



Interim Condensed Consolidated Financial Statements

For the period ended March 31, 2012

(unaudited)

Strategic Oil & Gas Ltd.

Condensed consolidated balance sheets (unaudited)

(\$000's)	Note	March 31, 2012	December 31, 2011
Assets			
Current assets:			
Cash and cash equivalents		\$ 12,940	\$ 31,808
Trade and other receivables		7,766	5,635
		20,706	37,443
Property, plant, and equipment, net	5	97,498	70,924
Exploration and evaluation assets	4	9,272	9,328
Total Assets		\$ 127,476	\$ 117,695
Liabilities			
Current Liabilities:			
Accounts payable and accrued liabilities		\$ 28,029	\$ 17,908
Deferred price premium on flow-through shares	6	-	2,275
Decommissioning liabilities		270	-
		28,299	20,183
Long Term Liabilities:			
Decommissioning liabilities	7	12,453	12,523
Total Liabilities		\$ 40,752	\$ 32,706
Shareholders' Equity			
Share capital	8	\$ 123,284	\$ 122,973
Contributed surplus		7,123	6,310
Deficit		(43,683)	(44,294)
		86,724	84,989
Total Liabilities and Shareholders' Equity		\$ 127,476	\$ 117,695

Commitments (Note 12)

Approved by the Board of Directors

Signed: - "Arn Schoch"

Signed: - "Rick Skeith"

Strategic Oil & Gas Ltd.

Condensed consolidated statements of comprehensive income (loss) (unaudited)

(\$000's, except per share amounts)	Note	Three months ended	
		March 31, 2012	March 31, 2011
Revenues			
Petroleum and natural gas sales		\$ 11,204	\$ 4,614
Royalties		(2,047)	(1,277)
		9,157	3,337
Other Income		61	54
Revenues, net of royalties		9,218	3,391
Expenses			
Operating costs		3,826	3,305
Transportation		383	146
Exploration and evaluation expense	4	103	181
General and administrative		1,081	1,173
Finance costs	9	81	107
Stock-based compensation	8(b)	948	2,657
Depletion, depreciation, and amortization		4,460	1,759
		\$ 10,882	\$ 9,328
Operating loss before taxes		\$ (1,664)	\$ (5,937)
Deferred tax recovery		2,275	1,047
Net income (loss) and comprehensive (loss) income for the period		\$ 611	\$ (4,890)
Net income (loss) per weighted average share			
Basic		\$0.00	(\$0.04)
Diluted		\$0.00	(\$0.04)
Weighted average shares outstanding - Basic	8(c)	187,014	138,555
Weighted average shares outstanding - Diluted	8(c)	188,038	138,555

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

Strategic Oil & Gas Ltd.

Condensed consolidated statements of changes in shareholders' equity (unaudited)

(\$000's)	Note	Share Capital	Contributed surplus	Deficit	Total equity
Balance January 1, 2012		\$ 122,973	\$ 6,310	\$ (44,294)	\$ 84,989
Share issue costs	8(a)	(14)	-	-	(14)
Stock options exercised	8(b)	325	(135)	-	190
Stock based compensation	8(b)	-	948	-	948
Net income		-	-	611	611
Balance March 31, 2012		\$ 123,284	\$ 7,123	\$ (43,683)	\$ 86,724

	Note	Share Capital	Contributed surplus	Deficit	Total equity
Balance January 1, 2011		\$ 83,374	\$ 3,767	\$ (19,648)	\$ 67,494
Share issue costs		(5)	-	-	(5)
Stock based compensation	8(b)	-	2,657	-	2,657
Net loss		-	-	(4,891)	(4,891)
Balance March 31, 2011		\$ 83,369	\$ 6,424	\$ (24,539)	\$ 65,255

Strategic Oil & Gas Ltd.

Condensed consolidated statements of cash flows (unaudited)

(\$000's)	Note	March 31, 2012	March 31, 2011
Operating activities:			
Net income (loss) for the period		\$ 611	\$ (4,890)
Non-cash items:			
Depletion, depreciation, and amortization		4,460	1,759
Accretion of decommissioning liabilities		78	51
Stock-based compensation		948	2,657
Exploration and evaluation expense		103	181
Deferred tax recovery		(2,275)	(1,047)
Non-cash ARV expense		-	(1)
Non-cash lease inducement		(5)	(5)
Funds from operations		\$ 3,920	\$ (1,295)
Expenditures on decommissioning liabilities		-	\$ (2,164)
Net changes in other assets and liabilities	10	(1,784)	112
		\$ 2,136	\$ (3,347)
Financing activities:			
Exercise of options		190	-
Share issuance costs	8(a)	(14)	(5)
		\$ 176	\$ (5)
Investing activities:			
Expenditures – property, plant and equipment	5	\$ (30,052)	\$ (8,478)
Expenditures – exploration and evaluation assets	4	(907)	(3,444)
Changes in non-cash working capital	10	9,779	3,769
		\$ (21,180)	\$ (8,153)
Decrease in cash and cash equivalents during the period		\$ (18,868)	\$ (11,505)
Cash and cash equivalents, beginning of the period		31,808	30,974
Cash and cash equivalents, end of the period		\$ 12,940	\$ 19,469

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

Strategic Oil & Gas Ltd.

