965) which is depreciated on a straight line basis over the life of the assets, estimated at approximately 20 years. The depreciation, depletion and impairment of property, plant, and equipment and any subsequent reversal of such impairment losses are recognized in depreciation, depletion, and amortization in earnings.

6. Goodwill

	As at March 31, 2011 $	As at December 31, 2010 $
Carrying value, opening	**643,357**	643,357
Impairment	**-**	-
Carrying value, closing	**643,357**	643,357

There were no additions to goodwill during the three month period ended March 31, 2011 or for the year ended December 31, 2010.

Goodwill was assessed for impairment as at December 31, 2010. The after-tax cash flows used to determine the recoverable amounts of the cash-generating units were discounted using an estimated year-end weighted average cost of capital of 10%. As at December 31, 2010 the recoverable amounts exceeded the aggregated carrying values of the cash-generating units, so no impairment was recognized.

7. Bank loan

At March 31, 2011, the Corporation had no outstanding amount owing (December 31, 2010 - $nil) against a $5,000,000 revolving operating line of credit. The revolving facility is repayable on demand with monthly interest-only payments, is renewable annually, and bears interest at the rate of 1.75% (December 31, 2010 – 1.75%) over the prime lending rate. 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 except the lands of Steen River. 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. Subsequent to the period end, the Corporation signed an indicative term sheet to increase its line of credit to $21 million under similar terms to the original revolving facility. The terms indicate an interest rate of prime plus 1.25% with a general security agreement providing security over all lands of Strategic (except for Steen River lands), with additional security on the shares of Steen River.

8. Deferred price premium on flow-through shares

	March 31, 2011 $	December 31, 2010 $
Deferred price premium on flow-through shares - opening balance	**1,046,500**	-
Flow-through renunciation	**(1,046,500)**	-
Additional deferred price premiums on flow-through shares	**-**	1,046,500
Deferred price premium of flow-through shares - closing balance	**-**	1,046,500

The Corporation issued common shares in 2010 on a flow-through basis for a total of 10,407,500 common shares with an estimated aggregate flow-through premium of $1,046,500. During the three months ended March 31, 2011, the tax value of the flow-through issues was renounced to shareholders and $1,046,500 was recognized into earnings.

9. 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. 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.

10. Decommissioning liabilities

Total future decommissioning liabilities are estimated based on the Corporation's net working interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in the future periods. These costs are expected to be incurred over a range up to 22 years, depending on the estimated reserve life. The undiscounted amount of the estimated costs at March 31, 2011 were $15,979,935 (December 31, 2010 - $15,459,560). The estimated costs have been discounted at a risk free rate of 3.66% (December 31, 2010 – 3.51%) and an inflation rate of 2% at March 31, 2011 (December 31, 2010 – 2%).

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

	March 31, 2011	December 31, 2010
	$	$
Balance beginning of the period	**11,298,520**	3,273,293
Obligations assumed on corporate and property acquisitions	**-**	7,822,022
Liabilities incurred	**851,019**	283,166
Decommissioning costs spent	**(2,163,850)**	(4,542)
Change in estimated future cash flows	**-**	(77,463)
Change in discount rate	**(138,143)**	287,963
Change in obligation due to satisfaction of farmout	**-**	(411,219)
Accretion	**51,317**	125,300
Balance end of the period	**9,898,863**	11,298,520

11. Share capital

a) Authorized

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

b) Issued and outstanding

	March 31, 2011		December 31, 2010	
		Amount		Amount
	Number of shares	**$**	Number of shares	$
Balance beginning of the period	**138,555,366**	**83,374,222**	68,693,099	24,913,168
Shares issued for acquisition of Steen River	**-**	**-**	4,416,545	4,681,538
Private placements	**-**	**-**	28,707,500	26,871,750
Exercise of warrants and options	**-**	**-**	36,738,222	28,902,789
Share issue costs	**-**	**(5,404)**	-	(1,995,023)
Balance end of the period	**138,555,366**	**83,368,818**	138,555,366	83,374,222

c) Stock-based compensation

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. Vesting terms have varied between a three year vesting period or all options vesting immediately.

11. Share capital (continued)

The following table reconciles the changes to the Corporation's stock options for the three months ended March 31, 2011:

	Number of options	Average Exercise price
Balance – December 31, 2010	**3,846,667**	**$0.59**
Issued	3,125,000	$1.10
Balance – March 31, 2011	**6,971,667**	**$0.82**

In January, 2011, 3,125,000 common share options were issued and vested immediately. These options 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 102.4%, interest rate of 2.6%, estimated forfeiture rate of 8.2%, expected life of 5 years, and no expected dividends resulting in $2,657,400 of stock-based compensation.

