



Interim Condensed Consolidated Financial Statements

For the period ended June 30, 2012

(unaudited)

Strategic Oil & Gas Ltd.

Condensed consolidated balance sheets (unaudited)

(\$000)	Note	June 30, 2012	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents		\$ 1,361	\$ 31,808
Trade, prepaids and other receivables		7,732	5,635
		9,093	37,443
Property, plant, and equipment	5	94,655	70,924
Exploration and evaluation assets	4	8,697	9,328
Total Assets		\$ 112,445	\$ 117,695
Liabilities			
Current Liabilities:			
Accounts payable and accrued liabilities		\$ 10,316	\$ 17,908
Deferred price premium on flow-through shares	6	-	2,275
Decommissioning liabilities	8	263	-
		\$ 10,579	\$ 20,183
Long term Liabilities:			
Decommissioning liabilities	8	13,830	12,523
Total Liabilities		\$ 24,409	\$ 32,706
Shareholders' Equity			
Share capital	9	123,329	122,973
Contributed surplus		7,154	6,310
Deficit		(42,447)	(44,294)
		\$ 88,036	\$ 84,989
Total Liabilities and Shareholders' Equity		\$ 112,445	\$ 117,695

Commitments (Note 13)

Strategic Oil & Gas Ltd.

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

(\$000, except per share amounts)	Note	Three months ended		Six months ended	
		June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Revenue					
Petroleum and natural gas sales		\$ 16,924	\$ 5,432	\$ 28,129	\$ 10,046
Royalties		(2,202)	(1,305)	(4,249)	(2,581)
		14,722	4,127	23,880	7,465
Other income		11	68	72	123
Revenues, net of royalties		\$ 14,733	\$ 4,195	\$ 23,952	\$ 7,587
Expenses					
Operating costs		\$ 4,161	\$ 2,575	\$ 7,987	\$ 5,881
Transportation		725	154	1,108	300
Exploration expenses	4	(73)	188	30	369
General and administrative		1,659	1,194	2,741	2,367
Finance costs	10	83	118	164	225
Stock-based compensation	9(a)	52	-	1,000	2,657
Depletion, depreciation and amortization		6,890	2,133	11,350	3,892
		\$ 13,497	\$ 6,362	\$ 24,380	\$ 15,691
Operating income (loss) before taxes		\$ 1,236	\$ (2,167)	\$ (428)	\$ (8,104)
Deferred tax recovery		-	-	2,275	1,047
Net income (loss) and comprehensive (loss) income for the period		\$ 1,236	\$ (2,167)	\$ 1,847	\$ (7,058)
Net income (loss) per weighted average share					
Basic		\$0.01	(\$0.02)	\$0.01	(\$0.05)
Diluted		\$0.01	(\$0.02)	\$0.01	(\$0.05)
Weighted average shares outstanding -					
Basic	9(b)	187,092,486	138,891,827	187,053,101	138,724,526
Weighted average shares outstanding - Diluted	9(b)	187,550,083	138,891,827	187,898,450	138,724,526

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)	Note	Share Capital	Contributed Surplus	Deficit	Total equity
Balance Jan 1, 2012		\$ 122,973	\$ 6,310	\$ (44,294)	\$ 84,989
Share issue costs		(14)			(14)
Stock options exercised	9(a)	370	(156)		214
Stock based compensation	9(a)	-	1,000		1,000
Net income		-	-	1,847	1,847
Balance June 30, 2012		\$ 123,329	\$ 7,154	\$ (42,447)	\$ 88,036

(\$000)	Note	Share Capital	Contributed Surplus	Deficit	Total equity
Balance Jan 1, 2011		\$ 83,374	\$ 3,767	\$ (19,648)	\$ 67,493
Share issue costs		(6)		-	(6)
Stock options and warrants exercised	9(a)	179	(48)	1	132
Stock based compensation	9(a)	-	2,657	-	2,657
Net income		-	-	(7,058)	(7,058)
Balance June 30, 2011		\$ 83,547	\$ 6,376	\$ (26,705)	\$ 63,218

Strategic Oil & Gas Ltd.