Notes to the condensed consolidated financial statements at March 31, 2012 (unaudited)

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. The Corporation amalgamated Zinmac and Steen River into Strategic Oil & Gas Ltd. on April 1, 2012.

Strategic Oil & Gas Ltd. is a publicly listed company whose shares 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 presentation

a) Statement of compliance:

The interim condensed consolidated financial statements have been prepared by management and reported in Canadian dollars in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Consolidated Financial Statements and notes thereto in the Corporation's December 31, 2011 annual consolidated financial statements.

These interim condensed consolidated financial statements were approved by the Corporation's Board of Directors on May 24, 2012.

b) Estimates:

The timely preparation of the interim condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2011

3. Significant accounting policies

The interim condensed consolidated financial statements have been prepared, for all periods presented, following the same accounting policies and methods of computation as described in *Note 3* to the consolidated financial statements for the year ended December 31, 2011.

a) New Accounting Pronouncements

Unless otherwise noted, the revised standards and amendments as disclosed in *Note 3* of the 2011 annual consolidated financial statements are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will adopt them early.

Strategic Oil & Gas Ltd.

Notes to the condensed consolidated financial statements at March 31, 2012 (unaudited)

4. Exploration and evaluation assets

(\$000's)	March 31, 2012
Opening balance	\$ 9,328
E&E expenditures	907
E&E expensed during the period	(103)
Amortization	(860)
Closing balance	\$ 9,272

During the three months ended March 31, 2012, the Corporation expensed \$0.1 million (March 31, 2011 - \$0.2 million) related to seismic and pre-licensing costs expended on land which is not intended to be developed in the future.

5. Property, plant, and equipment

Carry value before accumulated depletion and depreciation	D&P assets	Office and other	Total
As at December 31, 2011	\$ 105,145	\$ 611	\$ 105,756
Additions	30,024	28	30,052
Change in decommissioning costs	122	-	122
As at March 31, 2012	\$ 135,291	\$ 639	\$ 135,930
Accumulated depreciation and depletion			
As at December 31, 2011	\$ 34,463	\$ 369	\$ 34,832
Depreciation, depletion, and amortization	3,569	31	3,600
As at March 31, 2012	\$ 38,032	\$ 400	\$ 38,432
Net carrying value			
As at December 31, 2011	70,682	242	70,924
As at March 31, 2012	\$ 97,259	\$ 239	\$ 97,498

All of the Corporation's development and production assets are located within Canada. The Corporation's bank loan is secured by a general security agreement including a floating charge on all lands. The cost of property, plant and equipment include amounts in respect of the provision for decommissioning and restoration obligations.

Future capital costs of \$27.6 million (March 31, 2011 - \$14.3 million) have been included in the depletable balance as at March 31, 2012. Depletion has been calculated using proved and probable reserves. The Corporation has recognized individual components that are depreciated and tested for impairment separately in the aggregate value of \$8.2 million (March 31, 2011 - \$6.8 million). Depletion and depreciation for the three months ended March 31, 2012 was \$3.6 million (March 31, 2011 - \$1.1 million).

6. Deferred price premium on flow-through shares

(\$000's)	March 31, 2012	December 31, 2011
Balance, beginning of the year	\$ 2,275	\$ 1,047
Flow-through renunciation	(2,275)	(1,047)
Additional deferred price premiums on flow-through shares	-	2,275
Balance, end of the year	\$ -	\$ 2,275

The Corporation issued 9,100,000 common shares on a flow through basis with an estimated aggregate flow through premium of \$2.3 million. During the three months ended March 31, 2012, the tax value of the flow through issues was renounced to shareholders and \$2.3 million was recognized into earnings.

Strategic Oil & Gas Ltd.

Notes to the condensed consolidated financial statements at March 31, 2012 (unaudited)

7. 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, 2012 were \$22.3 million (December 31, 2011 - \$20.8 million). The estimated costs have been discounted at a risk free rate from 1.19% to 2.66% (December 31, 2011 - 2.50% to 3.66%) and an inflation rate of 2% (December 31, 2011 - 2%). While the provision is based on the best estimates of future costs and economic lives of the facilities, there is uncertainty regarding the amount and timing of incurring these costs that are not always within management's control.