The following table sets out the outstanding options as at March 31, 2011:

All stock options, issued and exercisable		
Number of options	**Exercise price**	**Weighted Average Life (yrs)**
701,667	$0.25	2.95
1,235,000	$0.50	3.36
1,275,000	$0.65	3.79
435,000	$0.75	2.95
3,125,000	$1.10	4.77
200,000	$1.60	0.09
6,971,667	**$0.82**	**3.91**

d) Warrants

Upon the acquisition of ZinMac in 2009, 100,000 warrants of ZinMac were converted, in accordance to their terms, into 370,370 warrants of Strategic, exercisable at $0.27 per share until May 8, 2011.

The following table sets out the outstanding warrants as at March 31, 2011:

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

All warrants vested immediately. Subsequent to the quarter end, all of these warrants were exercised.

11. Share capital (continued)

e) Weighted average shares

	Three months ended March 31, 2011	Three months ended March 31, 2010
Weighted average shares (basic and diluted)	**138,555,366**	68,693,099

No options or warrants were added to the diluted per share calculation as they were determined to be antidilutive.

f) Contributed surplus

As at March 31, 2011, the change in paid in surplus relates to the stock options issued in the quarter as described under Stock Based Compensation in Note 11(c) above.

12. Finance costs

	Three months ended March 31, 2011	Three months ended March 31, 2010
	$	$
Interest expense – bank loan	**13,408**	39,468
Interest expense – debenture	**42,287**	-
Accretion of decommissioning liabilities	**51,317**	33,048
	107,012	72,516

13. Supplemental cash flow information

	March 31, 2011	March 31, 2010
	$	$
Interest paid	**55,695**	**37,376**
Taxes paid	**-**	**-**
Total	**55,695**	**37,376**
Changes in non-cash working capital		
Accounts receivable	**(512,588)**	(248,521)
Prepaid expenses and deposits	**(434,711)**	(40,299)
Accounts payable	**4,828,527**	704,351
	3,881,228	415,531
Operating	**111,869**	(471,717)
Investing	**3,769,359**	887,248
	3,881,228	415,531

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:

	March 31, 2011 **$**	December 31, 2010 $
Current assets	**24,281,176**	34,838,496
Accounts payable and accrued liabilities	**(10,950,713)**	(6,127,032)
Debentures	**(3,425,225)**	(3,425,225)
Net working capital surplus	**9,905,238**	25,286,239
Total line of credit	**21,000,000**	5,000,000
Loan balance at end of period	**-**	-
Unutilized line of credit	**21,000,000**	5,000,000
Net available funds	**30,905,238**	30,286,239

The Corporation is currently projecting its remaining 2011 Capital Program to be $13 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 March 31, 2011, this ratio was 2.7:1 (December 31, 2010- 6.5:1).

15. Financial Instruments

The Corporation's financial instruments consist of cash and cash equivalents, short term investments, trade and other receivables, 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.

15. Financial Instruments (continued)

As at March 31, 2011 and December 31, 2010, the Corporation had no hedging contracts. The following table analyzes the Corporation's cash flow sensitivity to commodity price changes:

	March 31, 2011 **$**	March 31, 2010 $
10% change in oil price	**287,564**	127,056
10% change in gas price	**46,170**	20,398

**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 March 31, 2011, if interest rates had increased by 1% with all other variables held constant, net income would have decreased by $50,061 (2010 – decrease $4,882). The change in net income for an interest rate that is 1% lower would also increase by $3,636 (2010 – 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 March 31, 2011 and 2010, 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 March 31, 2011 (December 31, 2010 - $nil), so minimal additional liquidity risk.

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 trade and other receivables 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.

16. Transactions with Related Parties

Legal fees and expenses in the amount of $45,327 ($20,583 – March 31, 2010) were incurred to a legal firm of which a director is a partner, and included as general and administrative expenses or share issue costs. Consulting fees in the amount of $5,566 ($11,769 – March 31, 2010) were incurred to a director for geophysical consulting services. Software charges of $30,000 ($nil – March 31, 2010) were charged to a company controlled by an officer. Accounts payable and accrued liabilities at March 31, 2011 include $62,065 ($24,338 – March 31, 2010) 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) The Corporation has lease agreements for office space resulting in the following commitments:

Year ended	**$**
2011	234,447
2012	292,596
2013	263,213
	790,256

b) Pursuant to the issues of flow through shares on 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 March 31, 2011, $6,401,767 has been incurred toward this commitment.

