



Management's Discussion and Analysis

Six months ended June 30, 2012

August 13, 2012

The following is Management's Discussion and Analysis ("MD&A") of the financial condition and performance of Strategic Oil & Gas Ltd. ("Strategic" or the "Corporation") for the six months ended June 30, 2012, and is to be read in conjunction with the unaudited interim condensed consolidated financial statements and related notes for the periods ended June 30, 2012 and 2011.

Financial and Operational Highlights

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Financial (\$000, except per share amounts)				
Petroleum and natural gas sales	16,924	5,432	28,129	10,046
Funds from (used in) operations (1)	8,174	205	12,094	(1,089)
Per share basic	0.04	-	0.06	(0.01)
Per share diluted	0.04	-	0.06	(0.01)
Net income (loss)	1,236	(2,167)	1,847	(7,058)
Per share basic	0.01	(0.02)	0.01	(0.05)
Per share diluted	0.01	(0.02)	0.01	(0.05)
Capital expenditures (excluding acquisitions)	2,103	6,609	33,062	18,531
Operating				
Production				
Crude oil Bbl per day	2,252	531	1,820	548
Natural gas (Mcf per day)	1,983	2,116	1,719	1,739
Barrels of oil equivalent (Boe per day)	2,583	884	2,107	837
Average realized price				
Crude oil (\$ per Bbl)	80.74	96.08	82.89	88.56
Natural gas (\$ per Mcf)	2.08	4.09	2.13	4.03
Barrels of oil equivalent (\$ per Boe)	72.00	67.54	73.36	66.28
Netback per Boe (\$)				
Petroleum and natural gas sales	72.00	67.54	73.36	66.28
Royalties	(9.37)	(16.22)	(11.08)	(17.03)
Operating expenses	(17.70)	(32.02)	(20.83)	(38.80)
Transportation expenses	(3.08)	(1.91)	(2.89)	(1.98)
Operating Netback (\$ per Boe)	41.85	17.39	38.56	8.47
Common Shares (000)				
Common shares outstanding, end of period	187,099	139,009	187,099	139,009
Weighted average common shares (basic)	187,092	138,892	187,053	138,725
Weighted average common shares (diluted)	187,755	138,892	187,898	138,725

(1): Management uses funds from operation and working capital surplus (deficit) and operating netback to analyze operating performance and leverage. These terms, as presented, do not have any standardized meaning prescribed by International Financial Reporting Standards and therefore may not be comparable with the calculation of similar measures for other entities.

ACCOMPLISHMENTS

- Oil and natural gas liquid production increased 139% to 2,252 boe/d, compared to 943 boe/d in the fourth quarter of 2011; an increase of 62% compared to 1,388 boe/d over the first quarter of 2012 and an increase of 324% compared to 531 boe/d in the second quarter of 2011.
- Total average production of 2,583 boe/d in the second quarter of 2012, an increase of 58% compared to 1,631 boe/d in the first quarter of 2012 and more than 192% compared to 884 boe/d in the second quarter of 2011.
- Combined oil and natural gas liquids sales increased by 256% to \$16.549 million during the second quarter of 2012 compared to \$4.645 million for the period ending June 30, 2011.
- Generated funds flow from operations of \$8.174 million (\$0.04 per share) in the second quarter of 2012, as compared to \$0.205 million (\$0.00 per share) in the second quarter of 2011.
- Increased net back to \$41.85 per boe in the second quarter of 2012, an increase of 25% compared to \$33.35 per boe in the first quarter of 2012; and an increase of 141% compared to \$17.39 per boe in the second quarter in 2011.
- Eight of the nine well drilled in Q1 were tied in and on production in Q2. The remaining well will be on production in Q3 following pipeline approvals and construction. A minimum of five wells are planned in the 2H of 2012 with operations commencing mid-August.
- Increased the Corporation's current available line of credit from \$21.0 million to \$50.0 million, scheduled to occur in three steps: \$38.0 million currently, to \$44.0 million October 31, 2012, and to \$50.0 million January 31, 2013.

ADVISORIES

Basis of Presentation

The interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". The reporting and the measurement currency is the Canadian dollar.