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

	March 31, 2012	
Balance beginning of the period	\$	12,523
Liabilities incurred		594
Liabilities settled		-
Change in estimated future cash flows		(122)
Change in discount rate		(350)
Accretion		78
Balance end of the period	\$	12,723
Current at March 31, 2012	\$	270
Long term at March 31, 2012	\$	12,453

8. Share capital

a) Authorized

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

	March 31, 2012		
	Number of shares		Amount
Balance beginning of the period	186,562,068	\$	122,973
Exercise of warrants and options	500,000		325
Share issue costs	-		(14)
Balance end of the period	187,062,068	\$	123,284

b) 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.

In February 2012, 2,260,000 common share options were issued and vested immediately. These options expire five years from the date of issue. The Corporation recorded \$0.9 million (March 31, 2011 - \$2.7 million) of stock based compensation related to the issuance.

Strategic Oil & Gas Ltd.

Notes to the condensed consolidated financial statements at March 31, 2012 (unaudited)

8. Share capital continued

The following table summarized the stock option outstanding and exercisable under the plan at March 31, 2012:

	Number of Options	Weighted Average Exercise Price
Balance - January 1, 2011	3,846,667	\$0.59
Issued	3,260,000	1.09
Exercised	(126,334)	(0.43)
Expired	(200,000)	(1.60)
Balance - December 31, 2011	6,780,333	\$0.81
Issued	2,260,000	0.90
Exercised	(500,000)	(0.38)
Expired	(540,000)	(1.10)
Balance at March 31, 2012	8,000,333	\$0.84

The following table sets out the outstanding options as at March 31, 2012:

<u>All stock options, issued and exercisable</u>		
Number of Options	Weighted Average Exercise Price	Weighted Average Life Years
350,000	\$0.25	1.94
1,083,334	\$0.50	2.35
1,162,000	\$0.65	2.72
424,999	\$0.75	1.94
2,260,000	\$0.90	4.9
100,000	\$0.91	4.59
2,620,000	\$1.10	3.71
8,000,333	\$0.84	3.56

c) Weighted average shares

	Three months ended March 31, 2012	Three months ended March 31, 2011
Weighted average shares (basic)	187,013,716	138,555,366
Weighted average shares (diluted)	188,037,722	138,555,366

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

d) The fair value of the options granted was estimated on the date of grant using a Black-Scholes option pricing model with the following weighted average inputs:

	March 31, 2012	March 31, 2011
Assumptions		
Risk free interest rate (%)	1.20	2.56
Expected life (years)	3.00	5.00
Expected volatility (%)	84.58	104.23
Expected dividend yield (%)	-	-
Forfeiture rate (%)	7.63	8.17
Weighted average fair value of options granted (\$)	0.42	0.89

Strategic Oil & Gas Ltd.

Notes to the condensed consolidated financial statements at March 31, 2012 (unaudited)

8. Share capital continued

Forfeiture rate is calculated based on historical forfeiture data of the Corporation.

The weighted average share price at the date of exercise for share options exercised during the three months ended March 31, 2012 was \$0.87 (December 31, 2011 - \$0.95).

9. Finance costs

	Three months ended March 31, 2012	Three months ended March 31, 2011
Interest expense – bank loan	\$ 3	\$ 14
Interest expense – debenture	-	42
Accretion of decommissioning liabilities	78	51
	\$ 81	\$ 107

10. Supplemental cash flow information

	March 31, 2012	March 31, 2011
Interest paid	\$ 3	\$ 56
Taxes paid	-	-
Total	\$ 3	\$ 56
Changes in non-cash working capital		
Trade and other receivables	\$ (2,131)	\$ (948)
Accounts payable and accrued liabilities <i>(Note 1)</i>	10,121	4,829
	7,990	3,881
Operating	(1,784)	112
Investing	9,779	3,769
	\$ 7,995	\$ 3,881

(i): included in the accounts payable and accrued liabilities is \$4,848 (2011 - \$4,846) of non-cash lease inducement.

11. Transactions with Related Parties

During the three months ended March 31, 2012, legal fees in the amount of \$0.07 million (March 31, 2011 - \$0.05 million) 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 \$0.02 million (March 31, 2011 - \$0.01 million) were incurred by a former director for geophysical consulting services. Software charges of \$0.03 million (March 31, 2011 - \$0.03 million) were charged by a company controlled by an officer. Accounts payable and accrued liabilities at March 31, 2012 include \$0.13 million (December 31, 2011 - \$0.15 million) 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.

12. Commitments

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

Strategic Oil & Gas Ltd.

Notes to the condensed consolidated financial statements at March 31, 2012 (unaudited)

12. Commitments continued

<u>Year ended</u>	<u>(\$000's)</u>
2012	\$ 234
2013	263
	<u>\$ 497</u>

- b) Pursuant to the issue of flow through shares in December 2011, the Corporation committed to incur a total of \$10.0 million on qualifying expenditures prior to December 31, 2012. As of March 31, 2012, the Corporation has fulfilled its commitment.