18. First time adoption of IFRS

A. Transition to IFRS

These interim condensed Consolidated Financial Statements for the period ended March 31, 2011 represent the Corporation's initial presentation of the results of operations and financial position under International Financial Reporting Standards ("IFRS"), as issued by the Accounting Standards Board. IFRS is now the generally accepted accounting principles ("GAAP") in Canada for publicly accountable entities and the Corporation's new accounting policies as directed under IFRS are described in Note 3. The Corporation adopted IFRS in accordance with IFRS 1, "First time Adoption of International Financial Reporting Standards" which required retrospective restatement of accounts where IFRS was different from the previous GAAP, except for certain exemptions allowed under the standard. This note explains the adjustments made by the Corporation to restate its previous Consolidated Financial Statements on transition to IFRS.

B. Exemptions applied under IFRS 1

On first time adoption of IFRS, the general principle is that an entity must retrospectively restate its results for all standards applicable at the first reporting date, except for certain exemptions that a Corporation can elect to use for ease of transition. The Corporation has elected to apply the following exemptions:

i) Share-based payments

The Corporation has elected not to restate its fair value calculations, as per IFRS 2 "Share-based payments", regarding stock options and warrants granted and vested prior to the date of transition, January 1, 2010.

18. First time adoption of IFRS (continued)

C. Reconciliations

The following tables present adjustments to the Corporation's previous GAAP financial statements upon transition to IFRS and comply with IFRS 1.

Consolidated balance sheet at January 1, 2010

	Notes	Previous GAAP $	Effect of transition to IFRS $	IFRS $
Assets				
Current assets:			-	
Cash and cash equivalents		3,043,351	-	3,043,351
Short-term investments		4,001,380	-	4,001,380
Trade and other receivables		801,594		801,594
		7,846,325	-	7,846,325
Property, plant, and equipment, net	18(ii)	17,913,620	(4,096,916)	13,816,704
Goodwill		643,357	-	643,357
		26,403,302	(4,096,916)	22,306,386
Liabilities and Shareholders' Equity				
Current Liabilities:				
Accounts payable and accrued liabilities		1,789,427	-	1,789,427
Bank loan		1,500,000	-	1,500,000
		3,289,427	-	3,289,427
Decommissioning liabilities	18(iii)	2,188,449	1,084,844	3,273,293
		5,477,876	1,084,844	6,562,720
Shareholders' Equity	18(i)	20,925,426	(5,181,760)	15,743,666
		26,403,302	(4,096,916)	22,306,386

18. First time adoption of IFRS (continued)

Consolidated balance sheet at March 31, 2010

	Notes	Previous GAAP $	Effect of transition to IFRS $	IFRS $
Assets				
Current assets:				
Cash and cash equivalents		1,341,350	-	1,341,350
Short-term investments		4,004,340	-	4,004,340
Trade and other receivables		1,090,414	-	1,090,414
		6,436,104	-	6,436,104
Property, plant, and equipment, net	18(ii)	19,412,614	(5,263,621)	14,148,993
E&E assets	18(ii)	-	1,544,722	1,544,722
Goodwill		643,357	-	643,357
		26,492,075	(3,718,899)	22,773,176
Liabilities and Shareholders' Equity				
Current Liabilities:				
Accounts payable and accrued liabilities		2,488,932	-	2,488,932
Bank loan		1,550,000	-	1,550,000
		4,038,932	-	4,038,932
Decommissioning liabilities	18(iii)	2,217,390	1,279,786	3,497,176
		6,256,322	1,279,786	7,536,108
Shareholders' Equity	18(i)	20,235,753	(4,998,685)	15,237,068
		26,492,075	(3,718,899)	$ 22,773,176

18. First time adoption of IFRS (continued)

Consolidated balance sheet at December 31, 2010

	Notes	Previous GAAP $	Effect of transition to IFRS $	IFRS $
Assets				
Current assets:				
Cash and cash equivalents		30,974,764	-	30,974,764
Trade and other receivables		3,863,732	-	3,863,732
		34,838,496	-	34,838,496
Property, plant, and equipment, net	18(ii)	61,354,523	(12,690,842)	48,663,681
E&E assets	18(ii)	-	5,245,316	5,245,316
Goodwill		643,357	-	643,357
		96,836,376	(7,445,526)	89,390,850
Liabilities and Shareholders' Equity				
Current Liabilities:				
Accounts payable and accrued liabilities		6,127,032	-	6,127,032
Deferred price premium on flow-through shares	*Note 8*	-	1,046,500	1,046,500
		6,127,032	1,046,500	7,173,532
Debentures		3,425,225	-	3,425,225
Decommissioning liabilities	18(iii)	8,653,663	2,644,857	11,298,520
		18,205,920	3,691,357	21,897,277
Shareholders' Equity	18(i)	78,630,456	(11,136,883)	67,493,573
		96,836,376	(7,445,526)	89,390,850