The discussion and analysis of the Corporation's oil and natural gas production and related performance measures is presented on a working-interest, before royalties' basis. For the purpose of calculating unit information, natural gas is converted to a barrel of oil equivalent ("boe") using six thousand cubic feet of natural gas equal to one barrel of oil. Readers are cautioned that boe's may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, as the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

The Corporation makes estimates and assumptions that affect the reported amounts of the Corporation's assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Financial Statements and our revenues and expenses during the reporting period. Management reviews these estimates, including those related to accruals, environmental and decommissioning liabilities, income taxes, and the determination of proved and probable reserves on an ongoing basis. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates.

Non-GAAP Measurements

The Corporation utilizes the following terms for measurement within the MD&A that do not have a standardized meaning or definition as prescribed by IFRS and therefore may not be comparable with the calculation of similar measures by other entities.

“Funds from operation” is a term used to evaluate operating performance and assess leverage. The Corporation considers funds flows an important measure of its ability to generate funds necessary to finance operating activities, capital expenditures and debt repayments if any. Funds flow is calculated based on cash flow from operating activities before changes in non-cash working capital and decommissioning expenditures. Funds flow as presented is not intended to represent cash flow from operating activities, net earnings, or other measures of financial performance calculated in accordance with IFRS.

The following table reconciles funds from operations to cash flow generated by operating activities for the three and six months ended June 30, 2012:

Period ended June 30 (\$000)	Three months		Six months	
	2012	2011	2012	2011
Net cash generated by operating activities	\$ 6,580	\$ (858)	\$ 8,716	\$ (4,204)
Abandonment Expenses	-	133	-	2,297
Changes in non-cash working capital	1,594	930	3,378	818
Funds from operations	\$ 8,174	\$ 205	\$ 12,094	\$ (1,089)

“Netback” is used to evaluate operating performance of our crude oil and natural gas assets. The term netback is calculated as oil and gas sales revenue, less royalties, transportation and operating costs.

Forward-Looking Statements

This report dated August 13, 2012 includes certain information, with management’s assessment of Strategic’s future plans and operations, and contains forward-looking statements which may include some or all of the following: (i) forecasted capital expenditures and plans; (ii) exploration, drilling and development plans, (iii) prospects and drilling inventory and locations; (iv) anticipated production rates; (v) expected royalty rate; (vi) anticipated operating and service costs; (vii) financial strength; (viii) incremental development opportunities; (ix) reserve life index; (x) total shareholder return; (xi) growth prospects; (xii) asset disposition plans; (xiii) sources of funding, which are provided to allow investors to better understand our business. By their nature, forward-looking statements are subject to numerous risks and uncertainties; some of which are beyond Strategic’s control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, changes in environmental tax and royalty legislation, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources, and other risks and uncertainties described under the heading ‘Risk Factors’ and elsewhere in the Corporation’s Annual Information Form for the year ended December 31, 2011 and other documents filed with Canadian provincial securities authorities and are available to the public at www.sedar.com.

Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. The principal assumptions Strategic has made include security of land interests; drilling cost stability; royalty rate stability; oil and gas prices to remain in their current range; finance and debt markets continuing to be receptive to financing the Corporation and industry standard rates of geologic and operational success. Strategic’s actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements or if any of them do so, what benefits that Strategic will derive there from. Strategic disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

OPERATIONAL OVERVIEW

Completion, equipping and tie-in operations on six (6) of the eight (8) wells drilled during first quarter was carried out during the second quarter 2012. Strategic upgraded its fluid handling capabilities in Steen River with the addition of 3,000 bbl storage tanks. Operations in Steen River have been restricted during the second quarter by spring break up conditions and Wood Land caribou considerations. Drilling operations have resumed in August 2012.

In July, forest fires forced the shut-in of Larne field. Approximately 80 boe/d of gas production from the Larne field is currently shut-in.

At Steen, operations focused on facility upgrades and expansion of the oil storage capacity at the 9-17-122-20W5 facility. An additional 3,000 bbls of storage capacity and a second tanker truck loading station were added to accommodate increased produced volume. Scouting and surveying work was conducted on the follow up development drilling locations that resulted from the successful first quarter of 2012 drilling campaign as well as newly identified prospects. Expansion of all-weather road infrastructure is ongoing.