Condensed consolidated statements of cash flows (unaudited)

Periods ended (\$000)	Note	Three months		Six months	
		June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Operating activities:					
Net income (loss) for the period		\$ 1,236	\$ (2,167)	\$ 1,847	\$ (7,058)
Non-cash items:					
Depletion, depreciation, and amortization		6,890	2,133	11,350	3,892
Accretion of decommissioning liabilities		75	54	153	106
Stock-based compensation		52	-	1,000	2,657
Exploration expense		(73)	188	30	369
Deferred tax recovery		-	-	(2,275)	(1,046)
Non-cash lease inducement		(6)	(3)	(11)	(9)
Funds from operations before changes in non-cash working capital items and expenditures on decommissioning liabilities					
		\$ 8,174	\$ 205	\$ 12,094	\$ (1,089)
Expenditures on decommissioning liabilities					
		-	\$ (133)	-	\$ (2,297)
Net changes in non-cash working capital items					
		(1,594)	(930)	(3,378)	(818)
		\$ 6,580	\$ (858)	\$ 8,716	\$ (4,204)
Financing activities:					
Exercise of options		24	131	214	131
Share issuance costs		-	(1)	(14)	(6)
		\$ 24	\$ 130	\$ 200	\$ 125
Investing activities:					
Expenditures – property, plant and equipment		\$ (1,885)	\$ (2,151)	\$ (31,937)	\$ (10,629)
Expenditures – exploration and evaluation assets		(218)	(4,458)	(1,125)	(7,902)
Changes in non-cash working capital items		(16,080)	(3,356)	(6,301)	413
		\$ (18,183)	\$ (9,965)	\$ (39,363)	\$ (18,118)
Decrease in cash and cash equivalents during the period					
		\$ (11,579)	\$ (10,693)	\$ (30,447)	\$ (22,197)
Cash and cash equivalents, beginning of the period					
		12,940	19,470	31,808	30,974
Cash and cash equivalents, end of the period					
		\$ 1,361	\$ 8,777	\$ 1,361	\$ 8,777

Supplemental cash flow information (Note 11)

Strategic Oil & Gas Ltd.

Notes to interim condensed consolidated financial statements at June 30, 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 traded company whose 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 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 August 13, 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, and include the following additional information:

The Corporation's development and production assets are aggregated into CGUs based on their ability to generate largely independent cash flows. The Corporation has identified the following ten CGUs based on geographical area for impairment testing purposes: Steen/Marlow, Lessard, Larne, Bitscho, Taber, Conrad, Cheddarville, individual gas wells, Maxhamish and Antelope.

The CGUs are subject to change as the operations of the Corporation evolve.

Strategic Oil & Gas Ltd.

Notes to interim condensed consolidated financial statements at June 30, 2012 (unaudited)

4. Exploration and evaluation assets

(\$000)	June 30, 2012	December 31, 2011
Opening balance	\$ 9,328	\$ 5,245
E&E expenditures	1,125	8,492
E&E expensed during the period	(30)	(1,285)
Amortization	(1,726)	(3,125)
Closing balance	\$ 8,697	\$ 9,328

During the six months ended June 30, 2012, the Corporation expensed \$0.03 million (June 30, 2011 - \$0.4 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

(\$000)	D&P assets	Office and other	Total
Carrying value before accumulated depletion and depreciation			
As at December 31, 2011	\$ 105,145	\$ 611	\$ 105,756
Additions	31,895	42	31,937
Change in decommissioning costs	1,417	-	1,417
As at June 30, 2012	\$ 138,457	\$ 653	\$ 139,110

(\$000)	D&P assets	Office and other	Total
Accumulated depreciation and depletion			
As at December 31, 2011	\$ 34,463	\$ 369	\$ 34,832
Depreciation, depletion and amortization	9,561	63	9,624
As at June 30, 2012	\$ 44,024	\$ 432	\$ 44,456

(\$000)	D&P assets	Office and other	Total
Net carrying value			
As at December 31, 2011	\$ 70,682	\$ 242	\$ 70,924
As at June 30, 2012	\$ 94,433	\$ 221	\$ 94,655

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 includes amounts in respect of the provision for decommissioning and restoration obligations.

Future capital costs of \$27.9 million (December 31, 2011 - \$27.6 million) have been included in the depletable balance as at June 30, 2012. Depletion has been calculated using proved plus probable reserves. The Corporation has recognized individual components that are depreciated and tested for impairment separately in the aggregate value of \$8.5 million (December 31, 2011 - \$8.2 million). Depletion and depreciation for the six months ended June 30, 2012 was \$9.6 million (June 30, 2011 - \$2.5 million).

6. Deferred price premium on flow-through shares

(\$000)	June 30, 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 six months ended June 30, 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 interim condensed consolidated financial statements at June 30, 2012 (unaudited)

7. Bank loan

In June 2012, the Corporation signed a Commitment letter to increase its available revolving operating line of credit from \$21 million to \$50 million. The increase is scheduled to occur in 3 steps: \$38 million immediately, \$44 million on October 31, 2012 and \$50 million on January 31, 2013.

At June 30, 2012, the Corporation had no outstanding amount owing (December 31, 2011 - \$nil) against the \$38 million facility. Available funds from the facility have been reduced by letters of guarantee in the amount of \$0.8 million. The revolving facility is repayable on demand and bears interest at the rate of 1.00% over the prime lending rate (December 31, 2011 – 1.25%). The facility is secured by a general security over all present and acquired personal property of the Corporation, and a floating charge on all lands. The security agreement is registered in the provinces of Alberta and British Columbia. The Corporation is required to comply with a working capital financial covenant. As at June 30, 2012, the Corporation is in compliance with all covenants.