18. First time adoption of IFRS (continued)

Interim consolidated statement of loss and comprehensive loss
For the three months ended March 31, 2010

	Notes	Previous GAAP $	Effect of transition to IFRS $	IFRS $
Revenues				
Petroleum and natural gas sales		1,686,607	-	1,686,607
Royalties		(212,071)	-	(212,071)
		1,474,536	-	1,474,536
Other income		3,034	-	3,034
Revenues, net of royalties		1,477,570	-	1,477,570
Expenses				
Operating costs	18D(ii),(iii)	614,574	34,132	648,706
Transportation		59,763	-	59,763
General and administrative		690,606	-	690,606
Stock based compensation	18D(i)	726,964	273	727,237
Finance costs	18D(iii)	76,844	(4,328)	72,516
Foreign exchange gain		(411)	-	(411)
Depletion, depreciation, and amortization	18D(ii)	717,633	(212,879)	504,754
		2,885,973	(182,802)	2,703,171
Loss before income taxes		(1,408,403)	182,802	(1,225,601)
Deferred income tax recovery	18D(i)	746,913	(746,913)	-
Net loss and comprehensive loss for the period		(661,490)	(564,111)	(1,225,601)
Deficit - beginning of the period	18D(i)	(13,602,185)	(5,706,594)	(19,308,779)
Deficit - end of the period		(14,263,675)	(6,270,705)	(20,534,380)

18. First time adoption of IFRS (continued)

Consolidated statement of income and comprehensive income
For the year ended December 31, 2010

	Notes	Previous GAAP $	Effect of transition to IFRS $	IFRS $
Revenues				
Petroleum and natural gas sales		6,124,134	-	6,124,134
Royalties		(510,906)	-	(510,906)
		5,613,228	-	5,613,228
Other income		73,541	-	73,541
Revenues, net of royalties		5,686,769	-	5,686,769
Expenses				
Operating costs	18(ii),(iii)	3,031,594	98,608	3,130,202
Transportation		235,028	-	235,028
E&E	18D((i)b)	-	883,276	883,276
General and administrative		4,053,849	-	4,053,849
Stock based compensation	18D(iv)	743,219	(2,055)	741,164
Finance costs	18(iii)	263,874	(27,867)	236,007
Foreign exchange gain		2,911	-	2,911
Depletion, depreciation, and amortization	18(ii)	3,335,764	(758,718)	2,577,046
Impairment	18(ii)	-	3,601,057	3,601,057
		11,666,239	3,794,301	15,460,540
Loss before other income and income taxes		(5,979,470)	(3,794,301)	(9,773,771)
Gain (loss) on acquisition of subsidiary	18D(vi)	10,547,125	(1,258,600)	9,288,525
Gain on farmouts	18D(v)	-	146,334	146,334
Income (loss) before income taxes		4,567,655	(4,906,567)	(338,912)
Deferred income tax recovery	18(i)	746,913	(746,913)	-
Net income and comprehensive income for the period		5,314,568	(5,653,480)	(338,912)
Deficit - beginning of the period	18(i)	(13,602,185)	(5,706,594)	(19,308,779)
Deficit - end of the period		(8,287,617)	(11,360,074)	(19,647,691)

18. First time adoption of IFRS (continued)

Consolidated statement of cash flows
For the three months ended March 31, 2010

	Notes	Previous GAAP $	Effect of transition to IFRS $	IFRS $
Operating activities:				
Net loss for the period		(661,490)	(564,111)	(1,225,601)
Non-cash items:				
Depletion, depreciation, and amortization	18(ii)	717,633	(212,879)	504,754
Accretion of decommissioning liabilities	18(iii)	37,376	(4,328)	33,048
Future income taxes recovery	18(i)	(746,913)	746,913	-
Stock based compensation	18D(iv)	726,964	273	727,237
Other		(6,777)	3,269	(3,508)
		66,793	(30,863)	35,930
Net changes in other assets and liabilities		(471,717)	-	(471,717)
		(404,924)	(30,863)	(435,787)
Financing activities:				
Share issuance costs		(8,234)	-	(8,234)
Advances from bank loan		50,000	-	50,000
		41,766	-	41,766
Investing activities:				
Expenditures – property, plant, and equipment	18(ii)	(2,223,131)	1,587,228	(635,903)
Expenditures – E&E assets	18(ii)	-	(1,556,365)	(1,556,365)
Purchase of short term investments		(2,960)	-	(2,960)
Net changes in non-cash working capital items	*Note 13*	887,248	-	887,248
		(1,338,843)	30,863	(1,307,980)
Decrease in cash and cash equivalents during the period		(1,702,001)	-	(1,702,001)
Cash and cash equivalents, beginning of the period		3,043,351	-	3,043,351
Cash and cash equivalents, end of the period		1,341,350	-	1,341,350