Routine production operations were conducted at the producing Taber and Conrad properties. Operational work associated with enhancing waterflood operations in Conrad will likely begin in late third quarter of 2012.

2012 First and Second Quarter Drilling Results

Strategic continued the development of its light oil opportunities at its Steen River core area. Strategic drilled and completed nine wells with a 100% success rate utilizing two drilling rigs. Eight of the nine wells are on production. The remaining well is planned to be on production in the third quarter of 2012. The table below details drilling activity with status as of July 31, 2012, illustrating most wells have stable production rates.

Well ⁽¹⁾	Type	Zone	On Production	IP30 Boe/d	Months on Production	Current ⁽²⁾ Boe/d
2H 2011 Drilling Program						
100/15-22	Vertical	Keg River	11-Nov	185	9	115
102/15-22	Vertical	Keg River	11-Dec	355	8	445
100/14-18 (103/15-18)	Vertical	Keg River	11-Dec	130	8	35
102/11-22	Horizontal	Sulphur Point	11-Dec	150 ⁽³⁾	7	75
2012 Drilling Program						
102/14-22	Vertical	Keg River	12-Mar	310	5	330
103/14-22 (103/11-22)	Vertical	Keg River	12-Mar	300	5	310
104/11-22 (102/13-22)	Vertical	Keg River	12-Apr	295	4	225
100/03-27 (100/04-27)	Vertical	Keg River	12-Apr	340	4	380
104/15-22 (100/14-22)	Horizontal	Sulphur Point	12-May	90 ⁽³⁾	3	70
100/11-28 (100/10-28)	Vertical	Keg River	12-Apr	405	4	300
100/08-23 (102/11-24)	Vertical	Keg River	Q312	-	-	-
103/12-18 (103/05-18)	Horizontal	Muskeg Stack	12-Jun	35 ⁽³⁾	2	20
100/12-18	Vertical	Keg River	12-Apr	35	4	25 ⁽⁴⁾

¹⁾ Well names were changed on the directionally drilled wells due to bottom hole coordinates.

²⁾ Production rate is average of field test data for thirty (30) days. Keg River produces 94% oil.

³⁾ Un-stimulated Sulphur point horizontal wells are producing on limited drawdown with variable oil and gas cuts. 104/15-22 is flowing with oil cut up to 50% and 102/11-22 is pumping with an average oil cut of 75% and a maximum oil cut up to 85%. Multistage fractures stimulation operations are planned for Q4 2012.

⁴⁾ Facility restricted.

OUTLOOK FOR 2012

At Steen River, success in the fourth quarter of 2011 and the first quarter of 2012 drilling programs has resulted in a large inventory of follow up drilling locations. Strategic expects to drill a minimum of five additional wells before the end of 2012. It is expected that drilling activity will continue into 2013. Additional work at Steen includes the tie in of an existing well, a work over program in which five (5) wells will be stimulated and preparatory work for the acquisition of 2D and 3D Seismic data.

Plans for further activity are proceeding at Maxhamish. Strategic continues to work with Legacy, its operating partner, in contemplation of additional evaluation and stimulation activity in the fourth quarter 2012.

At Amber, the Corporation continues its evaluation of several opportunities. The Corporation has previously stated its intention to drill up to two (2) wells on the Amber lands. The Corporation has deferred the Amber program to 2013. Strategic plans to reallocate a portion of the capital from its Amber program to drill additional wells at Steen River during the fourth quarter of 2012.

FINANCIAL REVIEW

During the three and six months periods ended June 30, 2012, the Corporation generated funds flow from operations of \$8.174 million and \$12.094 million respectively. For the same period in 2011, the Corporation generated funds flow from operations of \$0.205 million and negative funds from operations of \$1.089 million respectively. The increase in funds flow from operations resulted from increased revenues and higher average production volumes.

During the three and six months periods ended June 30, 2012, the Corporation realized an average of \$72.00 per boe and \$73.36 per boe respectively, an increase of 7% and 11% respectively.

Total revenues for the three and six months period ended June 30, 2012 increased by 208% and 177% to \$16.924 million and \$28.129 million respectively.