8. 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 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 June 30, 2012 were \$23.6 million (December 31, 2011 - \$20.8 million). The estimated costs have been discounted at a risk free rate from 0.99% to 2.32% (December 31, 2011 - 2.50% to 3.66%) and an inflation rate of 2% (December 31, 2011 – 2%) was applied. 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:

(\$000)	June 30, 2012
Balance beginning of the period	\$ 12,523
Liabilities incurred	1,021
Liabilities settled	-
Change in estimated future cash flows	(117)
Change in discount rate	513
Accretion	153
Balance end of the period	\$ 14,093
Current at June 30, 2012	263
Long term at June 30, 2012	\$ 13,830

9. Share capital

a) Stock-based compensation

Pursuant to the Corporation's stock options plan, the Corporation in February 2012 issued 2,260,000 common share options which vested immediately. These options expire five years from the date of issue. The Corporation recorded \$1.0 million (June 30, 2011 - \$2.7 million) of stock based compensation related to the issuance.

The following table summarized the stock option outstanding and exercisable under the plan at June 30, 2012:

Strategic Oil & Gas Ltd.

Notes to interim condensed consolidated financial statements at June 30, 2012 (unaudited)

9. Share capital continued

	Number of options	Weighted average Exercise Price
Balance at December 31, 2011	6,780,333	\$ 0.81
Issued	2,260,000	0.90
Exercised	(537,000)	0.40
Expired	(580,000)	1.10
Balance at June 30, 2012	7,923,333	\$ 0.84

The following table sets out the outstanding options as at June 30, 2012:

All stock options, issued and exercisable			
Number of Options	Weighted Average Exercise Price	Weighted Average Life	
		Years	
350,000	\$ 0.25	1.69	
1,083,333	0.50	2.10	
1,125,000	0.65	2.54	
425,000	0.75	1.69	
2,260,000	0.90	4.65	
100,000	0.91	4.33	
2,580,000	1.10	3.52	
7,923,333	\$ 0.84	3.34	

b) Weighted average shares

	Six months ended June 30, 2012	Six months ended June 30, 2011
Weighted average shares (basic)	187,053,101	138,724,526
Weighted average shares (diluted)	187,898,450	138,724,526

c) 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:

	June 30, 2012	June 30, 2011
Assumptions		
Risk free interest rate (%)	1.20	2.60
Expected life (years)	3.00	5.00
Expected volatility (%)	84.58	106.90
Forfeiture rate (%)	7.63	8.15
Weighted average fair value of options granted (\$)	0.42	0.84

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 six months ended June 30, 2012 was \$0.79 (December 31, 2011 - \$0.95).

Strategic Oil & Gas Ltd.

Notes to interim condensed consolidated financial statements at June 30, 2012 (unaudited)

10. Finance costs

Periods ended (\$000)	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Interest expense – bank loan	\$ 8	\$ 20	\$ 11	\$ 34
Interest expense – debenture	-	44	-	85
Accretion of decommissioning liabilities	75	54	153	106
	\$ 83	\$ 118	\$ 164	\$ 225

11. Supplemental cash flow information

(\$000)	June 30, 2012	June 30, 2011
Interest paid	\$ 11	\$ 119
Taxes paid	-	-
Total	\$ 11	\$ 119
Changes in non-cash working capital		
Trade and other receivables	\$ (2,097)	\$ (444)
Accounts payable and accrued liabilities	(7,582)	39
	\$ (9,679)	\$ (405)
Operating	(3,378)	(818)
Investing	(6,301)	413
	\$ (9,679)	\$ (405)

12. Transactions with Related Parties

During the three and six months ended June 30, 2012, the Corporation recorded \$0.07 million and \$0.17 million, respectively, of legal fees to a law firm of which a director is a partner. (\$0.05 million and \$0.13 million, three and six months ended June 30, 2011). Consulting fees in the amount of \$0.02 million and \$0.04 million were recorded for geological consulting performed by a former director during the three and six months ended June 30, 2012. (\$0.01 million and \$0.02 million, three and six months ended June 30, 2011). During the three and six months ended June 30, 2012, the Corporation recorded \$0.03 million and \$0.06 million, respectively, of software charges to a company controlled by an officer. (\$0.03 million and \$0.06 million, three and six months ended June 30, 2011). Accounts payable and accrued liabilities at June 30, 2012 include \$0.08 million (June 30, 2011 - \$0.02 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.

13. Commitments

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

Year ended	(\$000)
2012	\$ 176
2013	263
	\$ 439

- 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 June 30, 2012, the Corporation has fulfilled its commitment.