18. First time adoption of IFRS (continued)

Consolidated statement of cash flows
For the year ended December 31, 2010

	Notes	Previous GAAP $	Effect of transition to IFRS $	IFRS $
Operating activities:				
Net loss for the year		5,314,568	(5,653,480)	(338,912)
Non-cash items:				
Gain on acquisition of subsidiary	18D(iv)	(10,547,125)	1,258,600	(9,288,525)
Gain on farmouts	18D(v)	-	(146,334)	(146,334)
Depletion, depreciation, and amortization	18(ii)	3,335,764	(758,718)	2,577,046
Impairment	18(ii)	-	3,601,057	3,601,057
Accretion of decommissioning liabilities	18(iii)	153,167	(27,867)	125,300
Future income taxes recovery	18(i)	(746,913)	746,913	-
Stock based compensation	18(i)	743,219	(2,055)	741,164
Exploration expense	18(ii)	-	883,276	883,276
Other		(23,925)	(3,047)	(26,972)
		(1,771,245)	(101,655)	(1,872,900)
Net changes in other assets and liabilities		(433,383)	-	(433,383)
		(2,204,628)	(101,655)	(2,306,283)
Financing activities:				
Issue of shares for cash, net of share issuance costs		25,923,226	-	25,923,226
Exercise of warrants and options		21,789,391	-	21,789,391
Repayments against bank loan		(1,500,000)	-	(1,500,000)
		46,212,617	-	46,212,617
Investing activities:				
Expenditures – property, plant, and equipment	18(ii)	(13,746,636)	8,335,573	(5,411,063)
Expenditures – E&E assets	18(ii)	-	(8,233,918)	(8,233,918)
Acquisition of subsidiary		(6,349,162)	-	(6,349,162)
Transaction costs paid on behalf of subsidiary		(1,137,893)	-	(1,137,893)
Redemption of short term investments		4,001,380	-	4,001,380
Changes in non-cash working capital items		1,155,735	-	1,155,735
		(16,076,576)	101,655	(15,974,921)
Decrease in cash and cash equivalents during the period		27,931,413	-	27,931,413
Cash and cash equivalents, beginning of the period		3,043,351	-	3,043,351
Cash and cash equivalents, end of the period		30,974,764	-	30,974,764

18. First time adoption of IFRS (continued)

i) Reconciliation of Shareholders' Equity

The following is a reconciliation of the Corporation's shareholders' equity adjusting the original balance calculated under previous GAAP for changes from the conversion to IFRS at the Transition Date:

January 1, 2010	**Note**	**Share capital**	**Contributed surplus**	**Deficit**	**Total**
As reported under previous GAAP		24,385,762	10,141,849	(13,602,185)	20,925,426
Property, plant, and equipment expensed	18(ii)	-	-	(6,356,021)	(6,356,021)
Depletion, depreciation, and impairment	18(ii)	-	-	1,131,157	1,131,157
Decommissioning liability adjustment	18(iii)	-	-	43,104	43,104
Difference between future tax effect and deferred price premium on flow-through shares	18D(iii)	970,758	-	(970,758)	-
Future income tax effect of share issue costs		(443,352)	-	443,352	-
Stock-based compensation		-	(2,572)	2,572	-
Total changes		527,406	(2,572)	(5,706,594)	(5,181,760)
As reported under IFRS - January 1, 2010		**24,913,168**	**10,139,277**	**(19,308,779)**	**15,743,666**

The following is a reconciliation of the Corporation's shareholders' equity adjusting the original balance calculated under previous GAAP for changes from the conversion to IFRS at March 31, 2010:

March 31, 2010	**Note**	**Share capital**	**Contributed surplus**	**Deficit**	**Total**
As reported under previous GAAP		23,630,615	10,868,813	(14,263,675)	20,235,753
Adjustments to January 1, 2010		527,406	(2,572)	(5,706,594)	(5,181,760)
Property, plant, and equipment and decommissioning liabilities expensed	18(ii)	-	-	(34,132)	(34,132)
Depletion, depreciation, and impairment of PP&E	18(ii)	-	-	224,522	224,522
Amortization of E&E assets	18(ii)	-	-	(11,643)	(11,643)
Decommissioning liability adjustment	18(iii)	-	-	4,328	4,328
Difference between future tax effect and deferred price premium on flow-through shares	18D(iii)	746,913	-	(746,913)	-
Stock-based compensation		-	273	(273)	-
Total changes		1,274,319	(2,299)	(6,270,705)	(4,998,685)
As reported under IFRS - March 31, 2010		**24,904,934**	**10,866,514**	**(20,534,380)**	**15,237,068**

18. First time adoption of IFRS (continued)

The following is a reconciliation of the Corporation's shareholders' equity adjusting the original balance calculated under previous GAAP for changes from the conversion to IFRS at December 31, 2010:

December 31, 2010	**Note**	**Share capital**	**Contributed surplus**	**Deficit**	**Total**
As reported under previous GAAP		83,146,404	3,771,669	(8,287,617)	78,630,456
Adjustments to January 1, 2010		527,406	(2,572)	(5,706,594)	(5,181,760)
Property, plant, and equipment and decommissioning liabilities expensed	18(ii)	-	-	(98,608)	(98,608)
Depletion, depreciation, and impairment of PP&E	18(ii)	-	-	(4,105,612)	(4,105,612)
E&E expense	18(ii)	-	-	(883,276)	(883,276)
Amortization and impairment of E&E assets	18(ii)	-	-	(1,834,273)	(1,834,273)
Adjustment of gain on acquisition of subsidiary	18D(vi)		-	(1,258,600)	(1,258,600)
Gain on farmout	18D(v)	-	-	3,243,880	3,243,880
Decommissioning liability adjustment	18(iii)	-	-	27,867	27,867
Deferred price premium on flow-through shares – current year issue	18D(iii)	(1,046,501)	-	-	(1,046,501)
Difference between future tax effect and deferred price premium on flow-through shares	18D(iii)	746,913	-	(746,913)	-
Stock-based compensation		-	(2,055)	2,055	-
Total changes		227,818	(4,627)	(11,360,074)	(11,136,883)
As reported under IFRS – December 31, 2010		**83,374,222**	**3,767,042**	**(19,647,691)**	**67,493,573**

ii) Reconciliation of Various Asset Accounts

The following is a reconciliation of the Corporation's asset accounts adjusting the original balance calculated under previous GAAP for changes from the conversion to IFRS at the Transition Date:

January 1, 2010 ***(Note 18D(i))***	**PP&E $**	**E&E $**
Balance as reported under previous GAAP	17,913,620	-
PP&E expensed	(6,356,021)	-
Changes in asset retirement value	1,127,948	-
Changes in depletion, depreciation, amortization and impairment	1,131,157	-
Total changes for period	(4,096,916)	**-**
Balance as reported under IFRS	**13,816,704**	**-**

18. First time adoption of IFRS (continued)

The following is a reconciliation of the Corporation's asset accounts adjusting the original balance calculated under previous GAAP for changes from the conversion to IFRS for the three months ended March 31, 2010:

March 31, 2010 ***(Note 18D(i))***	**PP&E** **$**	**E&E** **$**
Balance as reported under previous GAAP	19,412,614	-
Adjustments from January 1, 2010	(4,096,916)	-
Transfers to E&E	(1,556,365)	1,556,365
PP&E expensed	(30,862)	-
Changes in asset retirement value	196,001	-
Changes in depletion, depreciation, amortization and impairment	224,521	(11,643)
Total changes for period	(5,263,621)	1,544,722
Balance as reported under IFRS	**14,148,993**	**1,544,722**

The following is a reconciliation of the Corporation's asset accounts adjusting the original balance calculated under previous GAAP for changes from the conversion to IFRS for the year ended December 31, 2010:

December 31, 2010 ***(Note 18D(i))***	**PP&E** **$**	**E&E** **$**
Balance as reported under previous GAAP	61,354,523	-
Adjustments from January 1, 2010	(4,096,916)	-
Transfers to E&E – assets acquired through Steen	(2,667,518)	2,667,518
Transfers to E&E – cash expenditures	(8,233,918)	8,233,918
Transfers from E&E	2,626,600	(2,626,600)
Adjustments due to satisfaction of farmout requirements	553,216	2,690,664
PP&E expensed	(101,655)	-
E&E expensed	-	(883,276)
Changes in asset retirement value	237,418	94,908
Changes in depletion, depreciation, amortization and impairment	(1,008,069)	(4,931,816)
Total changes for period	(12,690,842)	5,245,316
Balance as reported under IFRS	**48,663,681**	**5,245,316**