RESULTS OF OPERATIONS

Production

Periods ended June 30	Three months			Six months		
	2012	2011	% Change	2012	2011	% Change
Oil, condensate, & nglis – bbls/d	2,252	531	324	1,820	548	232
Natural gas – mcf/d	1,983	2,116	(6)	1,719	1,739	(1)
Total daily production (boe/d)	2,583	884	192	2,107	837	152

Production for the three months ended June 30, 2012 averaged 2,583 boe/d consisting of 2,252 bbls crude oil plus nglis and 1,983 mcf of natural gas. Production during the quarter was 192 percent higher than the same period in 2011 of 884 boe/d. The increase was due to a successful winter drilling program between Q4 of 2011 and Q1 of 2012. The Corporation's production portfolio for the quarter was weighted 87 percent to crude oil and natural gas liquids and 13 percent to natural gas.

Year to date 2012 production was 2,107 boe/d consisting of 1,820 bbls crude oil plus nglis and 1,719 mcf of natural gas. The production was 152 percent higher than the same period in 2011 of 837 boe/d. The Corporation's production portfolio for the six months ended June 30, 2012 was weighted 86 percent to crude oil and natural gas liquids and 14 percent to natural gas.

Revenue

For the three months ended June 30, 2012 petroleum and natural gas revenues increased 212 percent to \$16.924 million compared to \$5.432 million for the same period in 2011 due to an increase of 7 percent in realized average price to \$72.00 per boe as well as an increase of 192 percent of production. Production revenue for the three months ended June 30, 2012 consisted of \$16.549 million from crude oil and nglis sales, \$0.375 million from natural gas sales.

For the six months ended June 30, 2012, petroleum and natural gas revenues of \$28.129 million were 180 percent higher than the same period in 2011 of \$10.046 million as a result of 11 percent higher average realized price to \$73.36 per boe and increased production.

Periods ended June 30 (\$000)	Three months			Six months		
	2012	2011	% Change	2012	2011	% Change
Sales						
Oil, condensate, and ngl's	\$ 16,549	\$ 4,645	256	\$ 27,463	\$ 8,777	213
Natural gas	375	787	(52)	666	1,269	(48)
	16,924	5,432	212	28,129	10,046	180
Other Revenue	11	68	(84)	72	123	(41)
Total sales	\$ 16,935	\$ 5,500	208	\$ 28,201	\$ 10,169	177
Average prices						
Oil and ngl's (\$/bbl)	80.74	96.08	(16)	82.89	88.56	(6)
Natural gas (\$/mcf)	2.08	4.09	(49)	2.13	4.03	(47)
Oil equivalent (\$/boe)	72.00	67.54	7	73.36	66.28	11

Royalties

For the three months ended June 30, 2012, royalties increased 69 percent to \$2.2 million from \$1.3 million for the same period in 2011 due to higher production. Royalties as a percentage of revenues for the three months ended June 30, 2012 decreased to 13 percent compared to 24 percent for the same period in 2011 mainly due to the Alberta Royalty Incentive Program.

For the six months ended June 30, 2012, royalties increased to \$4.249 million compared to \$2.581 million for the same period in 2011. The average royalty rate was 15.1 percent compared to 25.7 percent due to higher production and the incentive program decreased as per below.

Periods ended June 30 (\$000)	Three months		Six months	
	2012	2011	2012	2011
Crown royalties	\$ 1,787	\$ 1,150	\$ 3,525	\$ 2,301
Freehold royalties	8	8	7	28
Overriding royalties	407	147	717	252
Total royalties	\$ 2,202	\$ 1,305	\$ 4,249	\$ 2,581
Per boe	\$ 9.37	\$ 16.22	\$ 11.08	\$ 17.03
Percentage of crude oil & natural gas revenues	13.0%	24.0%	15.1%	25.7%

The Alberta government has implemented a five percent royalty rate on the first year of production on new conventional oil wells up to a maximum 50,000 bbls of crude oil produced. This results in a lower royalty expense for the Corporation on its new wells.

Operating and transportation costs

Periods ended June 30 (\$000)	Three months		Six months	
	2012	2011	2012	2011
Operating costs	\$ 4,161	\$ 2,575	\$ 7,987	\$ 5,881
Transportation costs	725	154	1,108	300
	\$ 4,886	\$ 2,729	\$ 9,095	\$ 6,181
Per boe				
Operating costs	\$ 17.70	\$ 32.02	\$ 20.83	\$ 38.80
Transportation costs	3.08	1.91	2.89	1.98
	\$ 20.78	\$ 33.93	\$ 23.72	\$ 40.78

Total operating costs increased by 80 percent to \$4.886 million compared to \$2.729 million for the same period in 2011. The increase was the result of higher production during the period as compared to the same period in 2011. On a boe basis, total operating expenses for the three months ended June 30, 2012 was \$20.78 per boe compared to \$33.93 per boe for the same period in 2011. The decrease on a unit of production basis was a result of the efficiencies achieved in allocating fixed operating expenses over a higher production base.

For the six months ended June 30, 2012 operating expenses increased 47 percent to \$9.095 million compared to \$6.181 million for the same period in 2011 as a result of higher production. On a boe basis, year-to-date operating expenses decreased 42 percent to \$23.72 per boe compared to \$40.78 per boe for the same period in 2011.

The Corporation will continue to focus on controlling unit operating expenses and transportation costs in its core areas for the remainder of 2012.

Operating netbacks

Periods ended June 30	Three months		Six months	
	2012	2011	2012	2011
Per boe				
Revenues	\$ 72.00	\$ 67.54	\$ 73.36	\$ 66.28
Royalties	(9.37)	(16.22)	(11.08)	(17.03)
Operating costs	(17.70)	(32.02)	(20.83)	(38.80)
Transportation costs	(3.08)	(1.91)	(2.89)	(1.98)
Netback per boe	\$ 41.85	\$ 17.39	\$ 38.56	\$ 8.47

For the three and six months ended June 30, 2012, the Corporation's netback increased to \$41.85 per boe and \$38.56 per boe respectively as compared to \$17.39 per boe and \$8.47 per boe for the same period in 2011. The increase is attributed to an increase in production, an increase in commodity prices, reduced royalty rates and an increase in operating efficiencies compared to the same period in 2011.

General and administrative expenses

Periods ended June 30 (\$000)	Three months		Six months	
	2012	2011	2012	2011
Wages and employee benefits	\$ 921	\$ 528	\$ 1,634	\$ 1,074
Professional fees	113	86	216	149
Consulting fees	76	234	209	465
Public reporting	69	85	130	184
Occupancy costs	135	127	310	241
Travel	38	68	76	123
Miscellaneous general and administrative	307	66	166	131
Total	\$ 1,659	\$ 1,194	\$ 2,741	\$ 2,367
Per boe	\$ 7.06	\$ 14.84	\$ 7.15	\$ 15.62

For the three months ended June 30, 2012, general and administrative expenses, net of overhead recoveries ("G&A") increased 38 percent to \$1.7 million compared to \$1.2 million for the same period in 2011. On a boe basis, G&A for the quarter ended June 20, 2012 was \$7.06 per boe compared to \$14.84 per boe for the same period on 2011.

For the six months ended June 30, 2012, G&A expenses of \$2.7 million were 16 percent higher than the same period in 2011 of \$2.4 million. On a boe basis, year-to-date G&A was \$7.15 per boe which was lower than the same period in 2011 of \$15.62 per boe.

Finance Expense

Periods ended June 30 (\$000)	Three months		Six months	
	2012	2011	2012	2011
Interest expense – bank loan	\$ 8	\$ 20	\$ 11	\$ 34
Interest expense – debenture	-	43	-	85
Accretion expense	75	55	153	106
Total	\$ 83	\$ 118	\$ 164	\$ 225
Per boe	\$ 0.35	\$ 1.46	\$ 0.43	\$ 1.48

Interest expense during the three months ended June 30, 2012 decreased 86 percent to \$0.008 million compared to \$0.063 million for the same period in 2011 while year-to-date financing expense decreased 91 percent to \$0.011 million compared to \$0.119 million for the same period in 2011. The decrease was a result of lower average debt levels as well as redemption of debentures.