18. First time adoption of IFRS (continued)

iii) Reconciliation of Decommissioning Liabilities

The following is a reconciliation of the Corporation's decommissioning liabilities adjusting the original balance calculated under previous GAAP for changes from the conversion to IFRS for the year ended December 31, 2010, the three months ended March 31, 2010 and at transition date:

Decommissioning liabilities ***(Note 18D(ii))***	**Year ended December 31, 2010 $**	**Three months ended March 31, 2010 $**	**Opening balance January 1, 2010 $**
Decommissioning liabilities as reported under previous GAAP	8,653,663	2,217,390	2,188,449
Adjustments from January 1, 2010	1,084,844	1,084,844	-
Discount rate changes to decommissioning liabilities acquired through acquisition of Steen River	1,258,600	-	-
Discount rate changes capitalized	332,337	196,001	1,127,948
Discount rate changes expensed	(3,057)	3,269	-
Adjustments to accretion	(27,867)	(4,328)	(43,104)
Total changes for period	2,644,857	1,279,786	1,084,844
Decommissioning liabilities reported under IFRS	**11,298,520**	**3,497,176**	**3,273,293**

D. Notes

i) Property, plant and equipment, and exploration and evaluation assets

The most significant changes to the Corporation's accounting policies upon conversion to IFRS relate to the accounting for oil and gas properties and equipment. Under previous GAAP, the Corporation followed the principles of full cost accounting, AcG-16, where all costs directly associated with the acquisition of, exploration for, and development of oil and natural gas reserves were capitalized on a country-by-country basis. Depletion was calculated by country using the unit-of-production method using proved reserves as determined by independent reserve engineers.

Under IFRS, the Corporation adopted two new asset categories: Exploration and evaluation assets and Intangible assets. Exploration and evaluation assets are for costs incurred subsequent to the acquisition of a drilling license and until the project can be assessed for technical feasibility and commercial viability. Once this assessment can be made, E&E costs may be expensed if technical feasibility and commercial viability is not attained, or tested for impairment against projected future cash flows and transferred to PP&E.

The Corporation chose to retrospectively restate its oil and gas properties and equipment when adopting IFRS.

a) Evaluation and exploration assets

The Corporation determined there were no E&E assets at the transition date. During 2010, the Corporation spent $8,233,918 on E&E assets, incurred $2,690,664 as a result of the satisfaction of farmout requirements, recognized $94,908 in related decommissioning costs, and acquired $2,667,518 through the Steen River acquisition and capitalized them under E&E assets. Of these assets, one area valued at $5,724,146 was deemed to reach technical feasibility and commercial viability and was tested for impairment prior to transferring to

18. First time adoption of IFRS (continued)

PP&E, with impairment of $3,097,546 recognized. Unsuccessful projects of $883,276 were expensed during the year.

Under previous GAAP, exploration and evaluation costs were capitalized as part of oil and gas properties and equipment, categorized by country, and depleted using the unit-of-production method. Major projects could be excluded from the depletion calculation until they could be evaluated separately.

b) Property, plant and equipment

The Corporation retrospectively assessed the assets formerly capitalized under oil and gas properties and equipment, and at the transition date, determined that its development and production costs under IFRS are $13,816,704 net of accumulated depletion, depreciation, and impairment. Previously drilled unsuccessful wells and other costs of $6,356,021 were derecognized, and capitalized decommissioning values were increased by $1,127,948. Accumulated depletion, depreciation, and impairment was reduced by $1,131,157.

During 2010, additional capital of $553,216 was added to PP&E due to the satisfaction of the requirements of a farmout. Costs of $2,626,600 net of impairment were transferred from E&E, capitalized decommissioning value of $237,418 was added (see *Note 18C(iii)*), and previously capitalized costs of $101,655 were expensed during the year.

Costs of unsuccessful wells could be capitalized under previous GAAP to the full cost pool. Discussion regarding asset retirement is presented in *Note 18D(ii)*, and accumulated depletion, depreciation, and amortization is discussed below in *Note 18D(i)(d).*

c) Depreciation, depletion, and amortization ("DD&A")

Under IFRS, PP&E must be categorized by cash-generating unit ("CGU"), which is the smallest group of assets capable of generating largely independent cash inflows. The Corporation has determined that its CGUs follow closely to its operating areas. Major components are separated from the asset pool, and depreciated on a straight line basis over the life of the asset. The remaining costs are depleted by the unit-of-production method using proved plus probable ("2P") reserves assessed individually by CGU.