Accretion expense for the three and six month periods ended June 30, 2012 was \$0.08 million and \$0.2 million respectively compared to \$0.5 million and \$0.1 million respectively for the same period in 2011. The changes were a result of fluctuations to the discount rates applied to the decommissioning obligations, which are adjusted on a quarterly basis.

Stock based compensation

Stock based payments are non-cash charges which reflect the estimated value of stock options granted. The Corporation uses the fair value method of accounting for stock options granted to directors, officers, employees and consultants. The fair value of all stock options granted is recorded as a charge to operations over the period from the grant date to the vesting date of the option. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes options pricing model.

For the three and six months ended June 30, 2012, the Corporation recorded share based compensation expenses of \$0.005 million and \$1.0 million compared to the \$nil and \$2.7 million respectively in 2011. The Corporation issued 2,260,000 stock options in the six months ended June 30, 2012 compared to 3,125,000 issued for the same period in 2011.

As at June 30, 2012, there are 7,923,333 options outstanding.

Depletion, depreciation and amortization

Periods ended June 30 (\$000)	Three months		Six months	
	2012	2011	2012	2011
Depreciation, depletion, and amortization	\$ 6,890	\$ 2,133	\$11,350	\$ 3,892
Per boe	\$ 29.32	\$ 24.72	\$ 29.60	\$ 25.67

Depletion and depreciation is computed on a unit of production basis. Such expense, on a boe basis, fluctuates period to period primarily as a result of changes in the underlying proved and probable reserve base and in the amount of costs subject to depletion and depreciation. Such costs are segregated and depleted on an area by area basis relative to the respective underlying proved and probable reserves base. Depletion and depreciation for the three and six month periods ended June 30, 2012 was \$6.9 million and \$11.4 million respectively compared to \$2.1 million and \$3.9 million in 2011, largely due to higher production volumes as well as higher funding and development costs. On a boe basis, the costs increased to \$29.32 per boe and \$29.60 per boe respectively compared to \$24.72 per boe and \$25.67 per boe respectively.

Capital Expenditures

Periods ended June 30 (\$000)	Three months		Six months	
	2012	2011	2012	2011
Drilling and completions	\$ 820	\$ 1,751	\$22,484	\$ 7,914
Equipping and facilities	1,051	858	9,411	3,277
Other	14	7	42	20
	\$ 1,885	\$ 2,616	\$31,937	\$11,210
Drilling incentive credits	-	(465)	-	(581)
Total property, plant and equipment	\$ 1,885	\$ 2,151	\$31,937	\$10,629
Land and seismic	218	4,458	1,125	7,902
Total exploration and evaluations	\$ 218	\$ 4,458	\$ 1,125	\$ 7,902
Total net capital expenditures	\$ 2,103	\$ 6,609	\$33,062	\$18,531

During the three months ended June 30, 2012, the Corporation invested \$1.9 million on drilling activities compared to \$2.1 million for the same period in 2011. The Corporation spent \$0.2 million on additional undeveloped land for the three months ended June 30, 2012 compared to \$4.5 million on the same period of 2011.

For the six months ended June 30, 2012, the Corporation spent \$31.9 million on drilling and infrastructure activities as compared to \$10.6 million for the same period in 2011. Additionally, the Corporation spent \$1.1 million on seismic and undeveloped land as compared to \$7.9 million spent for the comparable period in 2011.

Capital expenditures for the first half of 2012 compared to the similar period in 2011 are a result of executing 55% of its annual capital expenditure budget. The remainder of 2012 will be focused on drilling a minimum of five additional wells in the Steen River area.

SUMMARY OF QUARTERLY FINANCIAL DATA

The following table summarizes quarterly financial results:

Quarter ended (\$000)	Jun-12	Mar-12	Dec-11	Sep-11	Jun-11	Mar-11	Dec-10	Sep-10
Petroleum and natural gas sales	\$ 16,924	\$ 11,204	\$ 8,606	\$ 5,200	\$ 5,432	\$ 4,614	\$ 1,640	\$ 1,504
Income (loss)	1,235	611	(16,194)	(1,395)	(2,167)	(4,891)	3,092	(1,219)
Income (loss) per share								
Basic	0.01	0.00	(0.11)	(0.01)	(0.02)	(0.04)	0.03	(0.02)
Diluted	0.01	0.00	(0.11)	(0.01)	(0.02)	(0.04)	0.03	(0.02)
Production boe/d	2,583	1,631	1,230	914	884	790	317	314
Average price/boe	\$ 72.00	\$ 75.50	\$ 76.03	\$ 61.83	\$ 67.54	\$ 64.92	\$ 56.21	\$ 52.08

LIQUIDITY AND CAPITAL RESERVES

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.

In order to maintain or adjust the capital structure, the Corporation may issue common shares, incur debt, or adjust exploration and development capital expenditures.

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:

(\$000)	June 30, 2012	December 31, 2011
Current assets	\$ 9,093	\$ 37,443
Accounts payable and accrued liabilities	(10,579)	(17,908)
Net working capital surplus (deficit)	\$ (1,486)	\$ 19,535
Total line of credit	\$ 38,000	\$ 21,000
Authorized letters of guarantee	(800)	(800)
Unutilized line of credit	37,200	20,200
Net available funds	\$ 35,714	\$ 39,735

In June 2012, the Corporation signed a commitment letter to increase to 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.

As 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 after 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 compliant with all covenants

The Corporation is currently projecting its remaining 2012 capital program to be funded from its available funds, line of credit, plus anticipated cash flow.

SHARE CAPITAL

	Six Months Ended	
	June 30, 2012	June 30, 2011
Outstanding common shares		
Weighted average common shares outstanding		
- basic	187,053,101	138,724,526
- diluted	187,898,450	138,724,526
	June 30, 2012	June 30, 2011
Outstanding Securities		
- common shares	187,099,068	139,009,068
- common share options	7,923,333	6,688,333

During the six months ended June 30, 2012, the Corporation granted 2,260,000 stock options to directors, officers, employees, and consultants of which 1,875,000 went to officers and directors. Each option entitles the holder to acquire one common share of the Corporation for a period of five years at a price of \$.90 per share. These options were issued in accordance with the Corporation's incentive stock option plan.

TRANSACTIONS WITH RELATED PARTIES

During the six months ended June 30, 2012, legal fees in the amount of \$.17 million (June 30, 2011 - \$.08 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 \$.02 million (June 30, 2011 - \$.01 million) were incurred by a former director for geophysical consulting services. Software charges of \$.06 million (June 30, 2011 - \$.06 million) were charged by a company controlled by an officer. Accounts payable and accrued liabilities at June 30, 2012 include \$.075 million (June 30, 2011 - \$.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.

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 qualify expenditures prior to December 31, 2012. As of June 30, 2012, the Corporation has substantially fulfilled its commitment.

OUTSTANDING SHARE DATA

Common Shares

The Corporation is authorized to issue an unlimited number of common shares. As at August 13, 2012 the Corporation had 187,099,068 common shares outstanding and 8,023,333 stock options outstanding under its stock-based compensation program.

ACCOUNTING POLICIES AND ESTIMATES

The unaudited condensed interim consolidated financial statements for the six months ended June 30, 2012 have been prepared using the same accounting policies and methods as those used in the Corporation's audited consolidated financial statements for the year ended December 31, 2011.

A summary of the significant accounting policies used by the Corporation can be found in Note 3 to the December 31, 2011 audited consolidated financial statements. The Corporation's development and production assets are aggregated into cash generating units ("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.

Note 2 of the Corporation's audited consolidated financial statements for the year ended December 31, 2011 provides a summary of the areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Corporation's financial statements.

RISK ASSESSMENT

There are a number of risks facing participants in the Canadian oil and gas industry. Some of the risks are common to all businesses while others are specific to a sector. The general and specific risks to which the Corporation is exposed have been described to the Corporation's MD&A for the year ended December 31, 2011. In addition, the Corporation is also subject to other risks and uncertainties which are described in the Corporation's Annual Information Form ("AIF") dated April 27, 2012.

ADDITIONAL INFORMATION

Additional information, including the Corporation's most recently filed AIF, is also available at www.sogoil.com and at www.sedar.com.