Depleting at an area level and retrospectively applied, the Corporation reduced its accumulated depreciation, depletion, and impairment by $786,078 at the transition date. During the year ended December 31, 2010, the Corporation recovered an additional $1,301,078 in depletion as compared to previous GAAP.

d) Impairments

Impairments, under previous GAAP, were recognized when the carrying amount of a cost center exceeded the amount of the undiscounted cash flows from proved reserves. The impairment value was measured by the amount that the carrying amount exceeds the fair value of proved and probable reserves and the cost of unproved properties. Impairments under previous GAAP could not be reversed.

Under IFRS, impairment is recognized when the carrying value of a CGU exceeds the recoverable amount of a CGU. This impairment can be reversed when there is a subsequent increased in the recoverable amount.

The Corporation recognized $3,966,845 in impairments at transition date, and an additional $2,206,578 in impairment for the year ending December 31, 2010. The recoverable amount both at transition date and December 31, 2010 was determined by using fair value less costs to sell based on discounted future cash flows of proved and probable reserves.

18. First time adoption of IFRS (continued)

ii) Decommissioning liabilities

Under previous GAAP, decommissioning liabilities were measured based on the estimated costs of decommissioning, discounted to their net present value upon initial recognition using a credit-adjusted risk-free rate. The discount rate was rarely changed. Under IFRS, the discount rate used by the Corporation is the risk-free rate and the decommissioning liabilities are reassessed for the current risk-free rate at each reporting date. At the transition date, the Corporation increased the decommissioning liabilities by $1,084,844. At December 31, 2010, the Corporation further increased the decommissioning liabilities by an additional $1,560,012.

iii) Flow-through share tax liability

Flow-through shares, unique to Canada, have no specific guidance under IFRS. The Corporation has chosen to follow the accepted practice of accounting for flow-through share tax liabilities as adopted by the Financial Accounting Standards Board ("FASB"), which recognizes the premium of the price of a flow-through share above the value of a common share as a liability to the Corporation. The liability is then offset against the tax effect and recognized in earnings at the date of renunciation.

Flow-through share premiums of $970,758 were removed from share capital at transition. Flow-through shares issued during 2010 gave rise to a new flow-through tax liability of $1,046,500.

Under previous GAAP, the full value of the amount received for the issue of flow-through shares was recorded in share capital, and the future tax effect recognized upon the renunciation date.

iv) Stock-based compensation

Stock-based compensation under previous GAAP, and similarly under IFRS, was calculated using the Black Scholes model and recognized using the graded vesting method over the vesting period of the options. Where previous GAAP allowed forfeitures to be recognized as they occurred, the IFRS requirement is to recognize the expense over the individual vesting periods for the grading vested awards and estimate a forfeiture rate at the date of grant and update it through the vesting period. At transition date, the Corporation recognized a decrease of $2,572 in contributed surplus to account for estimated forfeitures. For the year ended December 31, 2010, an additional decrease of $2,055 was recorded accounting for estimated forfeitures.

v) Gain on recognition of farmout

Farmouts are arrangements where the owner of a property or undeveloped land (farmor) enters an agreement with another party (farmee) who wishes to earn an interest in the property by performing agreed upon requirements. Once the requirements are completed and acknowledged by the farmor, the farmee is deemd to have "earned-in" to the property or land and receives the designated working interest.

Accounting for farmouts under the previous GAAP did not require a gain or loss to be recognized upon the completion of a farmout, and allowed the farmee to capitalize costs to complete the requirements to capitalize the amount expended, while not requiring the farmor a capital effect.

IFRS requires an adjustment to be recorded on the date the farmout requirements are satisfied where the farmor recognizes their after-farmout working interest share of the farmee's costs expended, while derecognizing the farmee's share of the carrying value of the asset. The net effect is recorded in earnings as a gain or loss on farmout.

18. First time adoption of IFRS (continued)

During 2010, the Corporation participated in two farmout arrangements. The first arrangement was completed in the third quarter of 2010 and resulted in a net loss on farmout of $406,882. The second farmout was completed in the fourth quarter of 2010, and resulting in a net gain of $553,216 for a total net gain on farmouts of $146,334 during 2010.

vi) Business combination

The Corporation acquired Steen River in the fourth quarter of 2010 and had recognized a corresponding gain of $10,547,125 under the previous GAAP. Discounting the decommissioning liabilities under IFRS required an additional amount of $1,258,600 to be recognized as a decommissioning liability, reducing the gain of acquisition of subsidiary to $9,288,525.